

# 杉杉品牌運營股份有限公司

Shanshan Brand Management Co., Ltd.

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

Stock Code : 1749



## GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



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## IMPORTANT

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*If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.*

# 杉杉品牌運營股份有限公司 Shanshan Brand Management Co., Ltd.

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

## GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 33,400,000 H Shares
Number of Hong Kong Offer Shares	: 3,340,000 H Shares (subject to reallocation)
Number of International Placing Shares	: 30,060,000 H Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$4.91 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars and subject to refund)
Nominal Value	: RMB1.00 per H Share
Stock Code	: 1749

*Sole Sponsor*



*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*



*Joint Bookrunners and Joint Lead Managers*



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or for any other document referred to above.

The Offer Price is expected to be determined by an agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Tuesday, June 19, 2018 and, in any event, not later than Thursday, June 21, 2018. The Offer Price will be not more than HK\$4.91 and is currently expected to be not less than HK\$3.28 per Offer Share unless otherwise announced. The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reduce the number of Offer Shares stated in this prospectus and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering in which case, notice of such reduction will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.chinafirs.com](http://www.chinafirs.com)). Please see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for further details.

If, for whatever reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Thursday, June 21, 2018, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares, please see "Risk Factors", "Regulatory Overview", "Appendix V — Summary of Principal Legal and Regulatory Provisions" and "Appendix VI — Summary of Articles of Association" in this prospectus for further details of such differences and risk factors.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold and delivered outside the United States in reliance on Regulation S.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, Hong Kong Offer Shares are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Underwriters), if certain grounds arise at or prior to 8:00 a.m. (Hong Kong time) on the day dealings in the H Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be Wednesday, June 27, 2018). Please see "Underwriting" in this prospectus. It is important that you refer to that section for further details.

June 12, 2018

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## EXPECTED TIMETABLE

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**Date<sup>(1)</sup>**

Latest time to complete electronic applications under <b>HK eIPO White Form</b> service through the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Friday, June 15, 2018
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Friday, June 15, 2018
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Friday, June 15, 2018
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Friday, June 15, 2018
Latest time to complete payment for <b>HK eIPO White Form</b> applications by effecting Internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Friday, June 15, 2018
Application lists close .....	12:00 noon on Friday, June 15, 2018
Expected Price Determination Date <sup>(5)</sup> .....	Tuesday, June 19, 2018

Announcement of:

- the final Offer Price;
  - the level of applications in the Hong Kong Public Offering;
  - the level of indications of interest in the International Placing; and
  - the basis of allotment of the Hong Kong Offer Shares will be published on our website at [www.chinafirs.com](http://www.chinafirs.com)<sup>(6)</sup> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(7)</sup> on .....
- Tuesday, June 26, 2018

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## EXPECTED TIMETABLE

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Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares — Publication of Results" in this prospectus from . . . . . Tuesday, June 26, 2018

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function from . . . . . Tuesday, June 26, 2018

H Share certificates in respect of wholly or partially successful applications will be dispatched or deposited into CCASS on<sup>(8)</sup> . . . . . Tuesday, June 26, 2018

Refund cheques (if applicable) will be dispatched on<sup>(8)(10)</sup> . . . . . Tuesday, June 26, 2018

E-Refund Payment Instructions will be dispatched on<sup>(8)(9)</sup> . . . . . Tuesday, June 26, 2018

Dealings in H Shares on the Stock Exchange to commence at 9:00 a.m. on . . . . . Wednesday, June 27, 2018

*Notes:*

- (1) All dates and times refer to Hong Kong local time and dates unless otherwise stated.
- (2) If you have already submitted your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) and obtained an application reference number from the designated website prior to 11:30 a.m. on the last day for submitting applications, you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 15, 2018, the application lists will not open on that day. Please see "How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists." in this prospectus for further details.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see "How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS." in this prospectus for further details.
- (5) The Price Determination Date is expected to be on or about Tuesday, June 19, 2018 and in any event will not be later than Thursday, June 21, 2018. If, for any reason, the Offer Price is not agreed on or before Thursday, June 21, 2018, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) None of our Company's website or any of the information contained on our Company's website forms part of this prospectus.

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## EXPECTED TIMETABLE

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- (7) The announcement will be available for viewing on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk).
- (8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by their Application Forms may collect refund cheques (where applicable) and/or H Share certificates (where applicable) in person from our H Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, June 26, 2018.
- Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Please see "How to Apply for Hong Kong Offer Shares" in this prospectus for further details.
- (9) Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank accounts, in the form of e-Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the addresses as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk.
- (10) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

**The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be Wednesday, June 27, 2018. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.**

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### **IMPORTANT NOTICE TO INVESTORS**

*This prospectus is issued by Shanshan Brand Management Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied upon by you as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, employees, agents, affiliates or advisers, or any other person or party involved in the Global Offering. Information contained in our website, located at [www.chinafirs.com](http://www.chinafirs.com) does not form part of this prospectus.*

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## SUMMARY

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*This summary aims to provide you with an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the full text of this prospectus before you decide to invest in the Offer Shares.*

### OVERVIEW

Our business primarily involves the design, marketing and sale of formal and casual business menswear in the PRC under three brands, namely, FIRS, SHANSHAN and LUBIAM, each having distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. Our products are primarily targeted at male consumers who seek quality menswear products.

We design, market and sell products primarily under our FIRS brand, which is our core and signature brand. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. Products under our FIRS brand are targeted at medium-to-high income male consumers aged between 35 and 45 with a preference for premium quality formal business menswear. Our FIRS brand, which was originated from the “杉杉” brand established by Mr. Zheng in 1989, has been recognized as a pioneer in the PRC menswear industry. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the top three bestsellers in the PRC for five consecutive years from 2013 to 2017 by sales volume among major PRC retailers. We appoint distributors to market and sell our FIRS branded products in the PRC. As of December 31, 2017, we had (i) 125 first-tier distributors operating 482 FIRS branded retail outlets; and (ii) 130 second-tier distributors operating 148 FIRS branded retail outlets. Please see “Business — Distributorship model” in this prospectus for further details.

In September 2015, we launched SHANSHAN brand, which is primarily targeted at middle income male consumers aged between 25 and 35 who are fashion conscious and frequent buyers of trendy and value for money menswear products. We primarily sell our SHANSHAN branded products through the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. We believe such consignment arrangements have significantly reduced our inventory risks and enhanced our operational flexibility and profitability. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details. We believe the addition of the SHANSHAN brand to our brand portfolio enables us to offer products with trendy designs which track ever-changing market trends and serve consumers in a wider range of age and income groups.

Our brand portfolio also includes an international brand, LUBIAM, which was launched by us in the PRC in 2005, in cooperation with an Italian partner, namely Lubiam Moda per L’Uomo. Products under the LUBIAM brand are targeted at affluent male consumers aged between 35 and 45 who pursue low-profile luxury. We sell our LUBIAM branded products to end-customers through self-operated retail outlets and the LUBIAM Franchising Arrangements. Pursuant to the joint venture agreement with the relevant Italian partner, we share the profits derived from the sales of LUBIAM branded products with the joint venture partner in proportion to its equity interests in Lubiam Apparel. Please see “Business — Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details. In view of the deteriorating sales performance of our LUBIAM branded products and in order to strategically reallocate our resources for the development of our two core and signature brands, namely, FIRS and SHANSHAN brands, we intend to find appropriate buyers to acquire our LUBIAM operations. We have no intention to change our business focus after the disposal of our LUBIAM operations. Please see “Business — Our brands and products — Brand portfolio — LUBIAM brand — Identifying buyers for our LUBIAM operations” in this prospectus for further details.

During the Track Record Period, we sold products under MARCO AZZALI, an Italian brand, through self-operated retail outlets and a franchising arrangement similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.

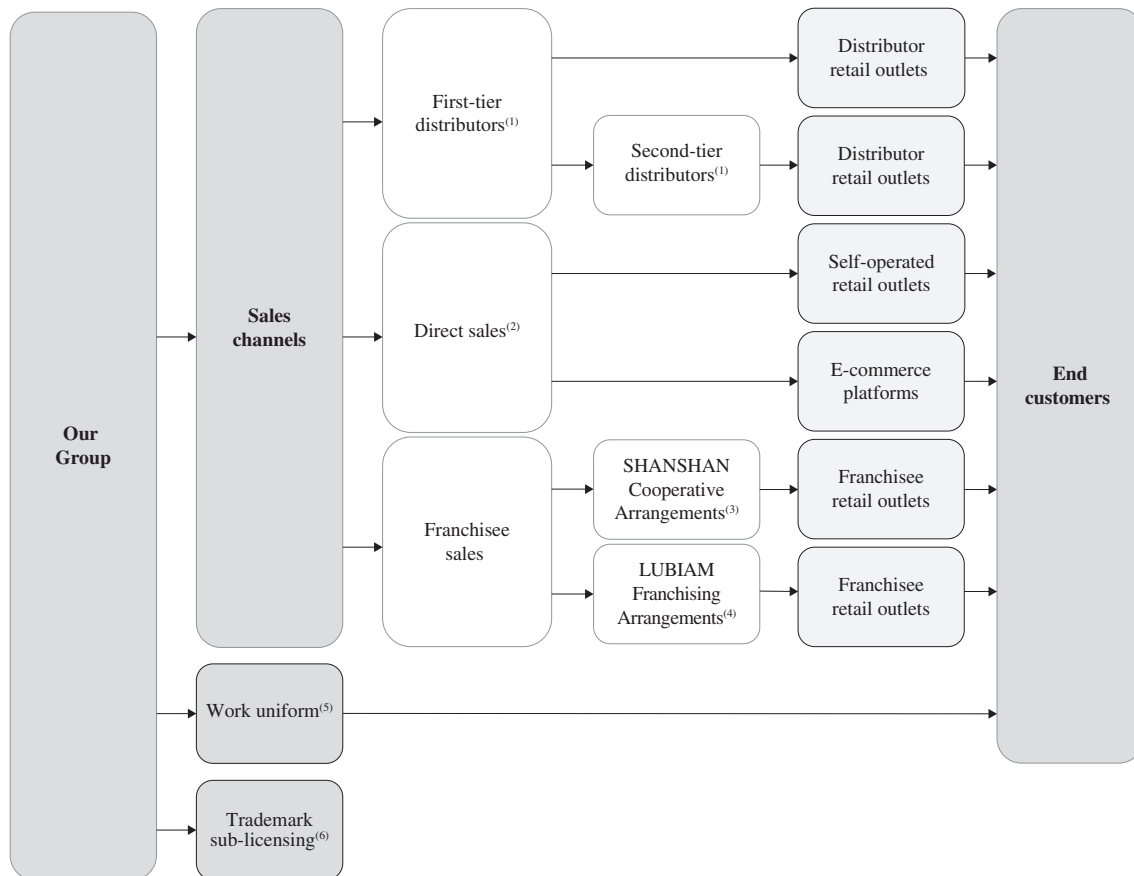
## SUMMARY

According to the CIC Report, online shopping has become increasingly prevalent in the PRC, especially among the younger generation. To capitalize on this market trend and to make our products available to end-customers around the clock and throughout the year, we offer certain products under our FIRS and SHANSHAN brands to customers via certain third-party PRC e-commerce platforms, including “Tmall”, “JD.com” and “VIP.com”. We believe that the use of third party e-commerce platforms enables us to extend our geographical coverage and customer reach without having to physically establish a large number of retail outlets, which requires higher set up and maintenance costs, and at the same time allows us to capture sales in regions where we do not have a presence. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the bestsellers in the PRC in 2015 by e-commerce sales volume among major PRC e-commerce platforms. Please see “Business — Direct sales — Third-party e-commerce platforms” in this prospectus for further details.

Our Listing constitutes a spin-off from Shanshan, one of our Controlling Shareholders and a joint stock company which shares have been listed on the Shanghai Stock Exchange. As advised by our PRC Legal Advisers, our Company has obtained all necessary approvals and authorization in the PRC in relation to the Listing.

### SALES AND DISTRIBUTION

The following diagram illustrates our sales and distribution model as of the Latest Practicable Date:



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## SUMMARY

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*Notes:*

- (1) We sell our FIRS branded products on a wholesale basis to our first-tier distributors, who then sell the products to end-customers through retail outlets operated by themselves or resell the products to second-tier distributors, who in turn sell the products to end-customers through retail outlets that they operate. Please see “Business – Distributorship model” in this prospectus for further details.
- (2) We sell our products directly to end-customers through self-operated retail outlets and third party e-commerce platforms. Please see “Business – Direct sales” in this prospectus for further details.
- (3) We sell our SHANSHAN branded products to end-customers through the SHANSHAN Cooperative Arrangements. Please see “Business – Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details.
- (4) We sell our LUBIAM branded products to end-customers through the LUBIAM Franchising Arrangements. Please see “Business – Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details.
- (5) We participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. Please see “Business – Work uniforms” in this prospectus for further details.
- (6) We sub-licensed certain trademarks registered under the respective names of Shanshan and Shanshan Group to selected sub-licensees in the PRC for the production of certain products which are not our business focus. Please see “Business — Trademark sub-licensing” and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholder’s approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

### **Pricing strategy**

We sell products at uniform wholesale prices to our first-tier distributors and at uniform retail prices to end-customers through self-operated retail outlets, e-commerce platforms and franchisee retail outlets. We also provide suggested retail prices, which are similar to the uniform retail prices we adopt, to first-tier and second-tier distributors for the sale of our products, which enables our distributors to adjust their selling prices in accordance with retail market dynamics, competition and customer demand in the regions in which they operate. We adopt a market-oriented pricing approach when we set our uniform wholesale prices and suggested retail prices. Please see “Business – Sales and distribution – Pricing strategy” in this prospectus for further details.

### **Sales and distribution network**

Our sales and distribution network has a wide geographical reach across the PRC. We had in total 970 retail outlets as of January 1, 2015, being the beginning of our Track Record Period. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and our franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet.

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## SUMMARY

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The tables below set forth the sales performance of our FIRS, SHANSHAN, MARCO AZZALI and LUBIAM branded products by sales channels for the years indicated:

***For the year ended December 31, 2015***

	<u>Revenue</u>	<u>Sales volume</u>	<u>Average selling price</u>	<u>Gross profit margin</u>
	<i>RMB'000</i>	<i>Units</i>	<i>RMB</i>	
<b>FIRS</b>				
– Distributor retail outlets	303,402	1,729,270	175.5	44.7%
– Self-operated retail outlets	4,452	20,740	214.7	36.7%
– E-commerce platforms	89,093	705,026	126.4	42.4%
<b>SHANSHAN</b>				
– Franchisee retail outlets	1,553	5,100	304.5	62.7%
– Self-operated retail outlets	N/A	N/A	N/A	N/A
– E-commerce platforms	N/A	N/A	N/A	N/A
<b>MARCO AZZALI<sup>(1)</sup></b>				
– Self-operated retail outlets	19,489	41,928	464.8	43.1%
– Franchisee retail outlets	8,315	11,222	741.0	54.7%
<b>LUBIAM</b>				
– Self-operated retail outlets	20,604	17,377	1,185.7	56.5%
– Franchisee retail outlets	26,554	11,013	2,411.2	85.3%

***For the year ended December 31, 2016***

	<u>Revenue</u>	<u>Sales volume</u>	<u>Average selling price</u>	<u>Gross profit margin</u>
	<i>RMB'000</i>	<i>Units</i>	<i>RMB</i>	
<b>FIRS</b>				
– Distributor retail outlets	266,145	1,550,830	171.6	40.2%
– Self-operated retail outlets	28,590	75,501	378.7	69.4%
– E-commerce platforms	126,517	932,233	135.7	46.5%
<b>SHANSHAN</b>				
– Franchisee retail outlets	48,037	182,445	263.3	62.8%
– Self-operated retail outlets	5,808	28,939	200.7	60.4%
– E-commerce platforms	N/A	N/A	N/A	N/A
<b>MARCO AZZALI<sup>(1)</sup></b>				
– Self-operated retail outlets	16,647	34,063	488.7	46.3%
– Franchisee retail outlets	6,500	10,021	648.6	50.7%
<b>LUBIAM</b>				
– Self-operated retail outlets	20,655	20,056	1,029.9	54.1%
– Franchisee retail outlets	13,929	6,672	2,087.7	80.5%

## SUMMARY

*For the year ended December 31, 2017*

	Revenue	Sales volume	Average selling price	Gross profit margin
	<i>RMB'000</i>	<i>Units</i>	<i>RMB</i>	
<b>FIRS</b>				
– Distributor retail outlets	200,973	1,111,410	180.8	49.4%
– Self-operated retail outlets	73,582	187,843	391.7	68.3%
– E-commerce platforms	155,486	1,194,963	130.1	45.0%
<b>SHANSHAN</b>				
– Franchisee retail outlets	208,984	822,334	254.1	61.1%
– Self-operated retail outlets	22,442	91,098	246.4	60.5%
– E-commerce platforms	3,464	12,517	276.7	63.1%
<b>MARCO AZZALI<sup>(1)</sup></b>				
– Self-operated retail outlets	17,535	31,984	548.2	50.7%
– Franchisee retail outlets	5,039	7,978	631.6	59.3%
<b>LUBIAM</b>				
– Self-operated retail outlets	21,563	18,386	1,172.8	58.8%
– Franchisee retail outlets	9,195	5,676	1,620.0	77.0%

*Note:*

- (1) We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.

### CUSTOMERS

We sell our products (i) to distributors for onward sale to end-customers; (ii) to end-customers through self-operated retail outlets, franchisee retail outlets and third party e-commerce platforms; and (iii) through participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. During the Track Record Period, our five largest customers include first-tier distributors and work uniform customers. For the years ended December 31, 2015, 2016 and 2017, revenue derived from sales to our largest customer accounted for approximately 3.0%, 3.1% and 2.5% of our total revenue, respectively, and revenue derived from sales to our five largest customers in aggregate accounted for approximately 12.7%, 11.9% and 10.1% of our total revenue, respectively. Please see “Business — Retail network management — Major customers” in this prospectus for further details.

### PRODUCTION OUTSOURCING

We outsource the production of our products to various domestic OEM suppliers, which we believe enables us to focus our resources on our core competencies in brand management, design and product development and sales and marketing management. We believe this strategy also enables us to avoid direct exposure to the risks and expenses of establishing and operating production facilities, while at the same time allowing us to promptly adjust our product offerings in response to shifting market trends so as to maintain a highly competitive cost structure. Our OEM suppliers consist primarily of apparel and accessories manufacturers located in Zhejiang and Jiangsu Provinces. Please see “Business – Supply chain, warehousing and logistics management — Production outsourcing” in this prospectus for further details.

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## SUMMARY

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### SUPPLIERS

Our OEM suppliers consist of two types: (i) finished product suppliers, who process raw materials procured by themselves and provide us with the finished products; and (ii) processing suppliers, who process raw materials and fabrics procured by us and provide us with the processed products. During the Track Record Period, all of our five largest suppliers were our OEM suppliers. For the years ended December 31, 2015, 2016 and 2017, purchases from our largest supplier accounted for approximately 6.5%, 6.8% and 5.7% of our total purchases, respectively, and purchases from our five largest suppliers in aggregate accounted for approximately 25.2%, 23.7% and 21.8% of our total purchases, respectively. Please see “Business — Suppliers” in this prospectus for further details.

### PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

We are committed to enhancing our product design and development capabilities. We had an in-house design team for each of FIRS, SHANSHAN and LUBIAM brands as of the Latest Practicable Date. The strength of our product design and development capabilities is integral to our ability to offer a broad product portfolio that appeals to our target customers. In recognition of our strong product design and development capabilities, we have been invited for a number of years to participate in the China International Fashion Fair, at which our FIRS brand is one of the major brands and has received a number of awards. We have been retained by the National Apparel Standardization Technical Committee (全國服裝標準化技術委員會) as one of the drafting parties for industry standards for the Chinese apparel industry since 2001, and have also been a core member of the Business Wear Research Center (中國服裝協會職業裝研究中心) at the China National Garment Association (中國服裝協會) since 2011. Please see “Business – Product design, research and development” in this prospectus for further details.

### QUALITY CONTROL

We are committed to delivering premium quality menswear products to our customers. As of December 31, 2017, we had a quality assurance team with 20 members and a quality inspection team with 15 members. Our quality assurance team is responsible for monitoring and controlling the production processes of our OEM suppliers, while our quality inspection team is responsible for inspecting and ensuring the quality of raw materials and finished products. We have established rigorous quality control measures, which are built into the various stages of our product procurement processes, according to the applicable national standards to avoid product quality issues. Please see “Business — Quality control” in this prospectus for further details.

### COMPETITIVE STRENGTHS

We believe the competitive strengths which differentiate us from our competitors and enable us to compete effectively in the PRC menswear industry include: (i) our nearly three decades of experience in the PRC menswear industry; (ii) our two core and signature brands targeting consumers in particular age and income groups; (iii) our strong product design and development capabilities; (iv) our solid experience in managing our effective and extensive sales and distribution network across the PRC; and (v) our experienced, dedicated and dynamic management team. Please see “Business — Competitive strengths” in this prospectus for further details.

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## SUMMARY

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### **BUSINESS STRATEGIES**

We will continue to leverage our competitive advantages to achieve a market leadership status in the PRC menswear industry. Our business strategies include (i) optimizing and expanding our sales and distribution network in the PRC; (ii) increasing our brand promotion and marketing efforts; (iii) further enhancing our information technology systems and our supply chain, logistics and inventory management capabilities; and (iv) further developing our e-commerce sales. Please see “Business — Business strategies” in this prospectus for further details.

### **HISTORY AND CONTROLLING SHAREHOLDERS**

Shanshan Garment Brand, the predecessor of our Company, was established on August 23, 2011 as a limited liability company in the PRC. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Shanshan will own approximately 67.5% of the registered share capital of our Company.

As Shanshan Group, Shanshan Holding (a company which is, through Qinggang Investment, controlled by Mr. Zheng and Ms. Zhou) and Ningbo Yonggang (a company which is controlled by Shanshan Holding) collectively hold approximately 39.88% in Shanshan, which will in turn hold approximately 67.5% interest in our Company upon the Listing, each of Shanshan Group, Shanshan Holding and Ningbo Yonggang will be regarded as part of a group of controlling shareholders under Rule 1.01 of the Listing Rules. Each of Mr. Zheng and Ms. Zhou is a shareholder who can ultimately exercise 30% or more of the voting right at general meetings of our Company through a common investment holding company, namely, Qinggang Investment. As such, Mr. Zheng, Ms. Zhou and Qinggang Investment will be regarded as a group of controlling shareholders of our Company under Rule 1.01 of the Listing Rules.

Our Controlling Shareholders do not engage in the design, marketing and sale of formal and casual business menswear. Apart from the business of our Group, our Controlling Shareholders and their respective close associates are operating other businesses such as (i) property development and management; (ii) shopping mall operation; (iii) trading of non-ferrous metals and chemical products; (iv) asset management and investment; (v) the manufacture and sale of the raw materials of lithium battery such as anode and cathode materials and electrolyte; (vi) new energy vehicle business such as manufacture and sale of power strain control system; (vii) operation and promotion of new energy vehicles; and (viii) provision of finance leasing, commercial factoring and advisory services through a number of companies controlled by them. Such businesses operated by our Controlling Shareholders and close associates will not form part of our Group after Listing, and are not related to or competing with our business. Please see “Relationship with our Controlling Shareholders” in this prospectus for further details.

### **CONTINUING CONNECTED TRANSACTIONS**

We entered into a number of continuing connected transactions, including a trademark licence agreement with each of Shanshan and Shanshan Group, respectively, pursuant to which Shanshan and Shanshan Group agreed to grant us, on a perpetual and exclusive basis, a right to use and for us to sub-license any members of our Group and third parties to use the trademarks registered under the respective names of Shanshan or Shanshan Group under the categories of garments, accessories, luggages and bags, shoes and hats. Please see “Connected Transactions” in this prospectus for further details.

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## SUMMARY

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### SUMMARY OF FINANCIAL INFORMATION

	For the year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	526,082	592,083	797,888
Gross profit	252,404	288,109	431,260
Profit before income tax	67,137	47,963	55,807
Profit and total comprehensive income for the year	52,903	33,814	36,961
	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Total non-current assets	85,893	102,014	120,924
Total current assets	483,231	590,147	746,914
Total current liabilities	593,659	541,836	684,438
Net current (liabilities)/assets	(110,428)	48,311	62,476
Net (liabilities)/assets	(33,471)	143,972	183,400

Please see “Financial Information” in this prospectus for detailed discussions of our financial performance during the Track Record Period.

### MERGER RESERVE

During the Track Record Period, Shanshan invested in certain subsidiaries which were engaged in non-core businesses (i.e. other than the proposed listing businesses operated by our Group) through Fashion Brand (namely, the Non-core Subsidiaries). In the preparation of our consolidated financial statements, the equity investments and other capital contributions to the Non-core Subsidiaries were deemed as a distribution to Shanshan and recognized in merger reserve under equity. At the disposal of, transfer out or deregister of the Non-core Subsidiaries, the proceeds received were treated as a contribution from Shanshan. Please see “Financial Information — Merger reserve” in this prospectus for further details.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Fashion Brand and Lubiam Moda per L'Uomo were engaged in an arbitration proceeding in respect of the joint venture agreement of Lubiam Apparel in the ICC International Court of Arbitration. Pursuant to a final award dated March 9, 2018 (the “**Final Award**”), the arbitral tribunal of this arbitration proceeding ruled that Fashion Brand is required to pay damages of RMB3.2 million (the “**Damages**”) to Lubiam Moda per L'Uomo in relation to the dividends receivable by Lubiam Moda per L'Uomo for the year of 2014 which was approved by the board of Lubiam Apparel in 2015, together with the relevant interests (the “**Interests**”). We have recognized a provision in respect of the Damages as our other gains and losses for the year ended December 31, 2015. In respect of the payment of the Interests, having considered that the amount is immaterial, our Directors are of the view, and the Reporting Accountant concurs, that no provision or adjustment is required to be made by Fashion Brand in respect of the Interests for the Track Record Period upon conclusion of the arbitration proceeding. As advised by the PRC legal advisers advising on this arbitration proceeding, this arbitration proceeding had concluded after the issuance of the Final Award. Our Directors are of the view that the Final Award did not have a material adverse effect on our financial position and results of operations.



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## SUMMARY

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Our Directors have confirmed that save for (i) the aforementioned Final Award; (ii) the estimated non-recurring listing expenses as disclosed in “Listing expenses” in this section; and (iii) the disposal of MARCO AZZALI operations as disclosed in “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus, since December 31, 2017 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affects our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants’ Report in Appendix I to this prospectus materially and adversely.

### RISK FACTORS

There are certain risks involved in our operations, many of them are beyond our control. Risk factors that may materially and adversely affect our business, financial condition and results of operations include (i) we face intense competition in the PRC menswear industry; (ii) we may not be able to effectively develop and expand our e-commerce sales; (iii) we may not be able to identify and respond to changes in fashion trends and consumer preferences in a timely manner; (iv) our business may be negatively affected if our distributors fail to comply with their obligations under the relevant distributorship agreements; and (v) we may not be able to extend our geographical coverage and customer reach through expanding our sales and distribution network. Please see “Risk Factors” in this prospectus for a comprehensive discussion of these risks.

### KEY OFFERING STATISTICS

Expected market capitalization	:	HK\$437.6 million to HK\$655.0 million (assuming no exercise of the Over-allotment Option)
Offer size	:	Initially 25.0% (excluding H Shares to be offered pursuant to the exercise of the Over-allotment Option) of the enlarged issued share capital of our Company
Offer price	:	HK\$3.28 to HK\$4.91 per Offer Share
Board lot	:	1,000 H Shares
Offering structure	:	90% International Placing and 10% Hong Kong Public Offering (subject to reallocation and the Over-allotment Option)

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$75.2 million (equivalent to approximately RMB61.4 million) after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and an Offer Price of HK\$4.095 per H Share, being the mid-point of the indicative Offer Price range of HK\$3.28 to HK\$4.91 per H Share in this Global Offering. We intend to use the net proceeds from the Global Offering for the following purposes:

- Approximately 37.8%, or HK\$28.4 million (equivalent to approximately RMB23.2 million), will be used for optimizing and expanding our sales and distribution network in the PRC;

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## SUMMARY

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- Approximately 24.7%, or HK\$18.6 million (equivalent to approximately RMB15.2 million), will be used for deploying a variety of publicity campaigns in the PRC;
- Approximately 19.3%, or HK\$14.5 million (equivalent to approximately RMB11.8 million), will be used for enhancing our information technology systems;
- Approximately 8.2%, or HK\$6.2 million (equivalent to approximately RMB5.1 million), will be used for establishing a new warehousing and logistics center; and
- Approximately 10.0%, or HK\$7.5 million (equivalent to approximately RMB6.1 million), will be used for general working capital purposes.

The above use of proceeds will be adjusted on a *pro rata* basis in the event that (i) the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range; and (ii) the Over-allotment Option is exercised. Please see “Future Plans and Use of Proceeds” in this prospectus for further information relating to our use of proceeds from the Global Offering.

### DIVIDENDS

We declared and paid dividends of RMB50.6 million during the year ended December 31, 2015, and did not declare and pay dividends during the years ended December 31, 2016 and 2017, respectively. As of December 31, 2017, our accumulated distributable profits amounted to RMB82.0 million. We do not currently have a fixed dividend policy and may declare dividends from time to time as our Board considers appropriate in compliance with our Articles and the applicable laws and regulations. Dividends paid in prior periods may not be indicative of future dividend payments. A decision to declare any dividends and the amount of such dividends depend on various factors, including our results of operation, cash flows, financial condition, future business prospects, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant. We cannot guarantee when, if and in what form or size dividends will be paid in the future. Please see “Financial Information — Dividends” in this prospectus for further details.

### LISTING EXPENSES

Our listing expenses primarily include professional fees and underwriting commission. Listing expenses to be borne by us are estimated to be RMB50.3 million. We had incurred listing expenses of RMB28.2 million up to December 31, 2017, of which RMB21.8 million was charged to our consolidated statements of comprehensive income and RMB6.4 million was accounted for as deferred listing expenses in our consolidated statements of financial position to be accounted for as a deduction from equity upon the Listing. We expect to incur listing expenses of approximately RMB22.1 million after December 31, 2017, of which RMB14.1 million is expected to be charged to our consolidated statements of comprehensive income and RMB8.0 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Please see “Financial Information — Listing expenses” in this prospectus for details.

### LEGAL PROCEEDINGS AND COMPLIANCE

We were involved in certain non-compliance incidents during the Track Record Period. Please see “Business — Legal proceedings and compliance — Non-compliance incidents” in this prospectus for further details.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expression shall have the following meanings.*

“Accountants’ Report”	the accountants’ report of the Reporting Accountants as set out in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company adopted on June 7, 2016 which will become effective upon the Listing Date, as amended from time to time, the summary of which is set out in Appendix VI to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Baker Tilly”	Baker Tilly Hong Kong Risk Assurance Limited, our internal control consultant
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

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## DEFINITIONS

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“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CIC”	China Insights Consultancy Limited, the industry consultant, an Independent Third Party
“CIC Report”	an industry report commissioned by us and prepared by CIC on China’s apparel market in general and the PRC menswear industry in particular
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Shanshan Brand Management Co., Ltd. (杉杉品牌運營股份有限公司), a joint stock company with limited liability established under the laws of the PRC on May 18, 2016
“Company Law” or “PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended, supplemented and otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules, and unless the context requires otherwise, refers to Shanshan, Shanshan Group, Ningbo Yonggang, Shanshan Holding, Qinggang Investment, Mr. Zheng and Ms. Zhou
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)

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## DEFINITIONS

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“Deed of Indemnity”	the deed of indemnity dated May 28, 2018 given by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for each of our subsidiaries), pursuant to which our Controlling Shareholders agree to provide certain indemnities, particulars of which are set out in “Statutory and General Information — Other Information — Estate duty, tax and indemnities” in Appendix VII to this prospectus
“Director(s)”	director(s) of our Company
“Domestic Share(s)”	ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“Dongxing Securities”, “Sole Sponsor”	Dongxing Securities (Hong Kong) Company Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
“EIT”	enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), adopted by the Tenth NPC on March 16, 2007 and became effective on January 1, 2008, and further amended on February 24, 2017
“EUR”	the lawful currency of the member states of the European Union which have adopted the European Monetary Union
“Fashion Brand”	Ningbo Shanshan Fashion Brand Management Co., Ltd. (寧波杉杉時尚服裝品牌管理有限公司), a limited liability company established in the PRC on June 17, 2009 and a wholly-owned subsidiary of our Company
“FIRS brand”	our core brand

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## DEFINITIONS

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“Forall Confezioni”	Forall Confezioni S.p.A., a high-end Italian menswear company and a joint stock company incorporated under the laws of Italy on January 7, 1970, which was interested in 35% equity interest in JIC Garments before the disposal of its entire interests in JIC Garments to Mr. Wang Qin (王沁) in May 2018, who is an employee of JIC Garments and an Independent Third Party. Please see “History, Reorganization and Corporate Structure — Reorganization — Disposal of JIC Garments after the Reorganization” in this prospectus for details
“GEM”	GEM operated by the Stock Exchange
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group”, “us”, “our” or “we”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“H Share(s)”	overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Stock Exchange
“H Share Registrar”	Tricor Investor Services Limited
“Hainan and Tibet”	Hainan Province and Xizang Autonomous Region
“Harbin Shanshan”	Harbin Shanshan Chunxiaqiudong Real Estate Co., Ltd. (哈爾濱杉杉春夏秋冬置業有限公司), a limited liability company established in the PRC on December 25, 2012, which is owned as to 60% by Shanshan Group, one of our Controlling Shareholders, and the remaining 40% by Independent Third Parties

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## DEFINITIONS

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“Hehuli”	Ningbo Hehuli Textile Co., Ltd. (寧波和乎梨紡織品有限公司), a limited liability company established in the PRC on December 22, 2009, which was wholly owned by Fashion Brand before it was deregistered in May 2016
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“ <b>HK eIPO White Form</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the <b>HK eIPO White Form</b> Service Provider, <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Share(s)”	the H Share(s) offered in the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer by our Company of initially 3,340,000 H Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on the terms and subject to the conditions described in this prospectus and the Application Forms. Please see “Structure of the Global Offering” in this prospectus for details
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters”, being the underwriters of the Hong Kong Public Offering

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## DEFINITIONS

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 11, 2018 relating to the Hong Kong Public Offering entered into among our Company, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, as further described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Underwriting Agreement” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who/which is/are independent of and not connected with (within the meaning of the Listing Rules) any of the Directors, Supervisors, chief executive or substantial shareholders (as defined in the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the offer of initially 30,060,000 H Shares by the International Underwriters outside the United States in offshore transactions in accordance with Regulation S, subject to the Over-allotment Option. Please see “Structure of the Global Offering” in this prospectus for details
“International Placing Share(s)”	the H Share(s) offered in the International Placing
“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing and to be entered into between, among others, our Company, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters on or around the Price Determination Date. Please see “Underwriting — Underwriting arrangements and expenses — International Placing” in this prospectus for details
“JD.com”	JD.com (京東), an e-commerce platform in the PRC



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## DEFINITIONS

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“Jiangsu Shanshan”	Jiangsu Shanshan Clothing Industry Co., Ltd. (江蘇杉杉服裝產業有限公司), a limited liability company established in the PRC on July 22, 2014, which was a wholly-owned subsidiary of Fashion Brand before the disposal of Fashion Brand’s interest to an Independent Third Party, Ningbo Shanshan Suyu Apparel Co., Ltd. (寧波杉杉宿豫服裝有限公司) in April 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of non-core business or inactive companies — Jiangsu Shanshan” in this prospectus for details
“JIC Garments”	JIC Garments (Ningbo) Co., Ltd. (寧波傑艾希服裝有限公司), a limited liability company established in the PRC on September 19, 2001, which was a non-wholly owned subsidiary of our Company before the disposal of our entire interests in JIC Garments to Mr. Wang Qin (王沁) in May 2018, who is an employee of JIC Garments and an Independent Third Party. Please see “History, Reorganization and Corporate Structure — Reorganization — Disposal of JIC Garments after the Reorganization” in this prospectus for details
“Joint Bookrunners”	Dongxing Securities (Hong Kong) Company Limited, Future Land Resources Securities Limited, Huabang Securities Limited, SPDB International Capital Limited and First Capital Securities Limited
“Joint Global Coordinators”	Dongxing Securities (Hong Kong) Company Limited and Future Land Resources Securities Limited
“Joint Lead Managers”	Dongxing Securities (Hong Kong) Company Limited, Future Land Resources Securities Limited, Huabang Securities Limited, SPDB International Capital Limited, First Capital Securities Limited, China Goldjoy Securities Limited and KGI Capital Asia Limited
“Latest Practicable Date”	June 3, 2018, the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication

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## DEFINITIONS

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“Le Coq Sportif”	Le Coq Sportif (Ningbo) Co., Ltd. (寧波樂卡克服飾有限公司), a limited liability company established in the PRC on February 4, 2004, which is owned as to 20% by Fashion Brand, and the remaining 80% by Independent Third Parties
“Listing”	listing of our H Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on Wednesday, June 27, 2018, on which our Offer Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Lubiam Apparel”	Lubiam (Ningbo) Apparel Co., Ltd. (寧波魯彼昂姆服飾有限公司), a limited liability company established in the PRC on December 21, 2005, which is owned as to 60% by Fashion Brand and 40% by Lubiam Moda per L’Uomo
“LUBIAM brand”	an Italian brand which is owned by Lubiam Moda per L’Uomo and granted Lubiam Apparel a licence to sell LUBIAM branded products in the PRC on perpetual basis
“LUBIAM Franchising Arrangements”	the franchising arrangements between us and our franchisees in respect of the sales of our LUBIAM branded products. Please see “Business — Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details
“Lubiam Moda per L’Uomo”	LUBIAM MODA per L’UOMO S.p.a., a high-end Italian menswear company and a joint stock company incorporated under the laws of Italy on November 19, 1980, which is interested in 40% equity interest in Lubiam Apparel
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange that is independent from and operated in parallel with GEM

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## DEFINITIONS

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“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》), for inclusion in the articles of association of companies established in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC government departments on August 27, 1994
“MARCO AZZALI brand”	an Italian brand which is owned by Forall Confezioni and has granted JIC Garments a licence to sell MARCO AZZALI branded products in the PRC, Taiwan, Hong Kong, Macau, Korea and the Middle East, on a perpetual basis since May 2015.
“Marco Wear”	Ningbo Marco Wear Clothing Co., Ltd. (寧波瑪珂威爾服飾有限公司), a limited liability company established in the PRC on December 30, 2006, which was owned as to 55% by Fashion Brand and 45% by Shanshan HK before the disposal of Fashion Brand’s interest to Yuanzhong Investment in April 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of non-core business or inactive companies — Marco Wear” in this prospectus for details
“Modun Garments”	Ningbo Modun Garments Co., Ltd. (寧波摩頓服裝有限公司) (previously known as Ningbo Shanshan Modun Garments Co., Ltd. (寧波杉杉摩頓服裝有限公司)), a limited liability company established in the PRC on February 8, 2006, which was owned as to 51% by Fashion Brand and 49% by Independent Third Parties before the disposal of Fashion Brand’s interest to an Independent Third Party in January 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of subsidiaries prior to the Reorganization — Modern Garments” in this prospectus for details
“MOF” or “Ministry of Finance”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM” or “Ministry of Commerce”	Ministry of Commerce of the PRC (中華人民共和國商務部)

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## DEFINITIONS

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“Mr. Luo”	Mr. Luo Yefei (駱葉飛), one of our executive Directors and the controlling shareholder of Shaanxi Maoye, one of our Promoters
“Mr. Zheng”	Mr. Zheng Yonggang (鄭永剛), one of our Controlling Shareholders
“Ms. Zhou”	Ms. Zhou Jiqing (周繼青), one of our Controlling Shareholders
“Ms. Zhou YM”	Ms. Zhou Yumei (周玉梅), the spouse of Mr. Luo
“National Bureau of Statistics”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Tier One Cities”	refer to regional central cities and capital cities of developed provinces having good economic foundations, solid infrastructure and unique charm. Based on the CIC Report and for the purposes of this prospectus only, New Tier One Cities comprised Changsha, Chengdu, Chongqing, Dalian, Dongguan, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Suzhou, Tianjin, Wuhan, Xi’an and Zhengzhou
“Ningbo Tongda”	Ningbo Shanshan Tongda Trading Co., Ltd. (寧波杉杉通達貿易有限公司), a limited liability company established in the PRC on December 9, 1996 and a wholly-owned subsidiary of Shanshan
“Ningbo Yonggang”	Ningbo Yonggang Clothing Investment Co., Ltd. (寧波甬港服裝投資有限公司), a limited liability company established in the PRC on April 27, 2005 and one of our Controlling Shareholders. It is owned as to 96.93% by Shanshan Holding and the remaining 3.07% by Mr. Wang Jun (王軍), being one of our senior management, and certain Independent Third Parties
“Nomination Committee”	the nomination committee of the Board

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## DEFINITIONS

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“Non-Competition Agreement”	the non-competition agreement dated August 15, 2017 entered into by our Controlling Shareholders in favor of our Company, particulars of which are set out in “Relationship with Controlling Shareholders — Non-Competition Undertakings” in this prospectus
“Non-core Subsidiaries”	certain subsidiaries of Shanshan during the Track Record Period in which Shanshan invested through Fashion Brand, which were engaged in non-core businesses (other than the proposed listing businesses operated by our Group)
“NPC”	the National People’s Congress (全國人民代表大會)
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of the brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be subscribed for pursuant to the Global Offering, to be determined as further described in the section headed “Structure of the Global Offering” in this prospectus
“Offer Share(s)”	the H Share(s) offered by us in the Global Offering, where relevant including any additional H Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), pursuant to the International Underwriting Agreement, for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to 5,010,000 additional H Shares at the Offer Price (representing 15% of the H Shares initially being offered under the Global Offering) to cover over-allocations in the International Placing, if any. Please see “Structure of the Global Offering” in this prospectus for details
“Parent Group”	Shanshan and its subsidiaries (other than members of our Group)
“PBOC”	People’s Bank of China (中國人民銀行)

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## DEFINITIONS

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“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC government” or “government”, “State” or “state”	the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
“PRC Legal Advisers”	Shu Jin Law Firm
“PRC Securities Law”	the Securities Law of the PRC (《中華人民共和國證券法》), as amended, supplemented or otherwise modified from time to time
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Tuesday, June 19, 2018 and, in any event, not later than Thursday, June 21, 2018, on which the Offer Price is to be fixed by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters)
“Province” or “province”	a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“Qinggang Investment”	Ningbo Qinggang Investment Co., Ltd. (寧波青剛投資有限公司), a limited liability company established in the PRC on September 1, 2014 and one of our Controlling Shareholders. It is owned as to 51% by Mr. Zheng and 49% by Ms. Zhou

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## DEFINITIONS

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“QUA Fashion”	QUA (Ningbo) Fashion Co., Ltd. (寧波酷娃服飾有限公司), a limited liability company established in the PRC on July 9, 2007, which was owned as to 65% by Fashion Brand and 35% by Mr. Huang Yong (黃勇), former director of a number of the then subsidiary of our Company before the disposal of Fashion Brand’s interest to Mr. Huang Yong (黃勇) in March 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of subsidiaries prior to the Reorganization — QUA Fashion” in this prospectus for details
“Race Brand”	Ningbo Race Brand Management Co., Ltd. (寧波瑞思品牌管理有限公司), a limited liability company established in the PRC on September 25, 2007, which was a wholly-owned subsidiary of Fashion Brand before the disposal of Fashion Brand’s interest to Yuanzhong Investment in April 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of non-core business or inactive companies — Race Brand” in this prospectus for details
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Renoma Garments”	Ningbo Renoma Garments Co., Ltd. (寧波瑞諾瑪服飾有限公司), a limited liability company established in the PRC on July 29, 2004, which was owned as to 75% by Fashion Brand and 25% by Shanshan HK before the disposal of Fashion Brand’s interest to an Independent Third Party in August 2015. Please see “History, Reorganization and Corporate Development — Our Corporate Development — Disposal of subsidiaries prior to the Reorganization — Renoma Garments” in this prospectus for details
“Reorganization”	the reorganization arrangements of our Group. Please see “History, Reorganization and Corporate Structure” in this prospectus for details

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## DEFINITIONS

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“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shaanxi Maoye”	Shaanxi Maoye Gongmao Co., Ltd. (陝西茂業工貿有限公司), a limited liability company established in the PRC on December 11, 2009 and one of our Promoters, which is owned as to 80% by Mr. Luo, our executive Director, and 20% by Ms. Zhou YM
“Shanghai Haimeng”	Shanghai Haimeng Apparel Co., Ltd (上海海盟服裝有限公司), previously known as Shanghai Shanshan Prince Apparel Co., Ltd (上海杉杉王子服飾有限公司), a limited liability company established in the PRC on October 14, 2011, which is owned as to 60% by Fashion Brand and 40% by an Independent Third Party
“Shanjing Apparel”	Ningbo Shanjing Apparel Co., Ltd. (寧波杉京服飾有限公司), a limited liability company established in the PRC on September 1, 2005, which is owned as to 46% by Fashion Brand, and the remaining 54% being held by Independent Third Parties
“Shanjing Commercial”	Shanjing Business Administration (Ningbo) Co., Ltd. (杉井商業管理(寧波)有限公司), a limited liability company established in the PRC on June 2, 2009, which is owned as to 54% by Shanshan Group, one of our Controlling Shareholders, and the remaining 46% by Independent Third Parties



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## DEFINITIONS

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“Shanshan”	Ningbo Shanshan Co., Ltd. (寧波杉杉股份有限公司), a joint stock company with limited liability established in the PRC on December 14, 1992 whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) with the stock code of 600884 and one of our promoters and Controlling Shareholders. It is owned as to approximately 23.79% by Shanshan Group, approximately 16.09% by Shanshan Holding, approximately 0.04% by Mr. Zheng and the remaining by the public shareholders. It is controlled as to approximately 39.92% of its registered share capital directly and indirectly by Mr. Zheng and Ms. Zhou, our Controlling Shareholders
“Shanshan Bolai”	Ningbo Shanshan Bolai Import and Export Co., Ltd. (寧波杉杉博萊進出口有限公司), a limited liability company established in the PRC on September 16, 2005, which was a wholly-owned subsidiary of Fashion Brand before the disposal of Fashion Brand’s interest to Yuanzhong Investment in April 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of non-core business or inactive companies — Shanshan Bolai” in this prospectus for details
“SHANSHAN brand”	our brand aimed at attracting young and fashion-conscious consumers
“SHANSHAN Cooperative Arrangements”	the cooperative arrangements between us, our OEM suppliers and our franchisees in respect the sales of our SHANSHAN branded products, comprising (i) the consignment or purchasing relationship between our Group and our OEM suppliers; and (ii) the franchising relationship between our Group and our franchisees. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details
“Shanshan Garment Brand”	Ningbo Shanshan Garment Brand Management Co., Ltd. (寧波杉杉服裝品牌經營有限公司), a limited liability company established in the PRC on August 23, 2011 and the predecessor of our Company

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## DEFINITIONS

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“Shanshan Group”	Shanshan Group Co., Ltd. (杉杉集團有限公司), a limited liability company established in the PRC on June 28, 1994 and one of our Controlling Shareholders. It is owned as to 67.14% by Shanshan Holding, 12.96% by Ningbo Yonggang, and the remaining 19.90% by certain Independent Third Parties
“Shanshan HK”	Hongkong Shanshan Resources Company Limited (香港杉杉資源有限公司), a limited liability company incorporated in Hong Kong on July 27, 2009 and a wholly-owned subsidiary of Shanshan
“Shanshan Holding”	Shanshan Holding Co., Ltd. (杉杉控股有限公司), a limited liability company established in the PRC on August 30, 2004 and one of our Controlling Shareholders. It is owned as to 61.81% by Qinggang Investment, and the remaining 38.19% by Independent Third Parties
“Shanshan Shirt”	Ningbo Shanshan Shirt Co., Ltd. (寧波杉杉襯衫有限公司), a limited liability company established in the PRC on April 18, 1995, which was owned as to 55% by Fashion Brand and 45% by Shanshan HK before it was deregistered in May 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Deregistration of inactive companies — Shanshan Shirt” in this prospectus for details
“Shanshan Suqian”	Shanshan Fashion Industrial Park Suqian Co., Ltd. (杉杉時尚產業園宿遷有限公司), a limited liability company established in the PRC on December 20, 2013, which was owned as to 66.67% by Fashion Brand and 33.33% by Ningbo Tongda before the disposal of Fashion Brand’s interest to Shanshan in April 2016. Please see “History, Reorganization and Corporate Structure — Our Corporate Development — Disposal of non-core business or inactive companies — Shanshan Suqian” in this prospectus for details

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## DEFINITIONS

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“Shanshan Zhengsheng”	Shanshan Zhengsheng Garment Company Ltd (寧波杉杉正盛服裝有限公司), a limited liability company established in the PRC, which is owned as to 51% by Mr. Wu Mingchang, brother-in-law of Mr. Zheng, one of our Controlling Shareholders. Shanshan Zhengsheng is a connected person of our Company
“Share(s)”	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, including both the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of our Shares
“Special Regulations”	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Companies with Limited Liability (《國務院關於股份有限公司境外募集股份及上市的特別規定》), promulgated by the State Council on August 4, 1994
“Spin-off Circular”	the Circular on Issues Relevant to Regulating Offshore Listing of Securities of Domestic Listed Companies (《關於規範境內上市公司所屬企業到境外上市有關問題的通知》) promulgated by the CSRC on July 21, 2004
“Stabilizing Manager”	Dongxing Securities (Hong Kong) Company Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	our supervisory committee established pursuant to our Articles. Please see “Directors, Supervisors and Senior Management” in this prospectus for details
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Tier Four Cities”	refer to cities with plain economic environment, basic infrastructure and no more than one million urban population
“Tier One Cities”	refer to metropolises in the PRC playing vital roles in national political, economic and other social activities and have the radiative power to affect the adjacent regions and cities. Based on the CIC Report and for the purposes of this prospectus only, Tier One Cities comprised Beijing, Guangzhou, Shanghai and Shenzhen
“Tier Three Cities”	refer to medium-sized cities in the PRC with strategic significance and relatively well-developed economy. Based on the CIC Report and for the purposes of this prospectus only, Tier Three Cities comprised Anshan, Baoding, Baotou, Bengbu, Cangzhou, Dandong, Daqing, Dongying, Fushun, Ganzhou, Guilin, Handan, Hengyang, Hohhot, Huaian, Huzhou, Jiangmen, Jieyang, Jilin City, Jingzhou, Jining, Jiujiang, Langfang, Lianyungang, Lijiang, Linyi, Lishui, Liuzhou, Longyan, Luoyang, Ma’anshan, Mianyang, Nanchong, Nanping, Nanyang, Ningde, Panjin, Putian, Qingyuan, Qinhuangdao, Qiqihar, Quzhou, Sanming, Sanya, Shangrao, Shantou, Tai’an, Taizhou (泰州), Tangshan, Weifang, Weihai, Wuhu, Xiangyang, Xianyang, Xiaogan, Xining, Yanbian Korean Autonomous Prefecture, Yancheng, Yangzhou, Yichang, Yinchuan, Yingkou, Yueyang, Zhangzhou, Zhanjiang, Zhaoqing, Zhenjiang, Zhoushan, Zhuzhou and Zibo
“Tier Two Cities”	refer to (i) capital cities of provinces in the PRC with a moderate economic environment; and (ii) smaller cities in well-developed provinces in the PRC. Based on the CIC Report and for the purposes of this prospectus only, Tier Two Cities comprised Changchun, Changzhou, Foshan, Fuzhou, Guiyang, Haikou, Harbin, Hefei, Huizhou, Jiaxing, Jinan, Jinhua, Kunming, Lanzhou, Nanchang, Nanning, Nantong, Quanzhou, Shaoxing, Shijiazhuang, Taiyuan, Taizhou (台州), Urumqi, Wenzhou, Wuxi, Xiamen, Xuzhou, Yantai, Zhongshan and Zhuhai
“Tmall”	Tmall.com (天貓商城), an e-commerce platform in the PRC
“Track Record Period”	the years ended December 31, 2015, 2016 and 2017

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## DEFINITIONS

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“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“VAT”	value-added tax
“VIP.com”	VIP.com (唯品會), an e-commerce platform in the PRC
“ <b>WHITE</b> Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by members of the public who require such Hong Kong Offer Shares to be issued in an applicant’s own name
“Yangtze River Delta region”	the region covers Shanghai, Jiangsu Province, Zhejiang Province and Anhui Province of the PRC
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by members of the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“Yuanzhong Investment”	Ningbo Yuanzhong Investment Co., Ltd. (寧波源中投資有限公司), a limited liability company established in the PRC on March 17, 2016 and a wholly-owned subsidiary of Shanshan
“Zhengzhou Shanshan”	Zhengzhou Shanshan Outlet Shopping Mall Co., Ltd. (鄭州杉杉奧特萊斯購物廣場有限公司), a limited liability company established on April 22, 2014, which is owned as to 51% by Shanshan Group, one of our Controlling Shareholders, and the remaining 49% by an Independent Third Party
“%”	per cent

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## DEFINITIONS

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“sq.m.” square meter(s)

*The names of companies and entities established in the PRC and the laws and regulations in the PRC have been included in this prospectus both in English and Chinese. Unless such companies, entities, laws and regulations have an English name as part of their legal name, all English translations of official Chinese names are for identification purposes only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese name shall prevail.*

*In this prospectus, unless otherwise specified, references to “province(s)” in the PRC also include ethnic minority autonomous regions and municipalities directly administered by the central government of the PRC.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

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## GLOSSARY OF TECHNICAL TERMS

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*In this prospectus, the following expressions shall have the meanings set out below unless the context otherwise requires*

“ERP”	enterprise resource planning system
“OA”	office automation system
“OEM”	an original equipment manufacturer, a company that manufactures a product in accordance with its customer’s designs that ultimately will be branded by its customer for sale
“SKU”	stock-keeping unit, a unique identifier for each distinct product, as distinguished by style, size and color that can be purchased

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that are not historical facts, but relate to our plans, intentions, beliefs, expectations and predictions for the future, particularly under the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Regulatory Overview”, “History, Reorganization and Corporate Structure”, “Business”, “Relationship with our Controlling Shareholders”, “Connected Transactions”, “Financial Information” and “Future Plans and Use of Proceeds”. By their nature, these forward-looking statements are subject to risks and uncertainties.

These forward-looking statements in this prospectus include, without limitation, statements relating to:

- the competition in the market or industry in which we operate and their potential impact on our business;
- our operations and business strategies;
- general domestic and global economic conditions, including those related specifically to China;
- changes in the regulatory policies of the PRC government and other relevant government authorities relating to the industries discussed herein and their potential impact on our business;
- changes in pricing for our services;
- changes in the availability of, or requirements for, financing;
- changes in regulations and restrictions;
- our ability to expand and manage our business and to introduce new services;
- future development, trends and conditions in the industry in which we operate;
- changes in political, economic, legal and social conditions in the PRC, including specifically, the PRC government’s policies with respect to economic growth, inflation, capital market development and foreign exchange;
- macroeconomic measures taken by the PRC government to manage economic growth;
- changes in restrictions on foreign currency convertibility and remittance abroad;
- our financial condition and performance;
- our ability to implement our business strategies, plans objectives and goals;



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## FORWARD-LOOKING STATEMENTS

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- our expansion and capital expenditure plans;
- our dividend policy;
- certain statements in the sections headed “Industry Overview”, “Business” and “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this prospectus that are not historical facts.

In addition, statements regarding our future financial position, strategies, projected costs and the plans and the objectives of our management for future operations are forward-looking statements. In some cases, we use words such as “aim”, “continue”, “predict”, “propose”, “believe”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “forecast”, “target”, “plan”, “potential”, “will”, “would”, “may”, “could”, “should” and “expect”, and the negatives of these words and other similar expressions, to identify forward-looking statements.

These forward-looking statements reflect our current views on future events but are not assurance of future performance, and will be affected by certain risks, uncertainties and assumptions, including the risk factors mentioned in this prospectus. The possible occurrence of one or more relevant risk factors or uncertainties, or the potential inaccuracy of the relevant assumptions, may cause actual results, performance or effects or industry results to differ materially from any future results, performance or presentation indicated expressly or implicitly in the forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by law and the Listing Rules. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

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## RISK FACTORS

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*An investment in our H Shares involves various risks. You should carefully consider all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our H Shares. The occurrence of any of the following events could harm us. If any of these events materialize, the trading price of our H Shares could decline and you may lose all or part of your investment.*

### **RISKS RELATED TO OUR BUSINESS AND THE PRC MENSWEAR INDUSTRY**

**The PRC menswear industry is highly competitive and fragmented and is likely to become more intense in the future. Increased competition in the PRC menswear industry may result in a reduction in our market share and may materially and adversely affect our business, financial condition and results of operations**

The PRC menswear industry is highly competitive and fragmented. We compete with a number of domestic menswear companies in the PRC. According to the CIC Report, the top ten men's business formal apparel brands in the PRC accounted for less than 40% of the total market in terms of retail revenue in 2017. We expect that competition in this industry will likely to further intensify.

Competition is primarily manifested in the form of price concessions. Some of our competitors may have a longer operating history, greater financial resources, better brand recognition or wider sales and distribution network than us. To compete effectively in the market, we need to invest significant resources in (i) the on-going development of our product portfolio; (ii) strengthening our relationship with our distributors, franchisees and OEM suppliers; (iii) advertising our brands and products and, as the case may require, reducing our profit margin by lowering the prices of our products. However, there can be no assurance that we will have sufficient resources to make these investments, or that these investments will improve our market position in comparison with our competitors.

In addition, due to the increasing significance of the PRC market, we expect international competitors to establish and increase their presence in the PRC menswear industry. If we fail to retain and attract customers and compete effectively with our current or potential competitors, our business, financial condition and results of operations may be materially and adversely affected.

### **We may not be able to effectively develop and expand our e-commerce sales**

According to the CIC Report, online shopping has become increasingly prevalent in the PRC, which reflects changes in the shopping patterns of PRC consumers. Currently, we offer certain products under our FIRS and SHANSHAN brands to customers exclusively via certain third-party PRC e-commerce platforms, including Tmall, JD.com and VIP.com. We intend to further develop our e-commerce sales in order to capitalize on the significant growth potential we anticipate. Please see "Business — Business strategies — We plan to further develop our

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## RISK FACTORS

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e-commerce sales” in this prospectus for details. Competitors who are able to successfully market and sell their products on e-commerce platforms and effectively manage their supply chains and logistics, web hosting infrastructure and after-sale service systems may be better positioned than we are to capture the opportunities presented by online shopping and consequently able to increase their customer base and sales at our expense. If we are unable to implement our business strategy to further develop our e-commerce sales or compete effectively with our competitors on e-commerce platforms, we may not be able to achieve the growth we anticipate and our business, financial condition and results of operations may be materially and adversely affected.

### **We may not be able to identify and respond to changes in fashion trends and consumer preferences in a timely manner**

Fashion trends and consumer preferences change from time to time. The success of our business is largely dependent on our ability to anticipate future fashion trends and consumer preferences so as to design and launch menswear products that match the appetites of our target customers and to address the evolving needs and preferences of PRC consumers. Consumer preferences differ across and within different regions of the PRC and among different customer groups, and thus are influenced by factors such as changing esthetic and evolving styles.

In addition, the SHANSHAN brand targets fashion conscious customers who are frequent buyers of trendy and value for money menswear products. The sales performance of our SHANSHAN brand is highly susceptible to changes in fashion trends and consumer preferences. Any failure to accurately anticipate fashion trends and react to prevailing consumer preferences in a timely manner could adversely affect our sales performance, result in obsolete inventory and lead to a reduction in our business profitability, which may in turn have a material adverse effect on our business, financial condition and results of operations.

### **Our business and financial performance rely on our distributors**

For the years ended December 31, 2015, 2016 and 2017, revenue derived from sales to our distributors amounted to RMB303.4 million, RMB266.1 million and RMB201.0 million, respectively, representing approximately 57.7%, 45.0% and 25.2% of our total revenue for the respective years. The sales performance of our distributors and their ability to expand their businesses and sales networks are crucial to the future growth of our business. Although we seek to maintain stable relationships with our distributors, since we generally enter into distributorship agreements with our distributors on an annual basis, we cannot assure you that our distributors will continue to maintain business relationships with us by renewing their distributorship agreements at terms acceptable to us upon expiry, or even maintain such business relationships with us at all. If any distributors terminate or refuse to renew their distributorship agreement with us, we may not be able to identify other new distributors at terms acceptable to us in a timely and efficient manner. In addition, we cannot assure you that our distributors will continue to purchase our products in volumes similar to historical levels. If our distributors reduce their purchase volumes or are unable to fulfill their obligations under their distributorship agreements, or if we fail to maintain business relationships with our distributors and are unable to replace them in a timely and efficient manner, our business, financial condition and results of operations will be materially and adversely affected.

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### **Our business may be negatively affected if our distributors fail to comply with their obligations under the relevant distributorship agreements**

Our control over our first-tier and second-tier distributors and the retail outlets which they operate is limited. We rely on the contractual terms as set forth in the distributorship agreements entered into between us and our distributors to manage the retail outlets operated by our distributors. For example, (i) we require our distributors to protect our brand names and reputation and our distributors are authorized to use our trademarks and trade name only in the ordinary operation of their distributor retail outlets within the scope set out in the distributorship agreement; (ii) we provide suggested retail prices to first-tier and second-tier distributors for the sale of our products; (iii) we require distributors who have not yet installed our ERP system to send us reports on their sales performance and inventory levels regularly; and (iv) we require our first-tier and second-tier distributors to obtain our approval before they open, furnish, move or close any retail outlets in their respective territories. If our distributors fail to comply with their obligations under the relevant distributorship agreements, we may not be able to effectively manage our sales and distribution network or maintain a uniform brand image, which may result in erosion of our goodwill and lead to an unfavorable public perception of our brand. Additionally, we may not be able to identify replacements for the distributors who fail to comply with their obligations under the relevant distributorship agreements in a timely manner. Our business, financial position and results of operations may therefore be materially and adversely affected.

### **We may not be able to accurately estimate the market demand for our products and prevent excessive inventory build-up at distributor retail outlets**

In order to accurately assess the performance of the retail outlets of first-tier and second-tier distributors, and identify or prevent any excessive inventory build-up at these retail outlets, we rely on our distributors to accurately report and submit their sales performance and inventory levels to us. However, we may not be able to ensure the accuracy of the data provided by distributors or collected by us. The inability to collect accurate data on time may cause us to fail to accurately estimate the market demand for our products and prevent excessive inventory build-up at distributor retail outlets, which may in turn adversely impact our sales performance and thus affect our business.

### **We may not be able to extend our geographical coverage and customer reach through expanding our sales and distribution network and so increase our sales volume**

We believe maintaining an effective and extensive sales and distribution network is crucial to our business success and future growth. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and our franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet. Among these retail outlets, 482 retail outlets were operated by our first-tier distributors, 148 retail outlets were operated by second-tier distributors, 136 retail outlets were operated by ourselves, 274 retail outlets were operated by our SHANSHAN franchisees under the SHANSHAN Cooperative Arrangements and 12 retail outlets were

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operated by our LUBIAM franchisees under the LUBIAM Franchising Arrangements and our historical MARCO AZZALI franchisees. To increase our sales volume, we plan to further expand our geographic coverage and deepen our market penetration. To this end, we intend to optimize and expand our sales and distribution network in the PRC. Please see “Business — Business strategies — We plan to optimize and expand our sales and distribution network in the PRC” in this prospectus for details.

We cannot assure you that we will be able to increase the number of retail outlets as planned. We or our distributors and franchisees might not be able to identify and secure attractive locations for new retail outlets at commercially acceptable terms. In addition, the expansion of our sales and distribution network will put pressure on our managerial, financial, operational and other resources. We may not be able to effectively integrate any new retail outlets into our existing operation. If we are unable to extend our geographical coverage and customer reach through expanding our sales and distribution network, our sales volume, growth potential and profitability could be materially and adversely affected.

**We cannot guarantee that the launch of any new brands in the future will be successful**

A new brand may face challenges relating to, amongst others, brand positioning, marketing and pricing strategies. We do not currently have any intention to launch a new brand but we may do so in the future. To successfully launch and develop a new brand, we would have to commit substantial financial and operational resources. A new brand typically requires a period of initial development and on-going investment, which may negatively affect overall profitability. We cannot guarantee the success of any new brands that may be launched by us in the future. We may also not be able to successfully integrate new brands into our existing brand and product portfolio. If development of a new brand is not successful, our business, financial condition and results of operations may be materially and adversely affected.

**A majority of our revenue is generated from sales under the FIRS and SHANSHAN brands and thus any decline in the reputation of these brands could materially and adversely affect our business**

Brand recognition is a key factor in consumers’ purchasing decisions. The brand image of our FIRS and SHANSHAN brands may be negatively affected if our products fail to meet consumer expectations with respect to quality or style and if we fail to successfully promote and maintain our brand image.

For the years ended December 31, 2015, 2016 and 2017, revenue derived from the sales of our FIRS branded products constituted approximately 82.3%, 77.9% and 62.0%, respectively, of our total revenue, and revenue derived from the sales of our SHANSHAN branded products constituted approximately 0.3%, 9.1% and 29.4%, respectively, of our total revenue. Negative publicity about our FIRS and SHANSHAN brands, and changes in market perception or customer preferences about these brands could materially and adversely affect the sales performance of these brands. In addition, the growth momentum of our FIRS and SHANSHAN brands may slow down and their growth potential may decrease over time. In this case, our future development may be adversely affected, which could have a material and adverse effect on our business, financial condition, results of operations and growth prospects.

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**We or our distributors or our franchisees may not be able to renew current leases or locate desirable alternatives for the retail outlets currently leased by us, our distributors and our franchisees**

Our self-operated retail outlets, distributor retail outlets and franchisee retail outlets across the PRC, and our warehouses and logistics centers in Ningbo are located on leased premises. We or our distributors or our franchisees' abilities to renew existing leases upon their expiry are crucial to our operations and profitability, especially for retail outlets located on streets with large volumes of foot traffic. At the end of a lease term, we and our distributors and franchisees may not be able to negotiate an extension of the lease, and may therefore be forced to move to a less favorable location. Due to rapid rental increases in the PRC, particularly in large cities, we or our distributors or our franchisees may not be able to renew our existing leases at reasonable prices or on commercially acceptable terms and conditions that are viable for us. In addition, we compete with other businesses, including our competitors, for premises at desirable locations and/or of desirable sizes. Therefore, we may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms in a timely manner or at all, which could materially and adversely affect our business and results of operations.

**We rely heavily on our selected OEM suppliers for the production of our products and any material shortage or delay in supply by our OEM suppliers or instability of their product quality could materially and adversely affect our business**

If we fail to maintain our product quality, our business, financial condition and results of operations could be material and adversely affected. We outsource the production of our products to various domestic OEM suppliers. For the years ended December 31, 2015, 2016 and 2017, costs we paid to our OEM suppliers accounted for approximately 74.4%, 76.3% and 75.5%, respectively, of our total cost of sales. Most of our OEM suppliers are apparel and accessories manufacturers located in Zhejiang and Jiangsu Provinces. Their operations are vulnerable to business interruptions due to natural disasters or other catastrophic events, such as storms, fires, floods, earthquakes, typhoons, power shortages and failures, water shortages, hardware failures, terrorist attacks, wars or such other such reasons which may or may not be foreseeable or otherwise within their control. The occurrence of any such natural disasters or catastrophic events could cause material shortages or delays in the supply of products by our OEM suppliers.

In addition, although we have strict quality standard for our products, we may not be able to monitor the production quality of our OEM suppliers directly and effectively. If our OEM suppliers fail to supply products in accordance with our quality standards or product specifications, the delivery of suitable products with our customers, distributors and franchisees may be delay, which could harm our reputation and relationships with customers.

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**We may not be able to maintain our current relationships with our OEM suppliers or find replacements for our OEM suppliers in a timely manner**

We outsource the production of our products to various domestic OEM suppliers. We may not be able to identify sufficient suitable OEM suppliers when we experience significant increases in demand for our products or if we are required to replace our OEM suppliers. If we are unable to retain our current major OEM suppliers or contract new OEM suppliers at terms acceptable to us in a timely manner, our business, financial condition and results of operations could be materially and adversely affected.

**We are subject to risks arising from inventory write-off and obsolescence. Also, failure to maintain optimal inventory levels could have material adverse effects on our business, financial condition and results of operations**

Maintaining an optimal inventory levels is critical to the success of our business. For the years ended December 31, 2015, 2016 and 2017, our inventory turnover days amounted to 231, 240 and 284, respectively. Our inventory levels are susceptible to various factors which are beyond our control, including, changing fashion trends and consumer needs, seasonality and unexpected weather changes. If we fail to accurately anticipate fashion trends and consumer needs and react to prevailing seasonality and unexpected weather changes in a timely manner, there may be obsolete products in our inventory, which in turn may result in inventory write-off. For the years ended December 31, 2015, 2016 and 2017, we recorded a net write down of inventories of RMB2.3 million, RMB0.3 million and RMB3.8 million, respectively. For further details, please see note 9 in Appendix I to this prospectus.

Although we actively supervise the inventory levels of our retail outlets, we cannot assure you that the inventory levels at these retail outlets will remain at optimal levels at all times. A sudden decrease in the demand for our products could increase our inventory levels, and we may be forced to rely on discounts or promotional activities to dispose of unsold items, especially for end-of-season and out-of-season inventory, which in turn may adversely affect our financial condition and results of operations. On the other hand, low inventory may result in lost in sales and our financial condition and results of operation may therefore be materially and adversely affected.

**Share of results of our associates may affect our Group's result of operations in the future. We are also exposed to liquidity risks associated with our investments in our associates**

During the Track Record Period, we owned a 46% equity interest in Shanjing Apparel and a 20% equity interest in Le Coq Sportif, respectively. Both Shanjing Apparel and Le Coq Sportif were accounted as our associates during the Track Record Period. The results and assets and liabilities of Shanjing Apparel and Le Coq Sportif have been incorporated in our financial information using the equity method of accounting. As of December 31, 2015, 2016 and 2017, we recorded share of results of associates in an aggregate sum of RMB5.6 million, RMB7.0 million and RMB8.3 million, respectively. While our investments in Shanjing Apparel and Le Coq Sportif generated positive returns during the Track Record Period, we cannot assure you that Shanjing Apparel and Le Coq Sportif will maintain their growth in the future.

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Further, any adverse operational results of Shanjing Apparel and Le Coq Sportif may require our Group to make provision to adjust the book values of such investments. Further, we do not have control over the business activities and the sales, finance and other material operational activities of Shanjing Apparel and Le Coq Sportif. In the event that Shanjing Apparel and Le Coq Sportif cannot maintain their growth as anticipated or suffer a loss, our business, financial conditions and results of operations may be adversely affected.

In addition, we are also exposed to liquidity risks associated with our investments in Shanjing Apparel and Le Coq Sportif if no dividend is declared by Shanjing Apparel or Le Coq Sportif. Even if profits derived by Shanjing Apparel and Le Coq Sportif are recognized in the financial statements of our Group under equity accounting, there will be no cash flow until dividends are received by our Group. Accordingly, our investments in Shanjing Apparel and Le Coq Sportif are not as liquid as other investment products.

For further details in respect of our interests in associates, please see note 19 in Appendix I to this prospectus.

### **Our SHANSHAN brand has a relatively short track record**

We launched our SHANSHAN brand in September 2015 to target middle income male consumers aged between 25 and 35. We sell our SHANSHAN branded products under the SHANSHAN Cooperative Arrangements as we believe this arrangement reduces our inventory risks and improves our profitability. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details. We intend to further develop the sale of our SHANSHAN brand through the SHANSHAN Cooperative Arrangements and we believe SHANSHAN brand will become more important to our business and results of operations. For the years ended December 31, 2015, 2016 and 2017, the revenue generated from the SHANSHAN brand amounted to RMB1.6 million, RMB53.8 million and RMB234.9 million, respectively. It may be difficult to evaluate the growth prospects and future performance of our SHANSHAN brand and the SHANSHAN Cooperative Arrangements due to the short track record of our SHANSHAN brand.

### **Our business relies on the proper operation of our information technology systems, any protracted malfunction of which could materially and adversely affect our business**

Our business relies on the proper functioning of our information technology systems. We use the ERP systems installed at the retail outlets operated by ourselves, our distributors and our franchisees to retrieve and analyze operational data, including sales and inventory, from our sales and distribution network. As a result, our ERP systems are critical to our business operation. We need to constantly upgrade and improve our ERP systems and our information technology systems to support the continuous growth of our business. Although we did not experience any material information technology system breakdowns during the Track Record Period, we cannot assure you that our information technology systems will always operate without interruption. Moreover, we cannot guarantee that the information security measures we currently maintain are adequate or that our information technology systems can withstand intrusions from or prevent improper usage by third parties.



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In addition, we may not always be successful in developing, installing, running or implementing new software or advanced information technology systems as required by our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from the investment immediately. All of these factors may have a material adverse impact on our business, financial condition and results of operation.

### **Our business operations may be affected by risks related to logistics support provided by third parties**

We deliver most of our products from our warehouses and logistics centers to retail outlets via third party logistics service providers. Disputes or terminations in contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. We cannot assure you that we will be able to continue our relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers. Any failure to maintain or develop good relationships with logistics service providers may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our customers.

As we do not have any direct control over our logistics service providers, we cannot guarantee the quality of their services. Delay in delivery, damage to products or other issues may cause us to lose customers and sales and our brand image may be tarnished.

Any breakdown in our relationships with our preferred logistics service providers or deficiencies in the services they provide materially and adversely affect our business, financial condition and results of operations.

### **We may not be successful in sustaining growth in our financial performance and we may experience earnings declines or losses in the future**

We cannot assure you that we can sustain profitability or avoid losses in the future. Our profitability depends on our ability to expand revenue and control costs and operating expenses. Our net profit decreased from RMB52.9 million for the year ended December 31, 2015 to RMB33.8 million for the year ended December 31, 2016, and increased to RMB37.0 million for the year ended December 31, 2017. We plan to increase our marketing efforts to enhance our brand recognition and optimize and expand our sales and distribution network to increase sales volume, which will lead to increased selling and marketing expenses. If our marketing efforts and sales and distribution network expansion are ineffective, or if we fail to maintain our sales levels, or if our cost of sales and operating expenses grow faster than our sales, our business, financial condition and results of operations may be adversely affected.

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### **We recorded net current liabilities and net liabilities as of December 31, 2015 and may record net current liabilities and net liabilities in the future**

As of December 31, 2015, we had recorded net current liabilities of RMB110.4 million and net liabilities of RMB33.5 million. The net current liability and net liability positions during the Track Record Period were primarily attributable to a significant negative merger reserve arising from non-consolidated subsidiaries. Please see “Financial Information — Description of selected items in our consolidated statements of financial position — Net current liabilities as of December 31, 2015” in this prospectus for further information. We may have net current liabilities and net liabilities in the future. If we are unable to obtain sufficient funds to meet our needs or refinance our loans on commercially acceptable terms, we may not be able to repay our borrowing, particularly, our short-term borrowing, upon maturity. This could materially and adversely affect our business expansion plans, financial condition and results of operation.

### **Our financial condition and results of operations are subject to seasonal fluctuations**

During the Track Record Period, all of our revenue was derived from our business operations in the PRC. Since the average selling price of our “autumn/winter” collections is typically higher than for our “spring/summer” collections, we typically generate higher revenue in “autumn/winter” collections as compared to “spring/summer” collections. In addition, we typically generate higher sales before and during holidays and festive seasons such as Chinese New Year, the Chinese National Day, Christmas and the New Year. Further, our business is vulnerable to unexpected weather change. For example, the sales performance of our winter menswear products may be adversely affected if there is a warm winter. Accordingly, any decrease in our sales during our peak season may affect our financial condition and results of operations. Seasonal fluctuations may also affect our cash and inventory levels, since we usually place orders with OEM suppliers in advance. If we are not successful in selling inventory before the end of the relevant seasons, we may have to sell the inventory at significantly reduced prices, which could have a material adverse effect on our financial condition and results of operations.

### **We continuously invest in advertising and promotion, and yet our marketing efforts may not be effective in attracting or retaining consumers**

We intend to continuously invest in advertising and promotion to enhance customer loyalty, brand reputation and market recognition. We rely on different marketing efforts which are aimed at our target consumer groups to increase our sales. For the years ended December 31, 2015, 2016 and 2017, our advertising and promotional expenses amounted to RMB18.5 million, RMB24.6 million and RMB24.5 million, respectively, representing approximately 3.5%, 4.2% and 3.1% of our total revenue for the respective years. We cannot guarantee that our marketing efforts will be well-received by consumers and improve our sales performance. In addition, we are required to change and refine our sales and marketing strategies from time to time in order to keep up with the pace of industry developments and consumer preferences. Failure to change and refine our marketing strategies could adversely affect our business, financial condition and results of operations.

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We plan to further increase our brand promotion and marketing efforts. Please see “Business — Business strategies — We plan to increase our brand promotion and marketing efforts” in this prospectus for further details. We cannot give assurance that our brand promotion and marketing efforts will be effective. If our marketing efforts fail to effectively attract or retain consumers, our business, financial condition and results of operations could be adversely affected.

### **Increasing staff costs may adversely affect our profitability and thus have an adverse impact on our results of operations**

Staff cost is one of our key operational costs and is expected to further increase to support our growing business. For the years ended December 31, 2015, 2016 and 2017, the total amount of our staff costs amounted to RMB58.4 million, RMB68.1 million and RMB86.4 million, respectively, representing approximately 11.1%, 11.5% and 10.8% of our total revenue for the respective years. In recent years, increasing awareness of labor protection and related legislation have caused many companies, including us, to increase the minimum salaries and wages of their employees in different cities and regions across the PRC. To maintain the competitiveness of our product pricing, we may not be able to transfer all the increases in labor costs to our customers. As a result, increasing in staff costs may increase our operating expenses, reduce our profitability and adversely affect our business, financial condition and results of operations.

### **We may be involved in legal or other proceedings arising from our business operations**

We may occasionally be involved in disputes with various parties involved in our business operations, including our distributors, franchisees, OEM suppliers, employees, logistics service providers and customers. These disputes may lead to legal, arbitration or other proceedings, which may result in damages to our reputation and diversion of our resources and management’s attention. In addition, we may encounter compliance issues in the course of our business operations, which may lead to administrative proceedings, and may materially and adversely affect our business, financial condition and results of operations. We cannot assure you that we will not be involved in legal or other proceedings in the future, any negative outcome of such proceedings may materially and adversely affect our business, financial condition and results of operations.

We are also exposed to potential product liability claims in the event that there is any damage caused by our products. A successful product liability claim against us could require us to pay for substantial damages. We have to defend, whether or not successfully, any of the product liability claims against us, which will be costly and time-consuming. Also, in the event that our products are proven to be defective, we may be required to recall such products. We do not maintain any product liability insurance. We cannot assure you that a product liability claim will not be brought against us in the future. A product liability claim, with or without merit, could result in significant adverse publicity against us, and could have a material adverse effect on the marketability of our products and our reputation, which in turn, could have a material adverse effect on our business, financial condition and results of operations.

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**We may require additional funding to support our continued business growth, which may not be available on terms acceptable to us, or at all**

To support our continued business growth, we may consider to seek additional funding. We cannot assure you that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial condition, results of operations and cash flows;
- general market conditions affecting capital raising and debt financing activities; and
- economic, political and other conditions in the PRC and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in our Company may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be adversely affected. Please refer to “Financial Information — Description of selected items in our consolidated statements of financial position” in this prospectus for details of our bank borrowings.

**We are subject to credit risks relating to our trade and bills receivables**

We record trade and bills receivables during our normal course of business. We also provide credit period to certain of our distributors based on their historical payment records, sales performance, compliance record with the relevant distributorship agreements, risk resistance capacity, operating duration and location. As of December 31, 2015, 2016 and 2017, our total trade and bills receivables, net of impairment provision, amounted to RMB207.4 million, RMB198.9 million and RMB163.3 million, respectively. For the years ended December 31, 2015, 2016 and 2017, the net impairment loss on trade receivables recognized by our Group amounted to RMB8.7 million, RMB0.4 million and RMB1.0 million, respectively. If we fail to collect our trade and bills receivables within the relevant credit period, there may be untimely and significant cash flow shortcomings, and our cash position, liquidity, financial condition and results of operations may be materially and adversely affected.

There is no assurance that we can recover all our trade and bills receivables in a timely manner. In addition, we may be unable to recover certain of our trade and bills receivables, or at all, as a result of possible financial difficulties encountered by our counterparties. If we are unable to recover a significant portion of our trade and bills receivables, or to recover them in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

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For detailed amounts of impairment loss recognized by us during the Track Record Period, please see note 9 in Appendix I to this prospectus.

### **We are subject to risks relating to our deferred tax assets**

As of December 31, 2015, 2016 and 2017, our deferred tax assets amounted to RMB14.9 million, RMB12.8 million and RMB12.7 million, respectively. Our deferred tax assets arised from the allowance for impairment losses of certain trade and bills receivables and inventories from our group companies. For details of the movements of our deferred tax assets during the Track Record Period, please see note 20 in Appendix I to this prospectus. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets, and to what extent they may affect our financial positions in the future.

### **Any loss of our senior management and failure to attract and retain qualified personnel could affect our operations and growth prospects**

The talent, experience and leadership of our senior management team are critical to the success of our business. In particular, Mr. Luo, our executive Director, and Mr. Yang Yong, our design director, have been pivotal to our success. In addition, other members of our senior management team also have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also have a material adverse effect on us.

Our future success also depends substantially on our ability to recruit, train and retain qualified management, designers and other qualified personnel. For example, our business is dependent on our designers to create appealing and fashionable apparel. We are also reliant on skilled product managers who are responsible for men's fashion wear while we are developing various product categories. The departure of any of these individuals could have an adverse effect on our business and prospects. Competition for talents in the PRC menswear industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. Significant increases in employee turnover rates, which is generally high in the PRC menswear industry, or significant increases in labor costs due to competition for talents or changes in labor and healthcare laws, could have a material adverse effect on our results of operations and financial condition.

Moreover, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose consumers, suppliers, know-how and key professionals and staff members. Although all of our Directors, Supervisors and senior managers have entered into employment agreements with us, which contain non-compete and confidentiality provisions, we cannot assure you that in any dispute arising between our executive officers,

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managers and us, we would be able to enforce these non-compete provisions in the PRC in light of uncertainties with the PRC's legal system. Please see "Risks related to doing business in the PRC — Uncertainties with respect to the PRC legal system could limit the availability of legal protection" in this section for details.

**Any inappropriate use of the trade names and trademarks by the sub-licensees of our trademarks may damage our reputation and negatively affect our results of operations and financial condition**

We sub-license certain trademarks that we licensed from Shanshan and Shanshan Group. Please see "Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group" and "Business — Trademark sub-licensing" in this prospectus for further details. Although we have set forth guidelines in the trademarks sub-license agreement on quality control of products, there is no guarantee that the sub-licensees will strictly comply with the policies in the trademarks sub-licensing agreement. Our reputation and goodwill may be damaged if they fail to use the trademarks in a proper manner or any claim is pursued against the sub-licensees for products liability, the negative publicity surrounding any assertion that the claim is related to the trademarks or brand names used by us could adversely affect our reputation and our corporate and brand image. Such loss of goodwill could adversely affect our reputation, sales and results of operations.

**The sale of counterfeit products by third parties may harm our reputation and lead to reduced consumer confidence and loss of sales**

The protection of intellectual property rights under PRC laws has historically been insufficient as a result of ineffective implementation, enforcement and inconsistent interpretation. There can be no assurance that we will receive effective protection if our trademarks or other intellectual property rights are infringed by third parties.

We are susceptible to the sale of counterfeit products in similar designs or products using similar trademarks or trade names by third parties. The sale of such counterfeit products, which are inferior in design and quality, may harm our reputation and brand image and may lead to reduced consumer confidence and therefore a loss of sales. Historically, we were occasionally aware of small quantities of counterfeit products sold under our brands in the PRC. Legal proceedings against such infringement of our trademarks or other intellectual property rights may be time consuming and we may be required to devote substantial time and resources to achieve a favorable outcome. If we fail to timely identify illicit use of our trade names and trademarks, or if we are unsuccessful in legal proceedings against any infringements of our intellectual property rights, the reputation of our brands and products could be damaged and thus have a material adverse effect on our business, financial condition, results of operations and prospects.

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**If our trademarks, trade names, copyrights and other intellectual property rights do not adequately protect our product designs or trade secrets, we may lose market shares to our competitors**

We rely on PRC intellectual property-related laws as well as confidentiality agreements with our employees, OEM suppliers, distributors, franchisees and others to protect our trademarks, trade names, copyrights, product designs and other intellectual property rights. Details of our intellectual property rights are set out in “Statutory and General Information — Further Information about Our Business — Intellectual property rights of our Group” in Appendix VII to this prospectus.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily due to ambiguities in PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in the PRC may not be as effective as those in Hong Kong or other countries. Policing unauthorized use of proprietary technology is difficult and costly, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights and those of others. Any such litigation may require significant expenditure of financial and managerial resources and could have a material adverse impact on our business, financial condition and results of operations. An adverse determination in any such litigation will impair our intellectual property rights and harm our business, prospects and reputation. In addition, given that the enforcement of protection of proprietary rights in the PRC is difficult, we may choose not to litigate or spend significant resources in litigation to enforce our intellectual property rights or to defend our patents against unauthorized use by third parties.

As of the Latest Practicable Date, we had two trademarks registered in the PRC, and had been granted by Shanshan and Shanshan Group the perpetual and exclusive right to use 194 and 60 trademarks, respectively, under the category of garments, accessories, luggages and bags, shoes and hats in the PRC and/or other regions. We are entitled to sub-license our right to use such trademarks to any members of our Group and third parties in the PRC and/or other regions. As of the Latest Practicable Date, we had also been granted by Lubiam Moda per L’Uomo the right to use three trademarks in the PRC and/or other regions. Despite the precautions we have taken, we cannot assure you that those procedures will provide effective prevention for unauthorized third-party use of our brand names or the licensed brand names.

**Our insurance policies may be insufficient to cover potential losses arising as a result of business interruption, damage to our property or third party liabilities**

We have purchased property insurance covering our fixed and liquid assets. We do not maintain insurance to cover product liabilities with respect to our apparel products or losses, as a result of business interruptions or defaults by third parties. There can be no assurance that our insurance policies will be sufficient to cover all losses or liabilities. If our insurance policies are insufficient to cover our losses or liabilities, there may be a material adverse effect on our business, financial condition and results of operations.

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## RISK FACTORS

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### **Part of our leased properties in the PRC may be subject to legal irregularities**

As of the Latest Practicable Date, some of our lease agreements for leased properties were not registered with the competent authorities. As advised by our PRC Legal Advisers, lease agreements that are not registered with the competent authorities may be subject to fines ranging from RMB1,000 to RMB10,000 per non-registration. As advised by our PRC Legal Advisers, the non-registration does not affect the validity of the lease agreements.

In addition, any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate from leased properties to other premises. If any of our leases are terminated or voided as a result of challenges from third parties, government or if the lease is otherwise not renewed by our landlords upon expiration, we would need to seek alternative premises and incur relocation costs. Any relocation could disrupt our operations and adversely affect our business, financial condition, results of operations and growth prospects. In addition, there can be no assurance that the PRC government will not amend or revise existing property laws, rules or regulations to require additional approvals, licences or permits, or impose stricter requirements on us to obtain or maintain relevant title certificates for the properties that we use. Our Directors believe that these legal irregularities individually or collectively would not materially affect our business and results of operations. For more details of these legal irregularities, please see “Business — Properties — Leased properties” and “Business — Legal proceedings and compliance — Non-compliance incidents” in this prospectus.

### **Any change in the regulations governing the use of personal data in the PRC, which are still under development, and any data leakage or unauthorized use of data by third parties could adversely affect our ability to use our consumer data**

We believe that our ability to compile and analyze sales data and consumer data is critical to our success. Over the years, through leveraging our extensive sales and distribution network and development of information technology system, we have built a large consumer database. We collect consumer data through both our retail outlets and e-commerce platforms. In order to optimize production planning and react promptly to market trends and consumer demands, we need to access and analyze consumer data. Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation. Chinese regulations governing the use of personal data are still under development and currently do not impose any mandatory restrictions on our internal use of such data. Any change in the regulations governing the use of personal data could adversely affect our ability to use such data which could have an adverse effect on our business.



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## **RISK FACTORS**

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### **RISKS RELATED TO DOING BUSINESS IN THE PRC**

#### **We may be affected by changes in the political, social or economic conditions in the PRC**

Our business, financial condition, results of operations and prospects are subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of numerous developed countries in various respects, including social structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In the past three decades, the PRC government has implemented economic reform measures to emphasize the importance in utilization of market forces for economic development. The PRC's political and social conditions may also affect the implementation of the economic reform by the PRC government. We cannot predict whether changes in the PRC's political, economic and social conditions, and its laws, regulations and policies, will have any material adverse effect on our current or future business, financial condition and results of operations.

#### **A decline in consumer demand in the PRC could adversely affect our revenue and profitability**

We derive all of our revenue from sales of our products in the PRC. Consumer demand in the PRC depends upon a range of factors outside of our control, including demographic factors, consumer preferences and discretionary consumer spending. A decline in consumer demand in the PRC could substantially reduce our revenue and profitability and may consequently have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that projected growth rates of the PRC economy will be realized or that there will not be any future deterioration of economic conditions in the PRC. In the event that our competitors react to any declines in consumer confidence by reducing retail prices, our ability to maintain our market share may be adversely impacted, and we may have to intensify our marketing efforts in order to compete effectively. If we are required to conduct more aggressive promotions or reduce our prices to respond to price competition, it may have a material adverse effect on our business, financial condition and results of operations.

#### **Uncertainties with respect to the PRC legal system could limit the availability of legal protection**

Our operations are mainly governed by the laws and regulations in the PRC. The PRC legal system is based on written statutes. Since 1979, the PRC government has enacted laws, rules and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. Many of these laws, rules and regulations, however, are relatively new, and therefore the interpretation and enforcement of these laws, rules and regulations may be ambiguous and inconsistent among different regions and cities. While prior court decisions relating to these laws, rules and regulations may be cited for reference in the PRC courts, previous case law is non-binding in nature.

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## RISK FACTORS

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Our Articles of Association provides that disputes between holders of H Shares and us, our Directors, Supervisors or officers, arising out of our Articles of Association or any rights or obligations conferred or imposed upon us by the PRC Company Law and related rules and regulations concerning our affairs, such as the transfer of our H Shares, are to be resolved through arbitration rather than by a court of law. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H shares to enforce an arbitral award and no assurance can be given as to the outcome of any action brought in the PRC by any holder of H shares to enforce a Hong Kong arbitral award made in favor of holders of H shares. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the articles of association of any PRC issuer or the PRC Company Law.

In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish between minority and controlling shareholders in terms of their rights and protections, and our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of Hong Kong or other jurisdictions.

### **You may experience difficulties in effecting service of legal process, enforcing judgments and arbitration awards or initiating actions outside the PRC against us and our management**

We are a company incorporated under the laws of the PRC and all of our assets and subsidiaries are located in the PRC. In addition, most of our Directors, Supervisors and senior management members reside within the PRC. As a result, it may not be possible to effect service of legal process, enforcing judgments and arbitration awards, or initiating actions outside the PRC against us or the majority of our Directors, Supervisors and senior management members. In addition, although we will be subject to the Listing Rules and the Takeovers Code upon the listing of our H Shares on the Stock Exchange, the holders of our H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must instead rely on the Stock Exchange to enforce its rules.

### **You may be subject to PRC taxation on dividends received from us**

Under the applicable PRC tax laws, the dividends we pay to non-PRC resident individual holders of H shares (“**non-resident individual holders**”), and gains realized through the sale or transfer by other means of H shares by such shareholders, are both subject to PRC individual income tax at a rate of 20%, unless reduced by the applicable tax treaties or arrangements.

Under applicable PRC tax laws, the dividends we pay to, and gains realized through the sale or transfer by other means of H shares by, non-PRC resident enterprise holders of H shares (“**non-resident enterprise holders**”) are both subject to PRC enterprise income tax at a rate of 10%, unless reduced by applicable tax treaties or arrangements. Pursuant to the Arrangements between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with

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## RISK FACTORS

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Respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) dated August 21, 2006, any non-resident enterprise registered in Hong Kong that directly holds at least 25% of shares of our Company shall pay Enterprise Income Tax for the dividends declared and paid by us at a tax rate not exceeding 5%.

Pursuant to the Circular on Questions Concerning Tax on the Profits Earned by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners from the Transfer of Shares (Equity Interests) and on Dividend Income (關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) issued by the State Administration of Taxation, non-resident individual holders were temporarily exempted from PRC individual income tax for the dividends or bonuses paid by issuers of H shares. However, such circular was repealed by the Announcement on the List of Fully or Partially Invalid and Repealed Tax Regulatory Documents (關於公布全文失效廢止、部分條款失效廢止的稅收規範性文件目錄的公告) dated January 4, 2011.

With respect to non-resident individual holders, their gains realized through the transfer of properties are normally subject to PRC individual income tax at a rate of 20%. However, according to the Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Individual Income Tax Policies (財政部、國家稅務總局關於個人所得稅若干政策問題的通知), income received by individual foreigners from dividends and bonuses of a foreign-invested enterprise is exempt from individual income tax for the time being. According to the Circular of the Ministry of Finance and the State Administration of Taxation Regarding the Continued Temporary Exemption of Individual Income Taxes Levied on Incomes Obtained from the Transfer of Shares (財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) effective as of March 30, 1998, incomes from individuals' transfer of stocks of listed companies continued to be temporarily exempted from individual income tax. On February 3, 2013, the State Council approved and promulgated the Notice of Suggestions to Deepen the Reform of System of Income Distribution (國務院轉批發展改革委等部門關於深化收入分配制度改革若干意見的通知). On February 8, 2013, the General Office of the State Council promulgated the Circular Concerning Allocation of Key Works to Deepen the Reform of System of Income Distribution (國務院辦公廳關於深化收入分配制度改革重點工作分工的通知). According to these two documents, the PRC government is planning to cancel foreign individuals' tax exemption for dividends obtained from foreign-invested enterprises, and that the Ministry of Finance and the State Administration of Taxation should be responsible for making and implementing details of such plan. However, relevant implementation rules or regulations have not been promulgated by the Ministry of Finance and the State Administration of Taxation. To our knowledge, in practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change the practice which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H shares.

Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obliged to pay PRC income tax on dividends and gains realized through sales or transfers of the H Shares. Please see "Taxation and Foreign Exchange" in Appendix IV to this prospectus for details.

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## RISK FACTORS

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### **Payment of dividends is subject to restrictions under the PRC laws**

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to make dividend distributions to our Shareholders, even when we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under HKFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, even when we are profitable.

### **The potential conversion of Domestic Shares into H Shares may result in an increase in the number of H Shares available on the market and may affect the price of H Shares**

Holders of Domestic Shares may apply for approval from the CSRC or the authorized approval authorities of the State Council to convert their Domestic Shares into H Shares. After obtaining such approval, these Domestic Shares will be converted into H Shares, and the H Shares upon conversion may be listed or traded on an overseas securities exchange. Any listing or trading of the aforementioned H Shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of the relevant overseas securities exchange. Unless otherwise required by the overseas securities exchange, there is no requirement for the listing and trading of the above-mentioned H Shares to be approved in a class meeting of our Company. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

### **Inflation in the PRC could negatively affect our profitability and growth**

Economic growth in the PRC has, during certain periods, been accompanied by periods of high inflation, and the PRC government has implemented various policies to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the PRC economy, such as through increasing interest rates and capital reserve thresholds at PRC commercial banks. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that commenced in 2008, and the continued growth in the overall economy since then, has resulted in sustained inflationary pressures. If these inflationary pressures continue and are not mitigated by PRC government measures, our cost of sales will likely increase and our profitability could be materially reduced, as there is no assurance that we would be able to pass any cost increases onto our customers. Measures adopted by the Chinese government to control inflation may also slow economic activity in the PRC and reduce demand for our products and through this, decrease our revenue growth and adversely affect our results of operations.

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## RISK FACTORS

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### **Government control of currency conversion may adversely affect the value of your investments**

All of our revenue is denominated in Renminbi, which is also our functional currency. Renminbi is not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to carry out foreign exchange transactions through our current account, as well as being able to pay dividends in foreign currencies without prior approval from SAFE by complying with various procedural requirements. Fluctuations in exchange rates may result in foreign currency exchange losses.

However, we cannot assure you that the PRC government will not restrict future access to foreign currencies for current account transactions at its own discretion. If this were to occur, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. In addition, foreign exchange transactions under a capital account in the PRC are not freely convertible and such transactions require the prior approval from SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or foreign currencies for capital expenditures.

### **We face risks of health epidemics and other natural disasters, which could severely disrupt our business operations**

Our business could be affected by the outbreak of H1N1, swine flu, avian influenza, severe acute respiratory syndrome (SARS) or other epidemic. Beginning in 2013, there were reports of outbreaks of a highly pathogenic avian flu, caused by the H7N9 virus, in various parts of the PRC. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economy and financial markets of the PRC. Additionally, any recurrence of SARS, similar to the occurrence in 2003 which affected the PRC, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries and regions, would also have similar adverse effects on the PRC. Such disruptions could adversely affect our business operations and earnings. Our operations are also vulnerable to natural disasters or other catastrophic events, including wars, terrorist attacks, snowstorms, earthquakes, typhoons, fire, floods, power failures and shortages, water shortages, hardware failures, computer viruses, and similar events which may or may not be foreseeable or otherwise within our control. If any natural disaster or catastrophic event were to strike in the future in the PRC, especially in areas where our operations are located, we might suffer losses as a result of business interruptions and thus our business, financial condition and results of operations might be materially and adversely affected.

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## RISK FACTORS

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### RISKS RELATED TO THE GLOBAL OFFERING

**As there is no prior public market for our H Shares, the liquidity and market value of our H Shares may be volatile, and so the Offer Price may not be indicative of prices that will prevail in the trading market**

Prior to the Global Offering, there is no public market for our H Shares. The initial offer price range to the public for the H Shares was the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market. The Offer Price may differ significantly from the market price of H Shares following the Global Offering. We have applied to list and trade our H Shares on the Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. In addition, the liquidity and market value of our H Shares may be volatile. Factors such as variations in our revenues, earnings, cash flows or any other developments affecting us or our business may consequently affect the volume and price at which the H Shares will be traded at. Investors may not be able to resell their H Shares at prices equal to or higher than the Offer Price. Volatility in the price of the H Shares may be due to factors beyond our control and may be unrelated to our results of operations.

**Future sales or perceived sales of substantial amounts of our securities in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholding**

The market price of our H Shares could decline due to future sales of substantial amounts of our securities in the public market, including any future public offering in the PRC, re-registration of Domestic Shares held on our Domestic Share register into H Shares, issuance of new H Shares or other securities, or perception of such sales or issuances that may occur. Future sales, or perceived sales of substantial amounts of our securities could also materially and adversely affect our ability to raise capital in the future at a time and at a price that we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent that we are required to issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our H Shares, or the possibility of such sales by us, could negatively impact the market price of our H Shares and therefore our ability to raise equity capital in the future.

In addition, subject to the approval of the State Council securities regulatory authority, all of our unlisted Domestic Shares may be converted into H Shares, and such converted Domestic Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Domestic Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchanges. No class shareholder

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## RISK FACTORS

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voting is required for the listing and trading of the converted Domestic Shares on an overseas stock exchange. However, the PRC Company Law provides that, in relation to the public offering of a company, the shares of the company that are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our Domestic Share register may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the Global Offering, which could further increase the total number of our H Shares in the market and thus could negatively impact the market price of our H Shares.

**As the Offer Price is higher than the net tangible book value per H Share, you will experience immediate dilution**

The Offer Price is higher than the net tangible book value per H Share of the outstanding shares issued to our existing shareholders. Therefore, investors of our Offer Shares in the Global Offering will experience an immediate dilution and our existing Shareholders will receive an increase in the net tangible book value of each of their H Shares. As a result, if we distribute our net tangible assets to our Shareholders immediately following the Global Offering, investors of our Offer Shares in the Global Offering will receive less than the amount they pay for their H Shares.

**Since there will be a time gap between pricing and trading of our Offer Shares, the price of the Offer Shares could fall below the Offer Price when trading commences**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. Our H Shares will not commence trading on the Stock Exchange until they are delivered, which is after the Price Determination Date. As a result, investors may not be able to sell or deal in our H Shares for the period between the pricing and the trading of our Offer Shares. Accordingly, investors of our Offer Shares are subject to the risk that the price of our H Shares could fall below the Offer Price when trading commences as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

**There can be no assurance if and when we will pay dividends in the future**

Distribution of dividends shall be formulated by our Board at their discretion and will be subject to Shareholders' approval. A decision to declare any dividends and the amount of such dividends depend on various factors, including our results of operations, cash flows, financial condition, future business prospects, statutory and contractual restrictions on the payment of dividend. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future or whether we will pay dividends in accordance with our dividend policy.

**Certain industry information and statistics contained in this prospectus are derived from various publicly available official sources and an industry report prepared by CIC, which have not been verified by us and should not be unduly relied upon**

This prospectus, in particular the "Industry Overview" section, contains information and statistics related to, among others, the economy and the PRC menswear industry. Such information and statistics are derived from various publicly available official sources and an

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## RISK FACTORS

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industry report prepared by CIC. Neither our Company, our Directors, the Sole Sponsor, nor any other relevant parties involved in the Global Offering have independently verified such information and statistics, and no representation is given as to their correctness or accuracy. We cannot assure you that they are stated or compiled on the same basis of or with the same degree of accuracy, as the case may be, as done so in other jurisdictions. Therefore, you should not rely unduly upon the industry information and statistics contained in this prospectus.

**Our Controlling Shareholders have substantial influence over our operation and the interests of our Controlling Shareholders may not always coincide with other Shareholders**

Immediately upon completion of the Global Offering, our Controlling Shareholders will together own approximately 67.5% of our issued share capital, without taking into account of the H Shares which may be issued upon the exercise of the Over-allotment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always coincide with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, the interest of our Company or other Shareholders, including you, may be detrimental.

**Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Group or the Global Offering**

Prior to the completion of the Global Offering, there may be press and media coverage regarding our Group or the Global Offering, which may include certain events, financial information, financial projections and other information about us that do not appear in this prospectus. Our Directors have not authorized the disclosure of any other information not contained in this prospectus and would like to emphasize to prospective investors that our Group does not accept any responsibility for the accuracy or completeness of the information which are not contained in this prospectus. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Group or the Global Offering. Prospective investors are also cautioned that in making their decisions as to whether to purchase the Offer Shares. They should rely only on the financial, operational and other information included in this prospectus.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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### MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 and Rule 19A.15 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Currently, all of our executive Directors reside in the PRC.

Our business and operations are substantially based and conducted in the PRC. It would be practically difficult and commercially unnecessary for us to relocate two of our executive Directors to Hong Kong. We have applied to the Stock Exchange for and the Stock Exchange has granted a waiver from compliance with Rule 8.12 and Rule 19A.15 of the Listing Rules. The following measures have been adopted by us:

- (1) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that they will comply with the Listing Rules at all times. The two authorized representatives appointed are Ms. Yan Jingfen, our executive Director and our joint company secretary, and Mr. Kwok Siu Man, our joint company secretary. Mr. Kwok Siu Man is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorized representatives is authorized to communicate on our behalf with the Stock Exchange. Our Company has been registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance and Mr. Kwok Siu Man has also been authorized to accept service of legal process and notices in Hong Kong on our behalf.
- (2) Both of our authorized representatives have means to contact all of our Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily residents in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each Director will have to provide his/her mobile phone number, office phone number, fax number and email address to the authorized representatives; (b) in the event that a Director expects to travel, he/she will endeavor to provide the phone number of the place of his/her accommodation to the authorized representatives or maintain an open line of communication via his/her mobile phone; and (c) all our Directors and authorized representatives will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (3) Pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules, we have appointed Dongxing Securities (Hong Kong) Company Limited as our compliance adviser, which will have access at all times to our authorized representatives, Directors, senior management of our Company, and will act as an additional channel of communication between the Stock Exchange and us.
- (4) Meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in our authorized representatives and/or the compliance adviser.

### JOINT COMPANY SECRETARIES

According to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite knowledge and experience to discharge the functions of the company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong), or (ii) an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

We have appointed Ms. Yan Jingfen and Mr. Kwok Siu Man as our joint company secretaries. Since Ms. Yan Jingfen does not possess a qualification stipulated in Rule 3.28 of the Listing Rules, she is not able to solely fulfill the requirements as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Ms. Yan Jingfen as our joint company secretary. In order to provide support to Ms. Yan Jingfen, we have appointed Mr. Kwok Siu Man as a joint company secretary to provide assistance to Ms. Yan Jingfen, for a three-year period from the Listing Date so as to enable her to acquire the relevant experience (as required under note 2 to Rule 3.28 of the Listing Rules) to duly discharge her duties as a company secretary of our Company.

Such waiver will be revoked immediately if and when Mr. Kwok Siu Man ceases to provide such assistance. Before the end of the three-year period, we will liaise with the Stock Exchange to enable it to assess whether Ms. Yan Jingfen, having had the benefit of Mr. Kwok Siu Man's assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules to duly discharge her duties as a company secretary of our Company so that a further waiver will not be necessary.

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## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

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### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into certain transactions which will constitute continuing connected transactions for our Company under the Listing Rules after Listing. We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the reporting, annual review, announcement and (where applicable) independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of certain continuing connected transactions as disclosed in paragraphs 2 to 4 in "Connected Transactions — Continuing Connected Transactions — B. Continuing connected transactions which are subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement". Please see "Connected Transactions" in this prospectus for further information.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars in detail given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving our information to the public with regard to our Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

### **APPROVAL OF THE CSRC**

The CSRC issued an approval letter on May 7, 2018 for the listing of our H Shares on the Stock Exchange and the Global Offering. In granting this approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

As advised by our PRC Legal Advisers, our Company has obtained all necessary approvals and authorization in the PRC in relation to the Listing.

### **UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 3,340,000 H Shares initially offered and the International Placing of 30,060,000 H Shares initially offered (assuming the Over-allotment Option is not exercised and subject, in each case, to reallocation on the basis under the section headed "Structure of the Global Offering" in this prospectus).

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). Please see "Underwriting" in this prospectus for details of the Underwriters and the underwriting arrangements.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

For further details of the structure of the Global Offering, including its conditions, please see “Structure of the Global Offering” in this prospectus. For details of the procedures for applying for our H Shares, please see “How to Apply for Hong Kong Offer Shares” in this prospectus and the relevant Application Forms.

### **DETERMINATION OF THE OFFER PRICE**

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or around Tuesday, June 19, 2018 or such later date as may be agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and in any event no later than Thursday, June 21, 2018. If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF THE H SHARES**

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstance in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he/she is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, any H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option.

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Wednesday, June 27, 2018. Except for our application to the Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **COMPLIANCE WITH THE LISTING RULES**

We will comply with applicable laws and regulations in Hong Kong (including the Listing Rules) and any other undertakings which have been given in favor of the Stock Exchange from time to time. If the Listing Committee of the Stock Exchange finds that there has been a breach by us of the Listing Rules or such other undertakings which may have been given in favor of the Stock Exchange from time to time, the Listing Committee of the Stock Exchange may instigate cancellation or disciplinary proceedings in accordance with the Listing Rules.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

We have instructed the H Shares Registrar, and the H Shares Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the H Shares Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with our Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by our Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasized that none of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

### **OVER-ALLOTMENT AND STABILIZATION**

For further details of the arrangement relating to the Over-allotment Option and stabilization, please see “Structure of the Global Offering” in this prospectus.

### **PROCEDURES FOR APPLICATION FOR THE H SHARES**

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

For further details of the structure of the Global Offering, including its conditions, please see “Structure of the Global Offering” in this prospectus.

### **REGISTER OF MEMBERS AND STAMP DUTY**

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Placing will be registered on the H Share register of members of our Company maintained in Hong Kong. We will maintain our Company’s principal register of members at our current registered place in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Company in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder of our Company.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Stock Exchange or on any other date HKSCC determines. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date.

Unless indicated otherwise, the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.81672 to HK\$1.00, the exchange rate prevailing on the Latest Practicable Date, set by PBOC for foreign exchange transactions.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

### **ROUNDING**

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.



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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Chairman and Non-executive Director</i>		
Mr. Zhuang Wei (莊巍)	Flat 309, Apartment 58 Chang Spring Park Peking University Haidian District Beijing PRC	Chinese
<i>Executive Directors</i>		
Mr. Cao Yang (曹陽)	Flat 802, No. 17 Lane 629 Huanlong Road Pudong District Shanghai PRC	Chinese
Mr. Luo Yefei (駱葉飛)	Block C, Building 2 Aegean Island Bandao Huafu Jishigang Town Haishu District Ningbo Zhejiang PRC	Chinese
Ms. Yan Jingfen (嚴靜芬)	Flat 401, No. 25 Lane 87 Gardener Road Yinzhou District Ningbo Zhejiang PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Non-executive Directors</i>		
Mr. Yang Feng (楊峰)	Room 801, No. 14, Feng Ge Cheng Shi Zhonghe Street Yinzhou District Ningbo Zhejiang PRC	Chinese
Ms. Hui Ying (惠穎)	Flat 1401, Lane 68, Taiyu Road Yinzhou District Ningbo Zhejiang PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Au Yeung Po Fung (歐陽寶豐)	Flat F, 28/F, Tower 2 Broadview Court 11 Shum Wan Road Wong Chuk Hang Hong Kong	Chinese
Mr. Wang Yashan (王亞山)	Flat 401, Unit 6, Block 1 Fengfang Garden, Shangdi Xili Haidian District Beijing PRC	Chinese
Mr. Wu Xuekai (武學凱)	Flat 1304, Block 35 Lane 800, Jinxiu Road Pudong New District Shanghai PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**SUPERVISORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Ms. Zhou Danna (周丹娜)	Flat 503, Block 46 Feihong New Village Tiantong North Road Yinzhou District Ningbo Zhejiang PRC	Chinese
Ms. Wang Cheng (王鍼)	Flat 302, Unit 36, Block 42 Phase II Shengshi Tiancheng Maocheng East Road Yinzhou District Ningbo Zhejiang PRC	Chinese
Ms. Yang Yi (楊依)	Flat 1810, Unit 3, Block 1 Guanyue Garden No. 477 Xuejia South Road Yinzhou District Ningbo Zhejiang PRC	Chinese

For further information regarding our Directors, Supervisors and our senior management members, please see “Directors, Supervisors and Senior Management” in this prospectus.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**PARTIES INVOLVED IN THE GLOBAL OFFERING****Sole Sponsor**

Dongxing Securities (Hong Kong) Company Limited  
6805-6806A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

*A licensed corporation under the SFO permitted to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities*

**Joint Global Coordinators**

Dongxing Securities (Hong Kong) Company Limited  
6805-6806A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

Future Land Resources Securities Limited  
Flat B, 20/F, Guangdong Investment Tower  
148 Connaught Road Central, Sheung Wan  
Hong Kong

**Joint Bookrunners**

Dongxing Securities (Hong Kong) Company Limited  
6805-6806A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

Future Land Resources Securities Limited  
Flat B, 20/F, Guangdong Investment Tower  
148 Connaught Road Central, Sheung Wan  
Hong Kong

Huabang Securities Limited  
Unit 2901-02, 29/F  
Enterprise Square Two  
3 Sheung Yuet Road, Kowloon Bay, Kowloon  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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SPDB International Capital Limited  
Suites 3207-3212  
One Pacific Place  
88 Queensway  
Hong Kong

First Capital Securities Limited  
Unit 4512, 45/F  
The Center  
99 Queen's Road Central, Central  
Hong Kong

**Joint Lead Managers**

Dongxing Securities (Hong Kong) Company Limited  
6805-6806A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

Future Land Resources Securities Limited  
Flat B, 20/F, Guangdong Investment Tower  
148 Connaught Road Central, Sheung Wan  
Hong Kong

Huabang Securities Limited  
Unit 2901-02, 29/F  
Enterprise Square Two  
3 Sheung Yuet Road, Kowloon Bay, Kowloon  
Hong Kong

SPDB International Capital Limited  
Suites 3207-3212  
One Pacific Place  
88 Queensway  
Hong Kong

First Capital Securities Limited  
Unit 4512, 45/F  
The Center  
99 Queen's Road Central, Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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China Goldjoy Securities Limited  
Unit 1703-06  
Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

KGI Capital Asia Limited  
41/F Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

**Legal Advisers to our Company**

*As to Hong Kong law*  
Sidley Austin  
Level 39, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*As to PRC law*  
Shu Jin Law Firm  
12/F., Taiping Finance Tower  
6001 Yitian Road  
Futian District  
Shenzhen  
PRC

**Legal Advisers to the Sole  
Sponsor and the Underwriters**

*As to Hong Kong law*  
Mayer Brown JSM  
16/F-19/F  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

*As to PRC law*  
Beijing Dentons Law Offices, LLP  
7/F, Building D, Parkview Green FangCaoDi  
No. 9, Dongdaqiao Road  
Chaoyang District  
100020, Beijing  
PRC

**Auditor and Reporting  
Accountants**

BDO Limited  
*Certified Public Accountants*  
25 Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Industry Consultant**

China Insights Consultancy Limited  
10/F, Tomorrow Square  
399 West Nanjing Road  
Huangpu District  
Shanghai  
PRC

**Property Valuer**

Cushman & Wakefield Limited  
16/F, Jardine House  
1 Connaught Place  
Central  
Hong Kong

**Compliance Adviser**

Dongxing Securities (Hong Kong) Company Limited  
6805-6806A, 68/F  
International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Receiving Bank**

Wing Lung Bank Limited  
Wing Lung Bank Building  
45 Des Voeux Road Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered Office and Headquarters in the PRC</b>	238 Yunlin Middle Road Wangchun Industrial Park Ningbo Zhejiang PRC
<b>Principal Place of Business in Hong Kong</b>	31/F., 148 Electric Road North Point Hong Kong
<b>Company's Website</b>	<b><u><a href="http://www.chinafirs.com">www.chinafirs.com</a></u></b> <i>(information contained in this website does not form part of the prospectus)</i>
<b>Joint Company Secretaries</b>	Mr. Kwok Siu Man (郭兆文), <i>FCIS, FCS</i> 31/F, 148 Electric Road North Point Hong Kong  Ms. Yan Jingfen (嚴靜芬) Flat 401, No. 25 Lane 87 Gardener Road Yinzhou District Ningbo Zhejiang PRC
<b>Authorized Representatives</b>	Ms. Yan Jingfen (嚴靜芬) Flat 401, No. 25 Lane 87 Gardener Road Yinzhou District Ningbo Zhejiang PRC  Mr. Kwok Siu Man (郭兆文) 31/F, 148 Electric Road North Point Hong Kong
<b>Audit Committee</b>	Mr. Au Yeung Po Fung (歐陽寶豐) ( <i>Chairman</i> ) Mr. Wang Yashan (王亞山) Mr. Wu Xuekai (武學凱)



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## CORPORATE INFORMATION

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<b>Remuneration Committee</b>	Mr. Wang Yashan (王亞山) ( <i>Chairman</i> ) Ms. Yan Jingfen (嚴靜芬) Mr. Wu Xuekai (武學凱)
<b>Nomination Committee</b>	Mr. Zhuang Wei (莊巍) ( <i>Chairman</i> ) Mr. Wang Yashan (王亞山) Mr. Wu Xuekai (武學凱)
<b>H Share Registrar and Transfer office</b>	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal Bankers</b>	Shanghai Pudong Development Bank Ningbo Yinzhou Sub-branch 1st Floor, Hebang Building No. 933 Tiantong North Road Ningbo Zhejiang PRC  China Construction Bank Business Department of Ningbo Branch Block A, China Construction Bank Building No. 31 Guangji Street Ningbo Zhejiang PRC  China Everbright Bank Ningbo Sub-branch No. 828, Fuming Road Yinzhou District Ningbo Zhejiang PRC

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## INDUSTRY OVERVIEW

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*The information and statistics set forth in this section and elsewhere in this prospectus have been derived from various official and government publications, publicly available market research sources and from the market research report prepared by CIC, which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Sponsor, the Joint Global Coordinators, any other party involved in the Global Offering or any of our or their respective directors, officers, representatives, affiliates or advisers and no representation is given as to its correctness, accuracy and completeness. Certain information and statistics included, including those excerpted from official and government publications and sources in China, may not be consistent with other information and statistics compiled within or outside China by third parties.*

### SOURCE OF INFORMATION

In connection with the Global Offering, we have commissioned CIC, an Independent Third Party, to conduct research and analysis of, and to produce a report on China's apparel market in general and the PRC formal menswear industry in particular. The report we commissioned, or the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB1,110,000 for the preparation of the report, which we consider in line with market rates. CIC is a consulting company incorporated in Hong Kong. Its services include industry consultant services, commercial due diligence and strategy consulting. Its consultant team has been tracking the latest market trends in industrial, energy, chemical, healthcare, consumer goods, transportation, agriculture, internet and finance industries and has extensive experience in, and insightful market knowledge of, the abovementioned industries.

The CIC Report that we commissioned includes information on China's apparel industry, the PRC menswear industry, the PRC formal menswear industry and economic data, which have been quoted in this prospectus. CIC's independent research was undertaken through both primary and secondary research through various resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, such as the National Bureau of Statistics and industry associations.

The market projections in the commissioned report are based on the following key assumptions: (i) China's economy and industry development is likely to maintain steady growth over the next decade; (ii) related key industry drivers, such as the increasing urbanization rate and disposable income, and the prosperous economic development, are likely to drive the growth of the PRC formal menswear industry as well as the market of uniform and fast fashion apparel during the forecast period; and (iii) there is no force majeure or industry regulation by which the market may be affected dramatically or fundamentally.

Except as otherwise noted, all the data and forecast in this section are derived from the CIC Report. Our Directors have confirmed that, after taking reasonable care, there is no adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

### OVERVIEW OF CHINA'S ECONOMY

China's economy has grown rapidly between 2013 and 2017, and the nominal GDP was elevated from RMB59.7 trillion to RMB81.1 trillion with a CAGR of 8.0%. Currently, China's economy has entered into a 'new normal' stage, featured with a slightly slower but a more

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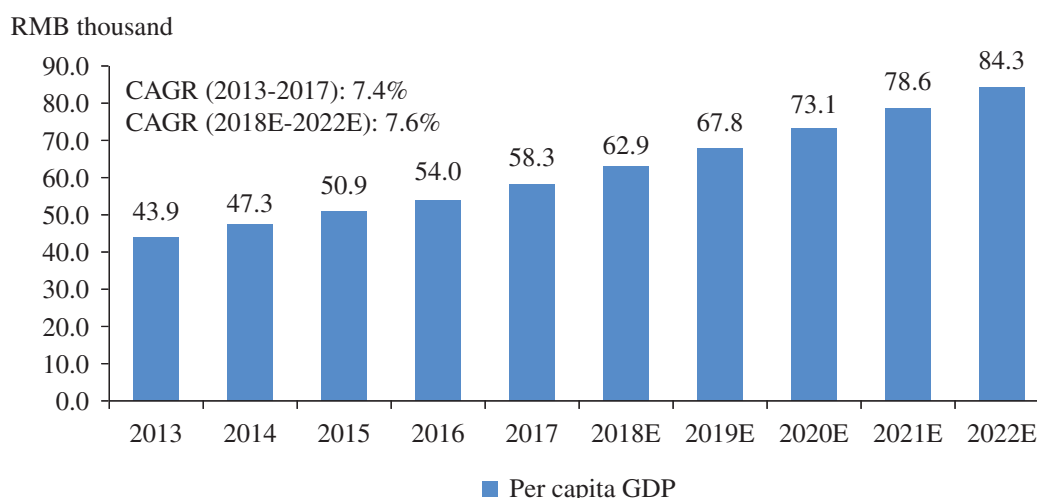
## INDUSTRY OVERVIEW

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sustainable and quality growth. The government is also committed to optimizing the economic structure and improving capital to output ratio to achieve a more efficient economic growth. According to CIC Report, China's GDP is expected to increase with a fairly moderate speed between 2018 and 2022, which is forecasted to reach RMB120.8 trillion by 2022 with a CAGR of 8.2%.

Accompanied with the growth of GDP, China's per capita GDP grew from RMB43.9 thousand in 2013 to RMB58.3 thousand in 2017, with a CAGR of 7.4%. This favorable economic development was primarily driven by the increasing national investment as well as growing consumption of the society. Since the development of the Chinese economy is expected to slow down in the forthcoming years, the growth of the country's per capita GDP will slow down accordingly. It is forecasted that China's per capita GDP will grow from RMB62.9 thousand to RMB84.3 thousand from 2018 to 2022 with a CAGR of 7.6%.

### Per capita GDP, China, 2013-2022E



Source: CIC Report

China's urban population has increased by about 20.0 million people per year since 2013, when the urbanization rate of China was 53.2%. The urban population reached 816.1 million in 2017, representing 57.9% of China's total population. The urban population in China is projected to grow from 834.7 million in 2018 to 902.0 million in 2022, when the urbanization rate is expected to reach 63.0%.

## OVERVIEW OF CHINA'S APPAREL MARKET

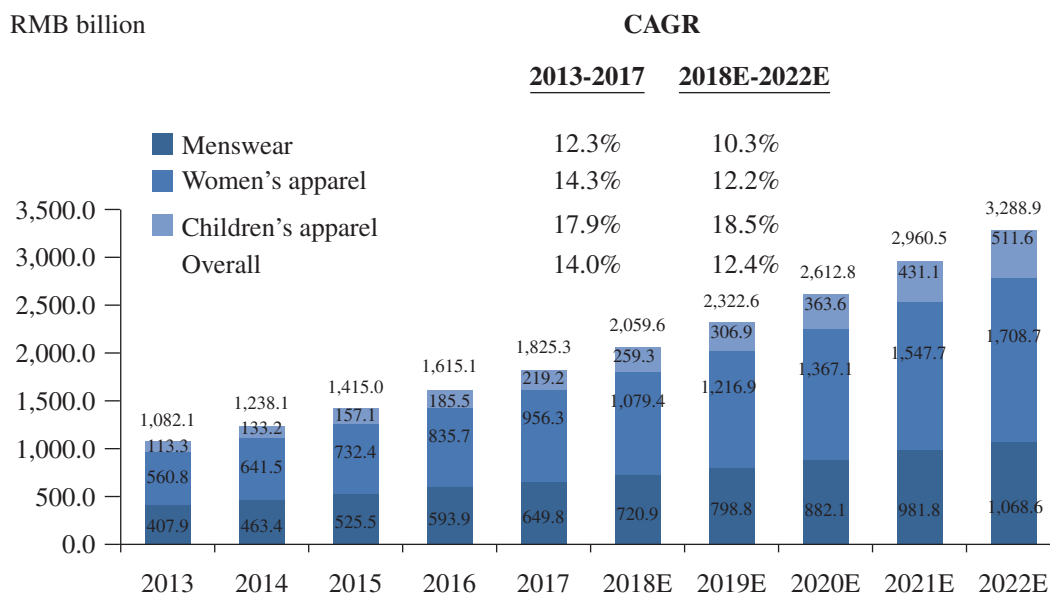
Apparel products are defined as fiber and textile material worn on the body, mainly including men's apparel, women's apparel and children's apparel. Men's apparel is primarily intended to be worn by males over 14 years old.

### Market size and forecast for China's apparel market

China's apparel market has grown rapidly, and the retail revenue of China's apparel market increased from RMB1,082.1 billion in 2013 to RMB1,825.3 billion in 2017, representing a CAGR of 14.0% during the period. Rising per capita disposable income and net income in China have been the main drivers of growth in the market. Over the forecast period from 2018 to 2022, China's apparel market is expected to grow at a CAGR of 12.4%. Retail revenue of China's apparel market is forecasted to reach RMB3,288.9 billion in 2022, driven by rising purchasing power as well as improving brand awareness among China's middle-class population. The following chart sets forth the market size and forecast for China's apparel market by retail revenue for the periods indicated.

## INDUSTRY OVERVIEW

### Market size and forecast of apparel market in terms of retail revenue, China, 2013-2022E



Note: excluding sportswear

Source: CIC

### Market drivers of China's apparel market

#### A. Increasing disposable income and purchasing power

Urban households in China across all income brackets spent approximately 8-12% of disposable income on apparel each year. From 2013 to 2017, disposable income of urban households has grown at a CAGR of 7.8%, resulting in higher purchasing power. Further, per capita expenditures on menswear increased from RMB694.6 in 2013 to RMB1,120.6 in 2017 at a CAGR of 12.7%.

#### B. Transition to a consumption driven economy promotes expenditure on apparel and therefore stimulate the apparel market growth

Supported by policies mentioned in the 12th Five-Year Plan, the nation is undergoing a transition from an export-and investment-oriented economy to a consumption driven economy. One of most distinct influences of this transition is the switch of spending patterns and behaviors of customers to more pursuit of esthetic appearance. Therefore, it is expected to provide apparel market with huge potential for notable growth in the next few years.

#### C. Booming online platform stimulates potential demand

Shopping online increasingly became one of the important channels for many Chinese consumers especially young generation to purchase apparel. Diversity of choice, lower prices and convenient payment means that it is easy to shop for almost anything via the internet, stimulating potential apparel demand further. With the development of mobile device, consumers can place orders more conveniently anywhere at any time. In addition, customer data collected from online platform has helped apparel companies better understand customer behaviors and preference, enhancing customer purchasing experiences and thus boosting sales.

### Market size and forecast of online menswear market in China

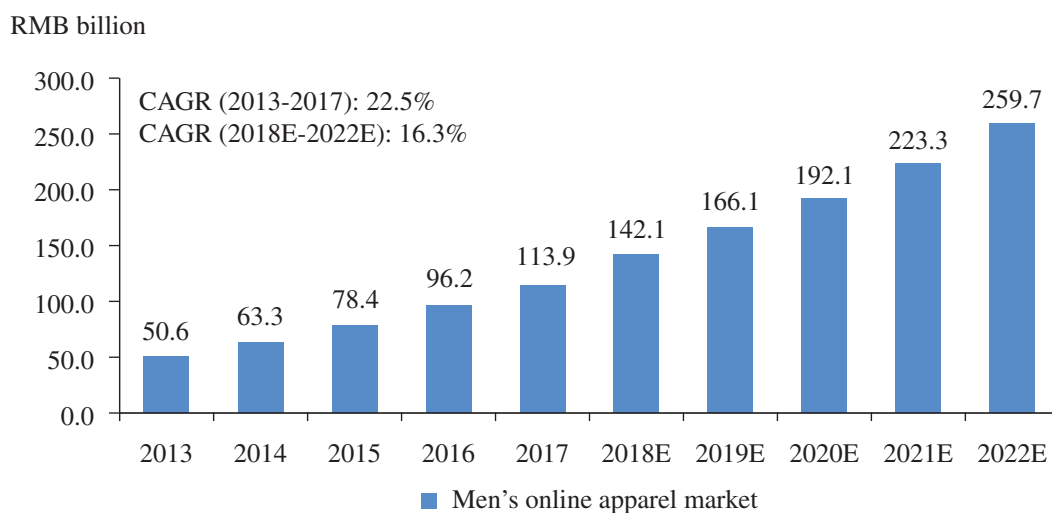
The online menswear market in China has expanded swiftly in recent years, and the market size has increased from RMB50.6 billion to RMB113.9 billion between 2013 and 2017 at a CAGR of 22.5%.

## INDUSTRY OVERVIEW

The rapid development of the online menswear market is driven by multiple factors. Firstly, the wide application of smart phones and portable internet devices has made it more convenient for customers to make online purchases. Secondly, the Chinese online retail market has become much more mature over the years, and more Chinese people have formed the habit of online shopping. Thirdly, with the Chinese male customers becoming more concerned about fashion and dressing style, they are more inclined to purchase menswear online.

Online shopping has become increasing prevalent in the PRC, especially among the younger generation. The online menswear market in China is expected to grow at a CAGR of 16.3% between 2018 and 2022, as an increasing number of male customers are expected to form the habit of purchasing apparels through online platforms. Meanwhile, since established male apparel brands have continuously invested on online platforms, more comprehensive services will be provided to customers through online platforms to attract Chinese male customers. The following chart sets forth the market size and forecast of men's online apparels market in China in terms of retail revenue for the periods indicated.

**Market size and forecast of men's online apparels market in China in terms of retail revenue, China, 2013-2022E**



*Note:* excluding sportswear

*Source:* CIC

### OVERVIEW OF PRC MENSWEAR INDUSTRY

Our Group's portfolio currently comprises three brands. FIRS and LUBIAM are business formal menswear brands, while SHANSHAN is a business casual menswear brand.

#### Definition and category of menswear products

	<u>Business formal</u>	<u>Business casual</u>	<u>Fashion casual</u>	<u>Others</u>
<b>Definition</b>	<ul style="list-style-type: none"> <li>Business professional menswear is the most conservative type of business wear. It is expected to wear in the office of accounting, finance, or other conservative industries.</li> </ul>	<ul style="list-style-type: none"> <li>Business casual menswear is a more relaxed version of apparels can be ware in semi-conservative workplaces.</li> </ul>	<ul style="list-style-type: none"> <li>Apparel meant for casual and non-formal occasions. It usually integrates fashionable design with brand-specific style to emphasize personal taste and status.</li> </ul>	<ul style="list-style-type: none"> <li>Apparel not being included in aforementioned three main categories is meant to be worn in other occasions, including underwear, pajamas, outdoor clothing etc.</li> </ul>

## INDUSTRY OVERVIEW

	Business formal	Business casual	Fashion casual	Others
<b>Major products</b>	<ul style="list-style-type: none"> <li>• Business suit</li> <li>• Blazer</li> <li>• Suit pants</li> <li>• Trench coat</li> <li>• Tie</li> </ul>	<ul style="list-style-type: none"> <li>• Polo shirt</li> <li>• Sweater</li> <li>• Khakis</li> </ul>	<ul style="list-style-type: none"> <li>• T-shirt</li> <li>• Sandals</li> <li>• Jeans</li> </ul>	<ul style="list-style-type: none"> <li>• Underwear</li> <li>• Pajamas</li> </ul>

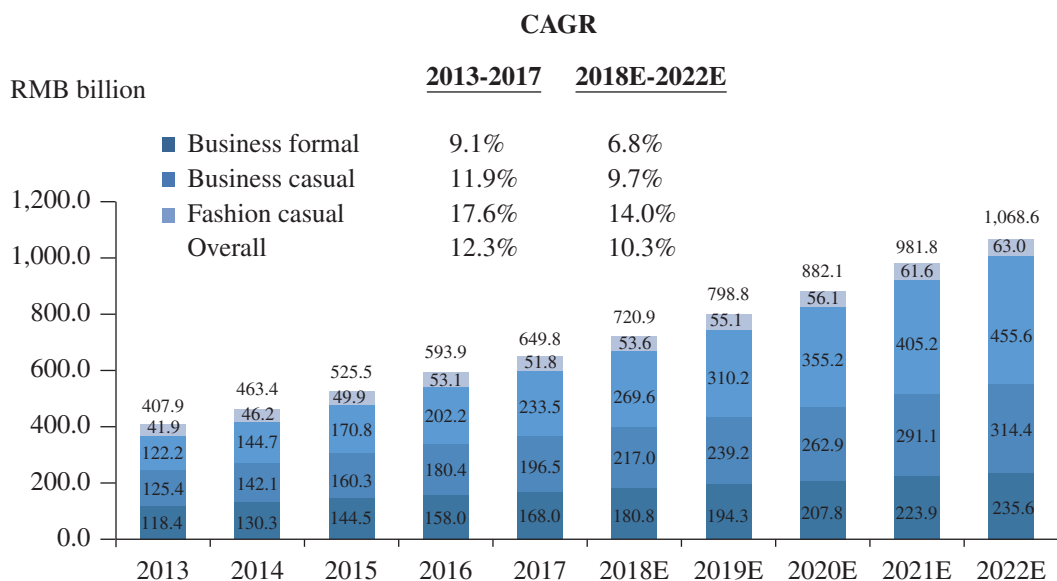
*Source: CIC*

### Market size and forecast of the PRC menswear industry by product type in China

From 2013 to 2017, the PRC menswear industry has expanded rapidly from RMB407.9 billion to RMB649.8 billion, up by over RMB200 billion during barely four years with a CAGR of 12.3%. The rapidly rising per capita net income of Chinese residents was the main reason behind the sharp growth. The number reveals that, Chinese men are more conscious about style and fashion, and they are increasingly willing to invest more in their appearances. Over the forecast period from 2018 to 2022, the PRC menswear industry is expected to maintain a steady growth with a CAGR of 10.3%. The retail revenue of men's apparel market is forecasted to reach RMB1,068.6 billion in 2022.

Comparing with other categories of menswear, the market of business formal menswear was less influenced by the fluctuation of the macroeconomic condition. As a result, the market of business formal menswear expanded with a CAGR of 9.1% between 2013 and 2017 and is expected to further expand with a CAGR of 6.8% from 2018 to 2022. The sales revenue of business casual menswear increased rapidly between 2013 and 2017 with a CAGR of 11.9%. Although the growth rate of business casual menswear market is expected to decrease slightly in the forthcoming years, the strong momentum will be maintained. The following chart sets forth the market size and forecast of PRC menswear industry by product type in terms of retail revenue for the periods indicated.

### Market size and forecast of menswear market by product type in terms of retail revenue, China, 2013-2022E



*Note:* "Others" refers to apparel not being included in aforementioned three main categories is meant to be worn in other occasions, including underwear, pajamas, outdoor clothing etc. excluding sportswear.

*Source: CIC*

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## INDUSTRY OVERVIEW

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### **Key drivers of business formal menswear market in China**

#### ***A. The increasing number of potential customers driven by the favorable national developing strategy***

China was considered as a major manufacturing country internationally, and a lot of Chinese people are workers in factories. However, since the process of industrial transformation has been initiated, the number of blue collar workers is expected to reduce and the group of white collar employees is expected to expand in the forthcoming years.

Comparing with workers in factories, people who work in office environments have a much stronger need regarding business formal apparels. Therefore, the market of business formal menswear will surely benefit from this national strategy.

#### ***B. The rapidly increasing disposable income of people***

China has been focusing on economic development for decades, which result in continuously rising nominal GDP, as well as per capita disposable income. Chinese government is aiming to double its 2010 GDP and per capita income of residents by 2020, according to China's 13th Five-Year Plan released by the central government in 2015. With the rise of disposable income, per capita clothing expenditure grew at a CAGR of approximately 2.4% in the last five years and reached RMB1,238.0 in 2017. Furthermore, with the increasing urbanization rate and consumption upgrade, consumers with rising affordability tend to pursue premium quality, decent design and well-established brands when they purchase business formal apparel for various formal occasions, which therefore is expected to drive the segment of mid-to-high-end formal clothing to grow in the foreseeable future. Thus, the demand for business formal menswear, the major products of the Group, is expected to see a further growth along with the overall mid-to-high end formal clothing industry.

In addition, the increasing disposable income of Chinese people makes it possible for them to pursue a higher standard of life. Since business formal menswear are generally worn during more formal and important occasions, people would also invest more money on this aspect in order to make their appearance more decent.

Since the disposable income of people is elevated, they have also become more motivated to purchase multiple business formal menswear which are suitable for different formal occasions.

#### ***C. The increasing brand awareness of customers motivates them to spend more money on business formal menswear***

During recent years, customers have started to gain more knowledge regarding business formal menswear, and they have also started to pay more attention to the style, design and quality of menswear products. Under this circumstance, the brand awareness of customers would be reinforced. Meanwhile, since customers are becoming increasingly capable of recognizing quality products, they would also become more willing to spend more money on business formal menswear in order to express their taste and lifestyle.

### **Trends of business formal menswear market in China**

#### ***A. Established brands will become more popular among customers***

Since the development speed of the segment of business formal menswear market is becoming gradually stable, the competition among different competitors is also getting more intensified. Apart from price reduction, increasing number of brands have started to invest more resources to promote their brands in order to reinforce customer loyalty and attract more customers.

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## INDUSTRY OVERVIEW

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Multiple steps have been taken by certain leading companies to achieve this purpose. Apart from spending more efforts on advertising channels, measures like improving product quality, adjusting product design and optimizing purchasing experience are often implemented at the same time.

### ***B. The design of business formal menswear will be more suitable for diversified formal occasions***

The design of business formal menswear is more difficult than casual apparels, as the design of business formal menswear not only needs to be attractive and distinctive for customers, but also needs to be suitable for formal occasions.

As Chinese customers of business formal menswear are getting more mature, some of them have also accumulated fairly broad knowledge regarding the style, design, texture, manufacturing techniques of business formal menswear. As a result, leading brands have already made great efforts to suit the needs of their target customers.

### ***C. The importance of Tier Three and Tier Four cities is increasing gradually***

Accompanied with rapid progress of urbanization in China, the demand of business formal menswear is expected to be increased significantly in the near future. Currently, the market potential of business formal menswear is still far from being fully explored in Tier Three and Tier Four cities, so an increasing number of brands have already started to invest more capital to explore opportunities in those cities.

### ***D. Expanding online sales channel***

E-commerce constitutes a growing proportion of total apparel retail market as well as business formal menswear retail market in China as a number of menswear brands are increasingly investing on online channels. Comparing with traditional brick-and-mortar retail, online stores featured with a wider range of product selection, convenient delivery as well as advantageous prices has well satisfied consumers' changing needs on apparel purchasing, which is expected to help brand approach more consumer groups and therefore significantly boost the sales of brand. Additionally, the mounting number of mobile phone purchase has formed a large base to impel apparel companies to further expand their online sales channel.

## **Entry barriers of business formal menswear market in China**

### ***A. Market experience and brand recognition***

The Chinese business formal menswear market encountered its first period of rapid development in 1980s. During this period certain pioneering domestic brands were established and flourished. After decades of development, those brands have accumulated comprehensive experience and knowledge regarding both the Chinese business formal menswear market and Chinese customers. Meanwhile, over many years of brand establishment and customer education, certain brands have become synonyms of high-class business formal apparels.

Although it is still possible for certain emerging brands to attract considerable attentions of customers within a relatively short period of time, such market campaigns are also associated with great investment. Since it demands years of brand establishment to win the persistent recognition from customers, it is a major entry barrier for emerging brands.

### ***B. Strong design capability***

Design capability is the most fundamental competitive strength of a business formal menswear brand, and it is also a crucial entry barrier for emerging companies. Since excellent and experienced designers are core resources for all business formal menswear brands, emerging brands have to make great efforts to recruit a suitable team of designers.



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## INDUSTRY OVERVIEW

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### *C. Development of a comprehensive distribution network*

The development of a comprehensive distribution network is another major entry barrier for emerging companies. Since the establishment of a direct retailing network is highly costly and the influence of brand over stores of distributors is relatively low, it is bitterly difficult for emerging brands to rapidly develop an effective distribution network.

Moreover, although it is also possible for emerging companies to adopt innovative retailing model, the risk is rather high for them, as they lack experience in operating the Chinese business formal menswear market.

### **COMPETITIVE LANDSCAPE OF THE CHINESE BUSINESS FORMAL MENSWEAR MARKET**

#### **Ranking of major Chinese business formal menswear brands**

The Chinese business formal menswear market is fragmented. In terms of retail revenue, the market share of the top ten men's business formal apparels brands is less than 40% in 2017.

The Chinese business formal menswear market is relatively mature, and the competitive landscape does not vary a lot over years. Furthermore, most leading brands have established a comprehensive production line and a well-developed distribution network. In addition, apart from business formal menswear, business casual menswear also take a considerable share in the sales value of certain brands.

Among the leading business formal menswear brands, domestic brands primarily focus on the middle-end market, while international brands primarily focus on the luxury market. The following table sets forth the ranking of major business formal menswear brands in the PRC.

#### **Top 10 business formal menswear brands in terms of retail revenue, China, 2017**

<u>Ranking</u>	<u>Brand</u>	<u>Main products</u>	<u>Retail revenue</u> <i>(RMB million)</i>
1	Brand A	Shirt, business suit	5,294
2	Brand B	Business suit, leather shoes, accessories	3,439
3	Brand C	Shirt, business suit, T-shirt	3,040
4	Brand D	Shirt, business suit, jacket	2,728
5	FIRS	Shirt, business suit, T-shirt	2,634
6	Brand E	Blazer, pants, shirt, business suit, T-shirt	1,979
7	Brand F	Pants, blazer, business shirt, T-shirt	1,887
8	Brand G	Business suit, accessories, cosmetics	1,801
9	Brand H	Business suit, shirt, accessories, perfume	1,685
10	Brand I	Shoes, accessories, business suit	1,536

*Note:* Only apparel brands that are dedicated to business formal menswear are included in this ranking.

*Source:* CIC

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## INDUSTRY OVERVIEW

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### OVERVIEW OF BUSINESS CASUAL MENSWEAR MARKET IN CHINA

#### Growth of business casual menswear market in China

The business casual menswear market in China has developed rapidly between 2013 and 2017 from RMB125.4 billion to RMB196.5 billion with a CAGR of 11.9%. The swift expansion of the market is primarily driven by the increased per capita disposable income and the elevated living standard of Chinese people. Since these drivers are expected to propel the market continuously, the size of business casual menswear market in China is expected to increase further from RMB217.0 billion to RMB314.4 billion between 2018 and 2022 with a CAGR of 9.7%.

#### Key drivers of business casual menswear market in China

Target customers have a strong purchasing power. Business casual menswear market in China primarily targets male customers with a stable income and have more opportunities to attend semi-formal occasions. Since the target customer group is mainly formed by population of individuals over 25 years old, their strong purchasing power and increasing awareness of fashion trends are crucial driving forces for business casual menswear market in China. Meanwhile, as they have started to gain more opportunities to attend different occasions, business casual menswear can better suit their diversified requirements.

#### Trends of business casual menswear market in China

Since business formal apparels are generally considered as elegant and stylish, plenty of design elements have started to be adopted by business casual apparels. Meanwhile, as an increasing number of events have started to be organized in a semi-formal manner, more design elements of business formal apparels would be adopted by the design of business casual apparels, in order to help people to demonstrate their taste as well as social classes.

#### Entry barriers of business casual menswear market in China

An established brand and retailing channel are the keys of success. The business casual menswear market in China is developing prosperously, and countless brands have emerged during recent years. Since customers have been given too many choices, they would be inclined to pay more attention to established brands, in order to find products they desire more effectively. Meanwhile, as customers are easily attracted by innovative designs, a brand needs to obtain an effective retailing channel to deliver new designs to the market with a shorter time, in order to attract more customers before its competitors.

A strong design capability is crucial for a business casual brand to differentiate itself from other market players. Designers of business casual menswear need to find the synergy between formal and casual apparels, and they need to creatively combine those design elements together. Since business casual menswear are generally worn in semi-formal occasions, brands in this market have to be capable of providing suitable and coordinate design, in order to win the recognition from customers.

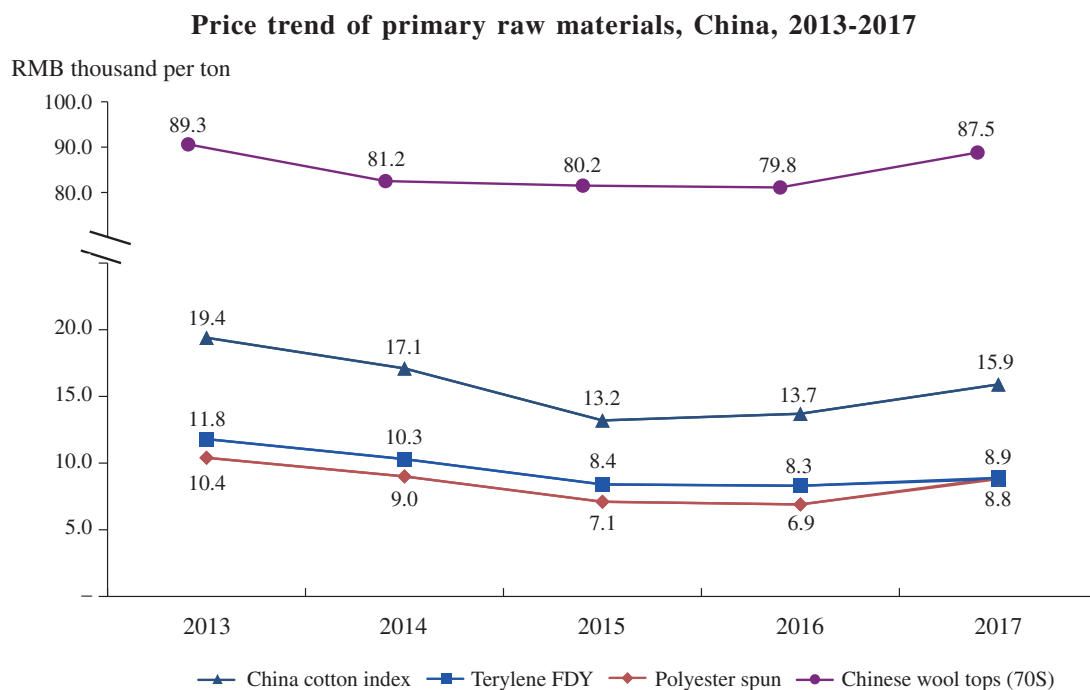
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## INDUSTRY OVERVIEW

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### RAW MATERIALS OF CHINA'S APPAREL MARKET

Primary raw materials used in the manufacture of apparel products include cotton and Terylene fully drawn yarn (“**Terylene FDY**”), polyester and wool. The fluctuation of cost of raw materials directly affects apparel companies’ cost structure and product pricing. The following chart sets forth the price of cotton, Terylene FDY, polyester and wool in China for the periods indicated.



*Source: China Cotton Association, China National Textile and Apparel Council, General Administration of Customs, Nanjing Wool Market, National Bureau of Statistics of China*

The price of all primary raw materials has declined considerably between 2013 and 2016, especially the price of wool tops. This market phenomenon can be attributed to the lowered production cost, surplus supply and declined oil price. It is also noteworthy that the price fluctuation of Australian wool can exert a great influence on the international wool market. Since plenty of small-sized wool processing companies were merged by major enterprises in Australia, the average processing cost of Australian wool reduced rapidly in recent years, so the average price of wool in China was reduced simultaneously. In 2017, the price of all primary raw materials has increased, which mainly due to the increasing global consumption.

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## REGULATORY OVERVIEW

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### OVERVIEW

Our business primarily involves the design, marketing and sale of formal and casual business menswear in the PRC. Moreover, we are established, and all of our business is located, in the PRC. This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our business and operations.

### LAWS AND REGULATIONS RELATING TO THE RETAIL INDUSTRY

#### Supervision of the retail industry

The *Administrative Measures for Fair Transactions between Retailers and Suppliers* (《零售商供應商公平交易管理辦法》) jointly promulgated by the National Development and Reform Commission of the PRC (國家發展和改革委員會) (the “**NDRC**”), the Ministry of Commerce of the PRC (the “**MOFCOM**”), the Ministry of Public Security, the State Administration for Industry and Commerce (國家工商行政管理總局) (the “**SAIC**”) and the State Administration of Taxation (國家稅務總局) (the “**SAT**”) on October 13, 2006, and became effective on November 15, 2006, provide the code of business conduct, collection of charges, payment of purchases, return policies and punishments between retailers and suppliers during the transactions.

The *Measures for Administration on Sales Promotion Acts of Retailers* (《零售商促銷行為管理辦法》) jointly promulgated by the MOFCOM, the NDRC, the Ministry of Public Security, the SAT, the SAIC of the PRC on September 12, 2006, and became effective on October 15, 2006, provide the standards and requirements of retailers’ sales promotion and advertisement.

#### Regulations relating to the PRC online trading

In accordance with the *Administrative Measures for Online Trading* promulgated by the SAIC which came into effect on March 15, 2014 (《網絡交易管理辦法》) (the “**Measures**”), any business activity of selling goods or providing through the Internet (including mobile Internet) services and other relevant services within the PRC shall abide by the laws and regulations of the PRC and the provisions of the Measures. The relevant services refers to profitable services provided for online product transactions, including, among others, third party transaction platform, publicity and promotion, credit rating, payment and settlement, logistics, courier services, Internet access, server hosting, virtual space rental, and website and webpage design.

Operators engaging in online goods trading and related services (“**Online Goods Operators**”) are required to make an industrial and commercial registration in accordance with laws. In selling goods or providing services to consumers, Online Goods Operators must observe the Law on the Protection of Consumer Rights and Interests, the Product Quality Law, and provisions of other laws, regulations and rules. Online Goods Operators must not infringe

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## REGULATORY OVERVIEW

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other operators' lawful rights and interests by unfair competition, disturb social and economic order, or engage in any of the following unfair competition activities by using internet technology, media or other means:

- (1) using unique domain name, name and/or logo of famous website without authorization, or using any domain name, name and/or logo that are analogous to those of a famous website and confusing with other famous website, and cause mistakes by consumers;
- (2) using or forging electronic sign or logo of governmental authorities or social organization without authorization, creating misleading and false publicity;
- (3) conducting sales which carry a chance to win a lottery with any virtual goods as the prize, and the value of such virtual goods agreed on the network market exceeds the maximum amount permitted by laws;
- (4) improving business reputation or credit standing (either for itself or for others) through fictitious transactions, removing negative comments or otherwise;
- (5) damaging competitors' business reputation or credit standing through malicious comments contrary to the facts after conclusion of a transaction; and
- (6) other unfair competition activities as defined by laws and regulations.

According to the Measures, when selling goods or providing services to consumers, Online Goods Operators must state information such as the business address, contact information, quantity and quality, price or expense, performance period and means, payment method and return or placement method of goods or services, safety precautions, risk warning, civil liabilities and so on. The Online Goods Operators must also take safety guarantee measures to ensure the safety of transactions and must provide such goods or services as promised.

### Regulations relating to commercial franchise

The PRC State Council promulgated the *Regulations on the Administration of Commercial Franchises* (《商業特許經營管理條例》) (the “**Franchise Regulations**”) on February 6, 2007. The Franchise Regulations, which became effective on May 1, 2007, are intended to further liberalize the regime governing commercial franchising activities in the PRC. In addition to the Franchise Regulations, the MOFCOM has promulgated two implementing regulations, namely, the *Administrative Measures for Archival Filing of Commercial Franchises* (《商業特許經營備案管理辦法》) (the “**Archival Filing Measures**”), which was amended on December 12, 2011 and became effective on February 1, 2012, and the *Administrative Measures on Information Disclosure Requirements for Commercial Franchises* (《商業特許經營信息披露管理辦法》) (the “**Disclosure Measures**”) which was amended on February 23, 2012 and became effective on April 1, 2012. The Franchise Regulations, Archival Filing Measures and Disclosure Measures form the basic legal framework for the regulation of PRC franchise operations, and address the requirements, fees, qualifications, administrative reporting and compliance procedures, and other issues related to commercial franchising.

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## REGULATORY OVERVIEW

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Pursuant to the Franchise Regulations, the commercial franchise refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other business resources (hereinafter referred to as the “**franchisor**”) allows such business resources to be used by another business operator (hereinafter the “**franchisee**”) through contract and the franchisee follows the uniform business model to conduct business operations and pays franchising fees according to the contract. Both parties to a franchise shall negotiate and determine franchise fees and deposit in accordance with the principles of fairness and reasonableness. Entities or individuals other than enterprises may not assume the role of franchisor to conduct franchising activities.

Besides, franchisors participating in franchising activities shall have a fully-developed business model and the ability to provide operational guidance, technical support, and service training to the franchisee on continuous basis. Franchisors shall have, as a minimum, two directly-managed outlets being operated over one year. All franchising contracts shall be in written form. Within 15 days of their first franchising contract signing, franchisors shall carry out record-filing with the competent commerce authority in accordance with the stipulations of the Archival Filing Measures.

Pursuant to the Disclosure Measures, as a minimum, 30 days prior to the signing date of the franchise contract the franchisor shall disclose the information as stipulated in Article 5 of Disclosure Measures in writing to the franchisee, except for the circumstances in which the franchisor and the franchisee have renewed the franchise contract under the same terms of the original franchise contract.

If the franchisor conceals any information which will adversely affect the performance of the franchise contract so as to make it unable to realize the purpose of the contract, or discloses false information, the franchisee may terminate the franchise contract.

### **PRC Competition Law**

The principal legal provisions governing market competition are set out in the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) (the “**PRC Competition Law**”), which was promulgated on September 2, 1993 and effective from December 1, 1993 and amended on November 4, 2017 and became effective on January 1, 2018. The PRC Competition Law provides that business operators shall not adopt any of the following improper means:

- unauthorized use of a mark that is identical or similar to the name, packaging or decoration of another business operator’s commodity, which enjoys influence to some extent;
- unauthorized use of another business operator’s corporate name (including its shortened name, trade name, etc.), the name of a social organization (including its shortened name, etc.), or the name of an individual (including his/her pen name, stage name, translated name, etc.), which enjoys influence to some extent;

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## REGULATORY OVERVIEW

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- unauthorized use of another business operator’s main domain name, website name or webpage, which enjoys influence to some extent;
- effect commercial promotions for the performance, functions, quality, sales status, users’ comments or honor received in respect of their products in a false or misleading manner, attempting to cheat or mislead consumers;
- fabricate or disseminate any false or misleading information to harm the credit standing of competitors or the reputation of competitors’ commodities; and
- other unfair-competition practices, including but not limited to commercial bribery, infringement of confidential business information, impedes or disrupts the normal operation of online products or services legally provided by another business operator and offering prizes as sales rebates illegally.

Violations of the PRC Competition Law may result in the imposition of fines and, in serious cases, the revocation of business licences, as well as the incurrence of criminal liability.

### LAWS AND REGULATIONS RELATING TO CONSUMER PROTECTION

The *Law on the Protection of Consumers’ Rights and Interests of the PRC* (《中華人民共和國消費者權益保護法》) (the “**Consumer Protection Law**”) was promulgated by the Standing Committee of National People’s Congress (全國人大常委會) (the “**SCNPC**”) on October 31, 1993 and became effective on January 1, 1994, and it was amended on August 27, 2009 and then further amended on October 25, 2013 and became effective on March 15, 2014.

The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealing with consumer, including the following:

- goods and services provided to consumer must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumer with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices;
- ensuring the quality, functionality, applications and duration of the normal use of the goods and services and ensuring that the actual quality of the goods or services are consistent with those displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities in accordance with national regulations or any agreement with the consumer; and
- not setting unreasonable or unfair terms for consumers or excluding themselves from civil liability for undermining the legal rights and interests of consumers.

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## REGULATORY OVERVIEW

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Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business licence may be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller, and vice versa.

### LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY AND MANDATORY CERTIFICATION

#### The Product Quality Law of the PRC

Products that we design and sell are subject to the laws, rules and regulations in relation to the product quality in the PRC. The *Product Quality Law of the PRC* (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the SCNPC on February 22, 1993, became effective on September 1, 1993, amended on July 8, 2000 and August 27, 2009 respectively, is the principal law governing the supervision and administration of product quality. According to the Product Quality Law, sellers are obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products;
- to sell products with labels that comply with the relevant provisions;
- not to forge the original of a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Violation of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business licence may be revoked. Criminal liability may be incurred in serious cases.



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## REGULATORY OVERVIEW

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The seller shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

### **Mandatory product certification**

As to the Textile Industry in the PRC, there is no specific governmental or legal mandatory product certification requirement. The requirements and standards our products and services shall meet are different and dependent on the industries, which our products and services provided to, and such requirements and certifications are formulated respectively by the respective competent authorities in the industries.

## **LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITIES**

Pursuant to the *General Principles of the Civil Law of the PRC* (《中華人民共和國民法通則》), which was promulgated by the National People's Congress of the PRC on April 12, 1986 and became effective on January 1, 1987 and amended on August 27, 2009, both manufacturers and distributors shall be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture or distribute.

The *Tort Liability Law of the PRC* (《中華人民共和國侵權責任法》), which was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010, further provides that where a defective product causes damage or physical injury to any person, the victim may claim compensation from either the manufacturer or the seller. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the seller should be entitled to claim reimbursement from the manufacturer, and vice versa.

## **LAWS AND REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY**

### **Trademark law**

Pursuant to the *Trademark Law of the PRC* (《中華人民共和國商標法》) promulgated on August 23, 1982 and amended on February 22, 1993, on October 27, 2001 and on August 30, 2013, the right to exclusive use of a registered trademark shall be limited to the trademark which has been registered and to commodities on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years commencing from the day the registration is approved. If a registrant needs to continue to use the registered trademark after the period of validity, an application for renewal of registration shall be made within twelve months before the expiration.

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## REGULATORY OVERVIEW

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The period of validity for each renewal of registration shall be ten years. Any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (a) using a trademark which is identical or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of the registered trademark; (b) selling commodities that infringe upon the right to exclusive use of a registered trademark; (c) forging, manufacturing without authorization or selling a registered trademark forged or manufactured without authorization; (d) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of the registered trademark; (e) providing convenience for or help others to infringe the exclusive right to use a registered trademark on purpose; and (f) causing other damage to the right to exclusive use of a holder of a registered trademark.

Where a dispute arises from infringing upon the exclusive rights of the registrant of a registered trademark, the parties involved shall settle the dispute through negotiation. If any party refuses to negotiate or the negotiation has failed, the registrant of the registered trademark or the interested parties may bring a suit before a people's court or request the Administration for Industry and Commerce to handle the issue.

The registrant of a registered trademark may license others to use its registered trademark through the trademark licence agreement. The licensor shall supervise the quality of the goods in respect of which the licensee uses his registered trademark, and the licensee shall assure the quality of the goods in respect of which he uses the registered trademark. Where the registered trademark is licensed, the name of the licensee and manufacturing location shall be indicated on the product with the licensed registered trademark. The trademark licence agreement shall be filed with the State Trademark Office for record.

### **Domain name**

Internet domain name registration and related matters are primarily regulated by the Implementing Rules of Domain Name Registration (《域名註冊實施細則》) issued by China Internet Network Information Center (中國互聯網絡信息中心) (the “CINIC”) which became effective on May 29, 2012, the Administrative Measures for the Internet Domain Names (《互聯網域名管理辦法》) issued by the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) (the “MIIT”) on August 24, 2017 and became effective on November 1, 2017, and the Measures on Country Top-Level Domain Name Disputes Resolution issued by CINIC (《中國互聯網絡信息中心國家頂級域名爭議解決辦法》) issued by CINIC with effect from November 21, 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Domain name disputes shall be accepted and solved by the dispute resolution institution as verified by CINIC.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL SECURITY

Pursuant to the *Labor Law of the PRC* (《中華人民共和國勞動法》) promulgated on July 5, 1994 with effect from January 1, 1995, and revised on August 27, 2009, as well as the *Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》) promulgated on June 29, 2007 with effect from January 1, 2008, revised on December 28, 2012, if an employment relationship is established between an entity and its employees, written labor contracts shall be executed between them. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the PRC government on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the *Interim Regulations on Levying Social Insurance Premiums* (《社會保險費徵繳暫行條例》) effective from January 22, 1999, the *Interim Measures concerning the Administration of the Registration of Social Insurance* (《社會保險登記管理暫行辦法》) effective from March 19, 1999, *Decisions of the State Council on Modifying the Basic Endowment Insurance System for Enterprise Employees* (《國務院關於完善企業職工基本養老保險制度的決定》) promulgated as of December 3, 2005, *Decision on Establishment of Basic Medical System for Urban Employee* (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by State Council with effect from December 14, 1998, the *Regulations on Unemployment Insurance* (《失業保險條例》) effective from January 22, 1999, *Regulations on Work-Related Injury Insurance* (《工傷保險條例》) promulgated on April 27, 2003 with effect from January 1, 2004, and as amended on December 20, 2010, and the *Interim Measures concerning the Maternity Insurance for Enterprise Employees* (《企業職工生育保險試行辦法》) promulgated on December 14, 1994 with effect from January 1, 1995, employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance.

Pursuant to the *Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), which became effective on July 1, 2011, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions. Except for mandatory exceptions such as force majeure, social insurance premiums may not be paid late, reduced or be exempted. Where an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agencies shall order it to make all or outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to one to three times the overdue amount.

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## REGULATORY OVERVIEW

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Pursuant to the *Administrative Regulations on the Housing Provident Fund* (《住房公積金管理條例》) effective from April 3, 1999, and amended on March 24, 2002, enterprises are required to register with the competent administrative centers of housing provident fund and open bank accounts for housing provident funds for their employees. Employers are also required to timely pay all housing provident fund contributions for their employees. Where an employer fails to submit and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will subject the employer to a fine of not less than RMB10,000 and up to RMB50,000. When an employer fails to pay housing provident fund due in full and in time, housing provident fund center is entitled to order it to rectify, failing to do so would result in enforcement exerted by the court.

### LAWS AND REGULATIONS RELATING TO TAXATION

#### Enterprise income tax

According to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) (the “EIT Law”) which was promulgated by the National People’s Congress of the PRC on March 16, 2007 and amended on February 24, 2017, and the *Implementation Regulation of the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) which was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside the PRC at the rate of EIT of 25%.

#### Value-added tax

Pursuant to the *Interim Value-Added Tax Regulations of the PRC* (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on December 13, 1993, amended on November 5, 2008, February 6, 2016 and November 19, 2017, together with its implementation rules (《中華人民共和國增值稅暫行條例實施細則》) promulgated by Minister Of Finance (the “MOF”) on December 25, 1993 and amended by the MOF and the State Administration of Taxation (the “SAT”) on December 15, 2008 and October 28, 2011 respectively, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC are required to pay value-added tax (the “VAT”). VAT payable is calculated as “output Tax” minus “input Tax”, and the rate of VAT is 17% for taxpayers engaged in provision of processing, repairing and replacement services or sale of goods in certain limited circumstances. Unless otherwise provided by the State Council, the tax rate of VAT shall be zero on goods exported by taxpayers.

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## REGULATORY OVERVIEW

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### Business tax

Pursuant to the *Interim Regulations on Business Tax of the PRC* (《中華人民共和國營業稅暫行條例》) promulgated by the State Council on December 13, 1993, amended on November 10, 2008 subsequently abolished on November 19, 2017, and its implementation rules, it is generally provided that entities or individuals engaged in the provision of taxable services, the transfer of intangible assets or the sale of immovable properties in the PRC shall pay business tax.

The *Circular of the Ministry of Commerce and the State Administration of Taxation on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax* (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) was jointly promulgated by the MOF and the SAT on March 23, 2016. Upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of VAT in lieu of business tax.

### Stamp tax

Pursuant to the *Interim Regulations of the PRC on Stamp Tax* (《中華人民共和國印花稅暫行條例》) promulgated on August 6, 1988 and effective from October 1, 1988 and amended on January 8, 2011, transfer of domestic shares listed in PRC is subject to the PRC stamp duty. However, transfer of H shares outside the PRC is exempted from PRC stamp duty.

## LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

### SAFE Circular 54

According to the Circular on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (Hui Fa [2014] No. 54, the “**Circular 54**”) (《關於境外上市外匯管理有關問題的通知》匯發[2014]54號) issued by SAFE on December 26, 2014, a domestic issuer shall, within 15 working days after the completion of the offering of shares for its overseas listing, register overseas listing with the Foreign Exchange Bureau at the place of its incorporation. After overseas listing, a domestic shareholder intending to increase or reduce his holding of overseas shares of the listed company shall register his shareholding with the local Foreign Exchange Bureau at the place where he resides within 20 working days before the increase and reduction of shares with related materials. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the prospectus and other disclosure documents.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO OVERSEAS LISTING

#### Regulatory and shareholder approval required for a proposed listing

According to provisions stated in the *PRC Securities Law* (《中華人民共和國證券法》), and the Special Regulations, when a company intends to issue, list and transact its securities on an overseas stock exchange, it shall obtain the prior approval from the securities regulatory authority of the State Council. The *Guidelines for Supervising the Application Documents and Examination Procedures for Overseas Stock Issuance and Listing by Joint Stock Companies* (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) which was promulgated on December 20, 2012 and came into effect as of January 1, 2013 provides that the review and approval process for those companies applying for issuing and listing its securities overseas includes:

- (i) the company has to submit various required application documents to the CSRC,
- (ii) the CSRC will review the application documents, and decide whether to accept the application and to issue an administration permit, allowing the company to issue and list its securities overseas, according to the relevant PRC laws and regulations,
- (iii) upon receipt of the CSRC's acceptance of the application, the company may proceed to file its initial application for issuing and listing its securities with the relevant overseas securities regulatory authority or stock exchange,
- (iv) upon receipt of the administration permit from the CSRC, the company may continue the listing application process with the overseas securities regulatory authority or stock exchange, and
- (v) within 15 working days following the completion of the proposed issuing and listing, the company will have to submit a written report to the CSRC regarding the completion.

The administration permit issued by the CSRC will be valid for 12 months. In addition, our Articles of Association also provide that the public offering plan (including without limitation, issuing price, valuation, selection of the stock exchange and the timing of listing) shall be reviewed and approved by our Shareholders.

### HISTORY

Shanshan Garment Brand, the predecessor of our Company, was established as a limited liability company in the PRC on August 23, 2011. On May 18, 2016, Shanshan Garment Brand was converted into a joint stock company with limited liability and renamed as Shanshan Brand Management Co., Ltd. (杉杉品牌運營股份有限公司). Since our establishment, Shanshan has been the holding company of our Company.

Our history can be traced back to 1989 when Mr. Zheng, one of our Controlling Shareholders, launched our “杉杉” brand in 1989. We subsequently introduced FIRS as the English name of “杉杉” in 1994. Since then, FIRS brand has become the core and signature brand of our business, and has been recognized as a pioneer in the PRC menswear industry. With a view to further developing our business, we launched MARCO AZZALI branded products, LUBIAM branded products and SHANSHAN branded products in 2001, 2005 and 2015, respectively. Since the introduction of our SHANSHAN brand in 2015, SHANSHAN brand has been focusing on business casual menswear and whereas FIRS brand has been focusing on business formal menswear. Please see “Business – Our brands and products” in this prospectus for further details of our brand portfolio. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.

Our Listing constitutes a spin-off from Shanshan, which was established through the joint cooperation of several garment apparel companies in 1992, and became listed on the Shanghai Stock Exchange in 1996. The garment apparel businesses of our Group resulted from a number of strategic changes carried out by the Parent Group. Historically, the apparel businesses of our Group included a broader range of business activities reflecting different aspects of the production line of apparel, such as the manufacturing of suits and trading of fabrics. In developing the apparel businesses of the Parent Group, Shanshan also established various joint ventures with foreign companies and launched different international brands in China from 2001.

We gradually outsourced all of our manufacturing activities, which ended with the disposal of the manufacturing arm of Lubiam Apparel in the first quarter of 2014 to an Independent Third Party. As part of our business strategy to focus our resources on our core competencies in brand management, design and product development, sales and distribution management, in 2015, we initiated the refinement of our business structure by disposal or deregistration of non-core businesses, inactive companies and companies with no operations.

Our business primarily involves the design, marketing and sale of formal and casual business menswear in the PRC under three brands, namely, FIRS, SHANSHAN and LUBIAM, each having distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. Our products are primarily targeted at male consumers who seek quality menswear products. Please see “Business” in this prospectus for details of our business model.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Set out below are certain key milestones achieved during the development of the business since the establishment of the “杉杉” brand:

- |      |  |
|------|--|
| 1989 | Mr. Zheng established the “杉杉” brand and launched the “杉杉” branded garments  |
| 1994 | We introduced the corporate logo “杉杉 (FIRS)”   |
| 1996 | Shanshan was listed on Shanghai Stock Exchange   |
| 1999 | The “杉杉” trademark was recognized by the Trademark Office of the State Administration for Industry and Commerce as a “China Well-known Trademark” (中國馳名商標)   |
| 2005 | The Parent Group commenced to establish joint ventures with several foreign companies and launched the garments under different international brands in China, including the establishment of Lubiam Apparel with its Italian partner and the launch of the LUBIAM branded garments  |
| 2011 | Shanshan Garment Brand, the predecessor of our Company, was established as a limited liability company in the PRC  |
| 2015 | We launched the SHANSHAN branded garments<br><br>We initiated business adjustments to focus our resources on our core competencies in brand management, design and product development, sales and distribution management, and commenced the disposal or deregistration of non-core businesses and inactive companies. For details, please see “Our corporate development — Disposal of subsidiaries prior to the Reorganization”, “Reorganization — Disposal of non-core business or inactive companies” and “Reorganization — Deregistration of inactive companies” in this section. |
| 2016 | Our Company was converted into a joint stock company with limited liability and renamed as Shanshan Brand Management Co., Ltd. (杉杉品牌運營股份有限公司)  |



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OUR CORPORATE DEVELOPMENT

#### Our Company

Shanshan Garment Brand, the predecessor of our Company, was established on August 23, 2011 as a limited liability company in the PRC with an initial registered capital of RMB50 million, which was contributed by two founders, all of which had been fully paid up in cash. The following table sets forth the information about the two founders of our Company.

<u>Founders</u>	<u>Percentage of equity interest</u>	<u>Principal business/experience</u>	<u>Source of funding</u>
Shanshan	80%	manufacture and sale of the raw materials of lithium battery, new energy vehicle business, provision of finance leasing, commercial factoring and advisory services, design, marketing and sale of formal and casual business menswear and investment	own financial resources
Mr. Fan Baofu (范寶富)	20%	the general manager and the legal representative of Shanshan Garment Brand	to the best information, knowledge and belief of our Directors, Mr. Fan's own financial resources

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In June 2013, Mr. Fan Baofu realized his investment in Shanshan Garment Brand by transferring his equity interest in Shanshan Garment Brand to Shanshan and Mr. Luo and details of such transfers are set forth in the table below:

Date of transfer	Transferor	Transferee	Registered capital being transferred (RMB)	Percentage of equity interest	Consideration (RMB)	Basis of consideration	Settlement date
June 7, 2013	Mr. Fan Baofu	Shanshan	5,000,000	10%	5,000,000	Amount of capital contribution	June 7, 2013
June 7, 2013	Mr. Fan Baofu	Mr. Luo	5,000,000	10%	5,000,000	Amount of capital contribution	June 7, 2013

Upon completion of such transfers, Mr. Fan Baofu ceased to be the general manager and the legal representative of Shanshan Garment Brand and Shanshan Garment Brand was owned by the following persons and their respective capital contributions are set forth in the table below:

Shareholders	Capital contribution (RMB)	Percentage of equity interest
Shanshan	45,000,000	90%
Mr. Luo	5,000,000	10%
<b>Total</b>	50,000,000	100%

In June 2014, Mr. Luo transferred his 10% equity interest in Shanshan Garment Brand to Shaanxi Maoye at a consideration of RMB5.0 million, which was determined with reference to the amount of his capital contribution and was settled. Shaanxi Maoye is owned as to 80% by Mr. Luo and 20% by Ms. Zhou YM, the spouse of Mr. Luo. Shaanxi Maoye was a distributor of our Group during the period from the commencement date of the Track Record Period (i.e. January 1, 2015) to November 18, 2016. Given Mr. Luo is a Director, to avoid conflict of interest and reduce the amount of connected transactions, Shaanxi Maoye ceased to be a distributor of our Group on November 18, 2016.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Upon completion of such transfer, Shanshan Garment Brand was owned by the following persons and their respective capital contributions are set forth in the table below:

<u>Shareholders</u>	<u>Capital contribution</u>	<u>Percentage of equity interest</u>
	(RMB)	
Shanshan	45,000,000	90%
Shaanxi Maoye	5,000,000	10%
<b>Total</b>	<b>50,000,000</b>	<b>100%</b>

Our PRC Legal Advisers have confirmed that the above transfers in June 2013 and June 2014 were properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

On May 4, 2016, the then shareholders of Shanshan Garment Brand, namely Shanshan and Shaanxi Maoye, entered into a promoters' agreement, pursuant to which each of them agreed to convert Shanshan Garment Brand into a joint stock company with limited liability in the PRC with a registered share capital of RMB100.0 million divided into 100,000,000 Domestic Shares with a par value of RMB1.0 each which was determined with reference to the net asset value of Shanshan Garment Brand as of December 31, 2015 in the sum of RMB115.3 million as audited by an independent accountant with the remaining sum of RMB15.3 million recognized in capital reserve. On May 18, 2016, Shanshan Garment Brand was converted into a joint stock company with limited liability and renamed as Shanshan Brand Management Co., Ltd. (杉杉品牌運營股份有限公司). The following table sets forth the shareholding structure of our Company immediately after completion of the conversion in May 2016.

<u>Shareholders</u>	<u>Number of Domestic Shares</u>	<u>Percentage shareholding</u>
Shanshan	90,000,000	90%
Shaanxi Maoye	10,000,000	10%
<b>Total</b>	<b>100,000,000</b>	<b>100%</b>

The principal business of our Company is design, marketing and sale of formal and casual business menswear in the PRC. Our Company had no subsidiaries immediately before the Reorganization as described below.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### Our subsidiaries

Major shareholding changes of members of our Group during the Track Record Period are set out below:

#### *Fashion Brand*

Fashion Brand was established as a limited liability company in the PRC on June 17, 2009 with an initial registered capital of RMB100.0 million, which was contributed by the following then shareholders, all of which had been fully paid.

<u>Shareholders</u>	<u>Capital contribution</u>	<u>Percentage of equity interest</u>
	(RMB)	
Shanshan	90,000,000	90%
Ningbo Tongda	10,000,000	10%
<b>Total</b>	<b>100,000,000</b>	<b>100%</b>

There had been no change in registered capital and percentage of equity interest of Fashion Brand from the date of its establishment up to May 26, 2016. As part of the Reorganization in preparation for the Listing, on May 26, 2016, Shanshan and Ningbo Tongda transferred their respective equity interests in Fashion Brand to our Company at a consideration of RMB9.0 and RMB1.0, respectively, which was determined with reference to the audited net asset value of Fashion Brand as of April 30, 2016 and settled in June 2016. For the details, please see “Reorganization — Acquisition of entire equity interest in Fashion Brand” in this prospectus.

#### *Lubiam Apparel*

Lubiam Apparel was established as a sino-foreign equity joint venture in the PRC on December 21, 2005 with the registered capital of US\$5.0 million, which was contributed by the following then shareholders, all of which had been fully paid.

<u>Shareholders</u>	<u>Capital contribution</u>	<u>Percentage of equity interest</u>
	(US\$)	
Shanshan	3,000,000	60%
Lubiam Moda per L'Uomo	2,000,000	40%
<b>Total</b>	<b>5,000,000</b>	<b>100%</b>

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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In July 2010, due to the restructuring of the garment segment of Shanshan, Shanshan transferred its 60% equity interest in Lubiam Apparel to Fashion Brand at a consideration of RMB24,199,176.76, which was determined with reference to the registered capital of Lubiam Apparel paid up by Shanshan and settled in May 2016. Upon the completion of such transfer, Lubiam Apparel was owned by the following persons and their respective capital contributions are set forth in the table below:

<u>Shareholders</u>	<u>Capital contribution</u>	<u>Percentage of equity interest</u>
	(US\$)	
Fashion Brand	3,000,000	60%
Lubiam Moda per L'Uomo	2,000,000	40%
<b>Total</b>	<b>5,000,000</b>	<b>100%</b>

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

The principal business of Lubiam Apparel is design, marketing and sales of menswear under LUBIAM brand.

### **Disposal of subsidiaries prior to the Reorganization**

Prior to the Reorganization, our Controlling Shareholder, Shanshan invested in certain third party fashion brands through Fashion Brand. Due to the adjustments to the business development strategies of the garment segment of Shanshan to focus on our core competencies in brand management, design and product development, sales and distribution management, and with a view to streamlining its group structure and simplifying its business and brand portfolio (the “**Strategic Plan**”), the following subsidiaries of Fashion Brand were disposed of prior to the Reorganization:

#### ***Renoma Garments***

Ningbo Renoma Garments Co., Ltd. (寧波瑞諾瑪服飾有限公司) (“**Renoma Garments**”) was a limited liability company established in the PRC on July 29, 2004 with a registered capital of US\$1.5 million. It was principally engaged in the sale of menswear under Renoma brand. Prior to the disposal of Renoma Garments by Fashion Brand and Shanshan HK in August 2015, it was owned as to 75% by Fashion Brand and 25% by Shanshan HK. As part of the Strategic Plan to focus on our core competencies in brand management, design and product development, sales and distribution management, and with a view to streamlining its group structure and simplifying its business and brand portfolio, on August 14, 2015, Fashion Brand and Shanshan HK transferred their respective 75% and 25% interests in Renoma Garments to an Independent Third Party at RMB8,535,000 and RMB2,845,000, respectively, which was

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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determined with reference to the net asset value of Renoma Garments as of December 31, 2014 in the sum of RMB14,509,840.09 together with a discount which was arrived after arm's length negotiations taking into account the then financial performance of Renoma Garments and will be settled subject to enforcement of the PRC court.

### *Modun Garments*

Ningbo Modun Garments Co., Ltd. (寧波摩頓服裝有限公司) (“**Modun Garments**”) was a limited liability company established in the PRC on February 8, 2006 with an initial registered capital of RMB15.0 million, which was subsequently increased to RMB30.0 million. It was principally engaged in the sale of menswear under the S2CITYLIFE brand. Prior to the disposal of Fashion Brand's interest in Modun Garments in January 2016, it was owned as to 51% by Fashion Brand and the remaining 49% by Independent Third Parties. As part of the Strategic Plan to focus on our core competencies in brand management, design and product development, sales and distribution management, and with a view to streamlining its group structure and simplifying its business and brand portfolio, on January 12, 2016, Fashion Brand transferred its 51% interest in Modun Garments to an Independent Third Party at a consideration of RMB0.5, which was determined with reference to the then financial position of Modun Garments which was operating at a loss and was settled in July 2017.

### *QUA Fashion*

QUA (Ningbo) Fashion Co., Ltd. (寧波酷娃服飾有限公司) (“**QUA Fashion**”) was a limited liability company established in the PRC on July 9, 2007 with an initial registered capital of US\$3.0 million. It was principally engaged in the sale of womenswear. Prior to the disposal of Fashion Brand's interest in QUA Fashion in March 2016, it was owned as to 65% by Fashion Brand and 35% by Mr. Huang Yong (黃勇), who was a former director of a number of then subsidiaries of our Company. As part of the Strategic Plan to focus on our core competencies in brand management, design and product development, sales and distribution management, and with a view to streamlining its group structure and simplifying its business and brand portfolio, on March 8, 2016, Fashion Brand transferred its 65% interest in QUA Fashion to Mr. Huang Yong at a consideration of RMB1.0, which was determined with reference to the then financial position of QUA Fashion which was operating at a loss and was settled in December 2015.

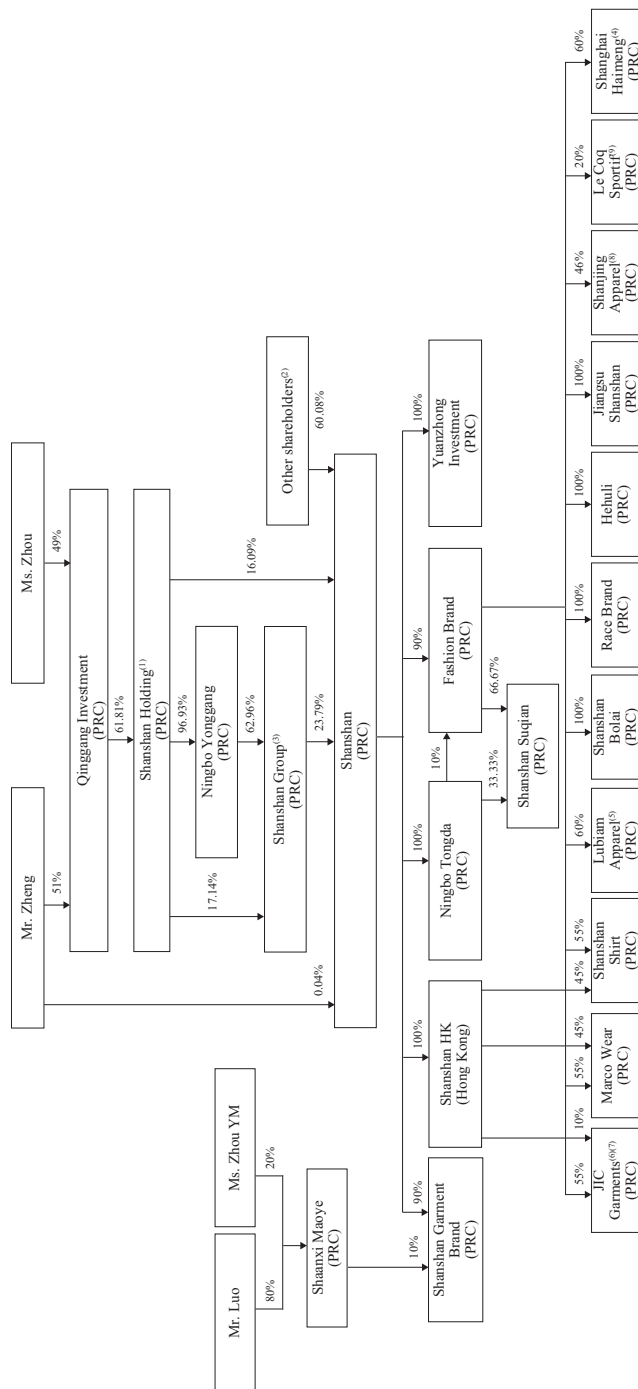
Our PRC Legal Advisers have confirmed that the above disposals in respect of Modun Garments and QUA Fashion were properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

During the Track Record Period, our Group conducted certain transactions with Renoma Garments, Modun Garments and QUA Fashion such as the sales of apparel products, provision of examination, steaming and logistics services. Such transactions were entered into on an arm's length basis and on normal commercial terms.

None of Renoma Garments, Modun Garments and QUA Fashion had any material non-compliance from January 1, 2015, being the starting date of the Track Record Period to the respective completion dates of disposals by Fashion Brand.

**REORGANIZATION**

In April 2016, we commenced the Reorganization. The following chart sets forth the corporate and shareholding structure of the companies comprising our Group immediately before the Reorganization:



*Notes:*

- (1) The remaining 38.19% equity interest in Shanshan Holding is owned as to 2.2% by Mr. Zhuang Wei, 0.98% by Mr. Weng Huiping, a director of the subsidiaries of our Company, 0.73% by Mr. Cao Yang and 34.28% by five Independent Third Parties through their respective domestic companies.
- (2) The other shareholders of Shanshan are all public shareholders.
- (3) The remaining 19.9% equity interest in Shanshan Group was owned as to 16.9% by Itochu Corporation and 3% by Itochu (China) Group Co., Ltd (伊藤忠(中國)有限公司) respectively, both of which are not related to our Company save for being a substantial shareholder and a shareholder of Shanshan Group, respectively.
- (4) The remaining 40% equity interest in Shanghai Haimeng is owned by Mr. Li Guowei (梁國威), an Independent Third Party.
- (5) The remaining 40% equity interest in Lubiam Apparel was owned by Lubiam Moda per L'Uomo, which is not related to our Company save for being a substantial shareholder of Lubiam Apparel.
- (6) The remaining 35% equity interest in JIC Garments was owned by Forall Confezioni, which is not related to our Company save for being a substantial shareholder of JIC Garments.
- (7) At the relevant time, Fashion Brand and Shanshan HK acted in concert in matters concerning the operation of JIC Garments that would be required to be decided by the board of directors of JIC Garments.
- (8) The remaining 54% equity interest in Shanshan Apparel was owned as to 48% by Daitobo Co., Ltd (泰拓博株式會社) and 6% by Japan Modern Co., Ltd (日本現代株式會社) respectively, both of which are not related to our Company save as being a substantial shareholder and a shareholder of Shanshan Apparel, respectively.
- (9) The remaining 80% equity interest in Le Coq Sportif was owned by Independent Third Parties.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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To further implement the Strategic Plan, we disposed of non-core business or inactive companies and deregistered companies with no operation as part of the Reorganization as described below.

### **Disposal of non-core business or inactive companies**

#### ***Marco Wear***

Marco Wear was established in the PRC as a limited liability company on December 30, 2006 and prior to its disposal of Fashion Brand's interest in April 2016, it was owned as to 55% by Fashion Brand and 45% by Shanshan HK. Marco Wear was principally engaged in suits manufacturing business which does not form part of our core business. As we had outsourced substantially all of our production to third party manufacturers, Marco Wear ceased its operation in February 2015. As a result and as part of the Reorganization, on April 19, 2016, Fashion Brand transferred its 55% equity interest in Marco Wear to Yuanzhong Investment, a wholly-owned subsidiary of Shanshan, at a consideration of RMB8,564,053.70. The consideration was determined with reference to the net asset value of Marco Wear as of December 31, 2015 in the sum of RMB15,571,006.73 which was settled in April 2016.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

#### ***Shanshan Suqian***

Shanshan Suqian was established in the PRC as a limited liability company on December 20, 2013 and prior to the disposal of Fashion Brand's interest in April 2016, it was owned as to 66.67% by Fashion Brand and 33.33% by Ningbo Tongda. Shanshan Suqian was principally engaged in property leasing and management business which does not form part of our core business.

Given the business of Shanshan Suqian was unrelated to the core business of our Group, as part of the Reorganization, on April 13, 2016, Fashion Brand transferred its 66.67% equity interest in Shanshan Suqian to Shanshan at a consideration of RMB39,941,524.23. The consideration was determined with reference to the net asset value of Shanshan Suqian as of December 31, 2015 in the sum of RMB59,909,290.88 which was settled in April 2016.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

#### ***Shanshan Bolai***

Shanshan Bolai was established in the PRC as a limited liability company on September 16, 2005 and prior to the disposal of Fashion Brand's interest in April 2016, it was wholly owned by Fashion Brand. Shanshan Bolai was principally engaged in the trading of fabrics which does not form part of our core business.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Given the business of Shanshan Bolai was unrelated to the core business of our Group, as part of the Reorganization, on April 7, 2016, Fashion Brand transferred its 100% equity interest in Shanshan Bolai to Yuanzhong Investment, a wholly-owned subsidiary of Shanshan, at a consideration of RMB5,600,000. The consideration was determined with reference to the net asset value of Shanshan Bolai as of March 31, 2016 in the sum of RMB5,986,637.48 which was settled in April 2016.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

### *Race Brand*

Race Brand was established in the PRC as a limited liability company on September 25, 2007 and prior to the disposal of Fashion Brand's interest in April 2016, it was wholly owned by Fashion Brand. Race Brand was principally engaged in the production and sales of French menswear under a brand which was licensed from an Independent Third Party pursuant to a trademark licensing arrangement. As the trademark licensing arrangement was terminated in March 2015 and with a view to streamlining the structure of our Group, as part of the Reorganization, on April 13, 2016, Fashion Brand transferred its 100% equity interest in Race Brand to Yuanzhong Investment at a consideration of RMB4,653,829.81. The consideration was determined with reference to the net asset value of Race Brand as of December 31, 2015 in the sum of RMB4,653,829.81 which was settled in April 2016.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

### *Jiangsu Shanshan*

Jiangsu Shanshan was established in the PRC as a limited liability company on July 22, 2014 and prior to the disposal of Fashion Brand's interest in April 2016, it was wholly owned by Fashion Brand. Jiangsu Shanshan was principally engaged in suits and shirts manufacturing business which does not form part of our core business, as a result, as part of the Reorganization, on April 18, 2016, Fashion Brand transferred its 100% equity interest in Jiangsu Shanshan to Ningbo Shanshan Suyu Apparel Co., Ltd. (寧波杉杉宿豫服裝有限公司) ("**Suyu Apparel**"), an Independent Third Party, at a consideration of RMB42,039,191.21. The consideration was determined with reference to the net asset value of Jiangsu Shanshan as of December 31, 2015 in the sum of RMB42,039,191.21 which was settled in April 2016.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

During the Track Record Period, our Group conducted certain transactions with Marco Wear, Shanshan Bolai, Race Brand and Jiangsu Shanshan such as the manufacturing and sales of apparel products, provision of examination, steaming and logistics services, the disposal of fixed assets and the licensing of trademarks. Such transactions were entered into on an arm's length basis and on normal commercial terms.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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None of Marco Wear, Shanshan Suqian, Shanshan Bolai, Race Brand and Jiangsu Shanshan had any material non-compliance from January 1, 2015, being the starting date of the Track Record Period to the respective completion dates of disposals by Fashion Brand.

### **Deregistration of inactive companies**

#### ***Shanshan Shirt***

Shanshan Shirt was established in the PRC as a limited liability company on April 18, 1995 and prior to the deregistration, it was owned as to 55% by Fashion Brand and 45% by Shanshan HK. Shanshan Shirt was principally engaged in shirts manufacturing business which does not form part of our core business. As we had outsourced substantially all of our production to third party manufacturers, Shanshan Shirt ceased its operation in February 2015. Given that Shanshan Shirt has no operation and with a view to streamlining the structure of our Group, Shanshan Shirt was deregistered in May 2016.

#### ***Hehuli***

Hehuli was established in the PRC as a limited liability company on December 22, 2009 and prior to the deregistration, it was wholly owned by Fashion Brand. Hehuli was principally engaged in sales of womenswear. In light of the change of our corporate strategy to focus on our core competencies in brand management, design and product development, sales and distribution management, Hehuli ceased its operation in December 2015. Given that Hehuli has no operation and with a view to streamlining the structure of our Group, Hehuli was deregistered in May 2016.

#### ***Shanghai Haimeng***

Shanghai Haimeng was established in the PRC as a limited liability company on October 14, 2011 and as of the Latest Practicable Date, it was owned as to 60% by Fashion Brand and 40% by an Independent Third Party (the “**Minority Shareholder**”).

Shanghai Haimeng has not conducted any business since its establishment. On September 30, 2014, the shareholders of Shanghai Haimeng passed a resolution to deregister Shanghai Haimeng. As of the Latest Practicable Date, Shanghai Haimeng had completed tax clearance procedure and published an announcement of deregistration. However, the Minority Shareholder could not be located to complete the remaining deregistration procedure as of the Latest Practicable Date. As advised by our PRC Legal Advisers, the deregistration procedure of Shanghai Haimeng would not be able to complete without the cooperation of the Minority Shareholder. We will use our best endeavor to complete the deregistration of Shanghai Haimeng. As Shanghai Haimeng has not conducted any business since its establishment, its business licence has been revoked pursuant to the Company Law of PRC in April 2017.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### Non-inclusion of the Other Entities

Apart from Renoma Garments, Modun Garments, QUA Fashion, Marco Wear, Shanshan Suqian, Shanshan Bolai, Race Brand, Jiangsu Shanshan, Shanshan Shirt, Hehuli and Shanghai Haimeng (collectively the “**Disposed Subsidiaries**”), which were all subsidiaries of Fashion Brand prior to completion of the Reorganization, Shanshan had also invested in certain companies (collectively the “**Other Entities**”) which are or were engaged in apparel-related business. To implement the Strategic Plan with a view to focusing on our core competencies in brand management, design and product development, sales and distribution management, Shanshan ceased to operate its apparel-related manufacturing business and outsourced the manufacturing of its apparels to Independent Third Parties, and/or realized its investments in certain Other Entities during the Track Record Period. As a result, the Other Entities had either ceased their substantive operation or were no longer a subsidiary of the Parent Group following the disposal by the Parent Group of the relevant Other Entities.

The table below sets forth the information relating to the Other Entities as of the Latest Practicable Date and the reasons for non-inclusion of the Other Entities in our Group.

<b>Name of Other Entities</b>	<b>Interest of the Parent Group in Other Entities</b>	<b>Principal business of Other Entities</b>	<b>Reasons for excluding the Other Entities from our Group</b>
寧波雅善時尚文化創意有限公司 (Ningbo Yashan Fashion Cultural Creativity Co., Ltd, “ <b>Ningbo Yashan</b> ”)	Ningbo Yashan was deregistered on July 14, 2017.	Investment holding	Ningbo Yashan had no substantive business, and it did not hold any interest in any entity engaged in apparel-related business.
北京瑞德潤誠商業管理有限公司 (Beijing Ruide Runcheng Commercial Management Co., Ltd, “ <b>Beijing Ruide</b> ”)	Beijing Ruide is no longer a subsidiary of Shanshan.	Investment holding	Beijing Ruide had no substantive business. The Parent Group disposed of its interest in Beijing Ruide to an Independent Third Party in 2016.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Other Entities	Interest of the Parent Group in Other Entities	Principal business of Other Entities	Reasons for excluding the Other Entities from our Group
金華潤誠商業管理有限公司 (Jinhua Runcheng Commercial Management Co., Ltd, “ <b>Jinhua Runcheng</b> ”)	Jinhua Runcheng is no longer a subsidiary of Shanshan.	No business operation	Jinhua Runcheng had no substantive business. The Parent Group disposed of its interest in Jinhua Runcheng to an Independent Third Party in 2016.
Ningbo Tongda	Ningbo Tongda is a wholly owned subsidiary of Shanshan.	Investment holding	Ningbo Tongda has no substantive business, and it does not hold any interest in any entity engaged in apparel-related business.
上海杉杉服裝有限公司 (Shanghai Shanshan Apparel Co., Ltd, “ <b>Shanshan Apparel</b> ”)	Shanshan Apparel is a wholly owned subsidiary of Shanshan.	No business operation	Shanshan Apparel is inactive and has no business operation.
上海屯恒貿易有限公司 (前稱上海杉杉休閒服飾有限公司) (Shanghai Tunheng Trading Co., Ltd, (formerly known as Shanghai Shanshan Casual Wear Co., Ltd.) “ <b>Tunheng Trading</b> ”)	Tunheng Trading is a wholly owned subsidiary of Shanshan.	No business operation	Tunheng Trading is inactive and has no business operation.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Other Entities	Interest of the Parent Group in Other Entities	Principal business of Other Entities	Reasons for excluding the Other Entities from our Group
上海明芳服飾有限公司 (Shanghai Mingfang Apparel Co., Ltd, “ <b>Shanghai Mingfang</b> ”)	Shanghai Mingfang is no longer a subsidiary of Shanshan.	No business operation	Shanghai Mingfang had no substantive business after the cessation of its apparel-related manufacturing business. The Parent Group disposed of its interest in Shanghai Mingfang to an Independent Third Party in late 2014.
上海菲荷服飾有限公司 (Shanghai Feihe Apparel Co., Ltd, “ <b>Shanghai Feihe</b> ”)	The Parent Group held 90% equity interest in Shanghai Feihe.	No business operation	Shanghai Feihe is inactive and has no business operation.
上海納菲服飾有限公司 (Shanghai Nafei Apparel Co., Ltd, “ <b>Shanghai Nafei</b> ”)	The Parent Group held 90% equity interest in Shanghai Nafei.	No business operation	Shanghai Nafei is inactive and has no business operation.
寧波新明達針織有限公司 (Ningbo Xinmingda Knitting Co., Ltd, “ <b>Ningbo Xinmingda</b> ”) and its subsidiaries	The Parent Group held 15% equity interest in Ningbo Xinmingda.	Manufacturing and processing of apparel and accessories, embroidery artwork, knitwear gray cloth, knitwear, etc	The business engaged by Ningbo Xinmingda and its subsidiaries was not related to the core business of our Group.  The Parent Group disposed of most of its interest in Ningbo Xinmingda to an Independent Third Party in late 2014.
寧波明達針織有限公司 (Ningbo Mingda Knitting Co., Ltd, “ <b>Ningbo Mingda</b> ”) and its subsidiaries	The Parent Group held 15% equity interest in Ningbo Mingda.	Manufacturing and processing of knit products, knitwear and embroidery artwork; processing of knit cloth, dyes	The business engaged by Ningbo Mingda and its subsidiaries was not related to the core business of our Group.  The Parent Group disposed of most of its interest in Ningbo Mingda to an Independent Third Party in late 2014.

During the Track Record Period, our Group had no operational relationship or transactions with Shanghai Mingfang, Ningbo Xinmingda and Ningbo Mingda.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### Acquisition of entire equity interest in Fashion Brand

As part of the Reorganization, on May 26, 2016, our Company acquired 90% and 10% equity interest in Fashion Brand from Shanshan and Ningbo Tongda for a consideration of RMB9.0 and RMB1.0, respectively. The consideration was determined with reference to the then financial position of Fashion Brand as of April 30, 2016 which was operating at a loss and settled in June 2016. Upon completion of such acquisition, Fashion Brand was wholly-owned by our Company.

Our PRC Legal Advisers have confirmed that the above transfer was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

### Segregation of financial results

Other than the Disposed Subsidiaries, the Other Entities and the members of our Group, no other subsidiary of the Parent Group was engaged in apparel-related business during the Track Record Period and up to the Latest Practicable Date.

As a result of the disposal of the interest in or the deregistration of the Disposed Subsidiaries and the exclusion of the Other Entities from our Group, the financial results of the Disposed Subsidiaries and the Other Entities have also been segregated from those of our Group.

The following table sets forth the reconciliation of the key financial figures of our Group as disclosed in Appendix I to this prospectus and the financial information of the apparel segment of Shanshan as set out in the annual reports of Shanshan for the years indicated:

	<b>For the year ended December 31,</b>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Revenue</b>			
Revenue generated from the apparel segment of Shanshan as shown from the annual reports of Shanshan	581,348,589	523,738,179	666,356,328
Less: revenue contributed by the Excluded Shanshan Subsidiaries <sup>(1)</sup>	(82,698,209)	–	–
Add: adjustments on our Group's consolidated financial statements <sup>(2)</sup>	<u>27,431,372</u>	<u>68,344,664</u>	<u>131,531,889</u>
Revenue as shown in Appendix I to this prospectus	<u><u>526,081,752</u></u>	<u><u>592,082,843</u></u>	<u><u>797,888,217</u></u>

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	For the year ended December 31,		
	2015	2016	2017
	RMB	RMB	RMB
<b>Financial results</b>			
Profit from the apparel segment of Shanshan as shown from the annual reports of Shanshan	17,623,331	36,261,687	49,374,841
Add: loss from the Excluded Shanshan Subsidiaries and/or differences arising from difference in percentage shareholding held by our Group as compared to that held by Shanshan and its subsidiaries	51,095,206	6,570,749	6,438,731
Add/(Less): adjustments on our Group's consolidated financial statements <sup>(3)</sup>	(15,888,740)	(7,587,963)	(10,843,284)
Profit and total comprehensive income attributable to owners of our Company as shown in Appendix I to this prospectus	52,829,797	35,244,473	44,970,288

*Notes:*

- (1) Excluded Shanshan Subsidiaries are subsidiaries of Shanshan which were categorized under the apparel segment of Shanshan (excluding members of our Group) and comprise Renoma Garments, Modun Garments, QUA Fashion, Marco Wear, Shanshan Suqian, Shanshan Bolai, Race Brand, Jiangsu Shanshan, Shanshan Shirt, Hehuli, Shanghai Haimeng, Ningbo Yashan, Beijing Ruide, Jinhua Runcheng, Ningbo Tongda, Shanshan Apparel, Tunheng Trading, Shanghai Mingfang, Shanghai Feihe, Shanghai Nafei, Ningbo Xinmingda and Ningbo Mingda.
- (2) The amounts mainly represent the reclassification adjustments on revenue from the cost of sales and/or selling and distribution expenses.
- (3) The amounts mainly represent the adjustments on the capitalization of listing expenses and the provisions for impairment, taxation and certain liabilities.

### Disposal of JIC Garments after the Reorganization

JIC Garments is a sino-foreign equity joint venture established in the PRC on September 19, 2001 with an initial registered capital of US\$2.6 million. It is principally engaged in design, marketing and sales of menswear under MARCO AZZALI brand.

Prior to the disposal of JIC Garments, JIC Garments was owned as to 55% by Fashion Brand, 35% by Forall Confezioni and 10% by Shanshan HK. In view of the deteriorating financial performance of MARCO AZZALI branded products, and in order to strategically reallocate our resources for the development of our two core and signature brands, namely, FIRS and SHANSHAN brands, we identified an appropriate buyer, Mr. Wang Qin (王沁), who

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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is an employee of JIC Garments and an Independent Third Party, in October 2017 to acquire our MARCO AZZALI operations. On March 26, 2018, Fashion Brand, Forall Confezioni and Shanshan HK entered into an equity purchase agreement with Mr. Wang Qin (王沁) pursuant to which Fashion Brand, Forall Confezioni and Shanshan HK agreed to transfer their respective 55%, 35% and 10% equity interests in JIC Garments to Mr. Wang Qin (王沁) at a nominal consideration of EUR0.85, EUR1.0 and EUR0.15, respectively. These nominal considerations were arrived at after arm's length negotiations between the parties after taking into account the facts that (i) JIC Garments was required to pay outstanding royalty fees in cash to Forall Confezioni in order to continue using the MARCO AZZALI brand under the relevant trademark license agreement; (ii) the cash and cash equivalent maintained by JIC Garments was not sufficient to settle the outstanding royalty fee payable by JIC Garments to Forall Confezioni under the relevant trademark license agreement; (iii) JIC Garments recorded net losses of approximately RMB3.9 million, RMB4.1 million and RMB9.4 million for the years ended December 31, 2015, 2016 and 2017, respectively, and therefore we would have to allocate additional working capital for continuing MARCO AZZALI operations; (iv) it is our business strategy to develop our two core and signature brands, namely, FIRS and SHANSHAN brands, and scale down the operations of MARCO AZZALI brands; and (v) it is difficult to identify buyers to acquire the MARCO AZZALI operations as such buyers will need to commit financial resources to develop the MARCO AZZALI operations. Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole to dispose of our MARCO AZZALI operations in order to better allocate our resources on developing our SHANSHAN brand, which achieved significant revenue growth since its inception, and our FIRS brand, than continue allocating additional working capital to continue the MARCO AZZALI operations.

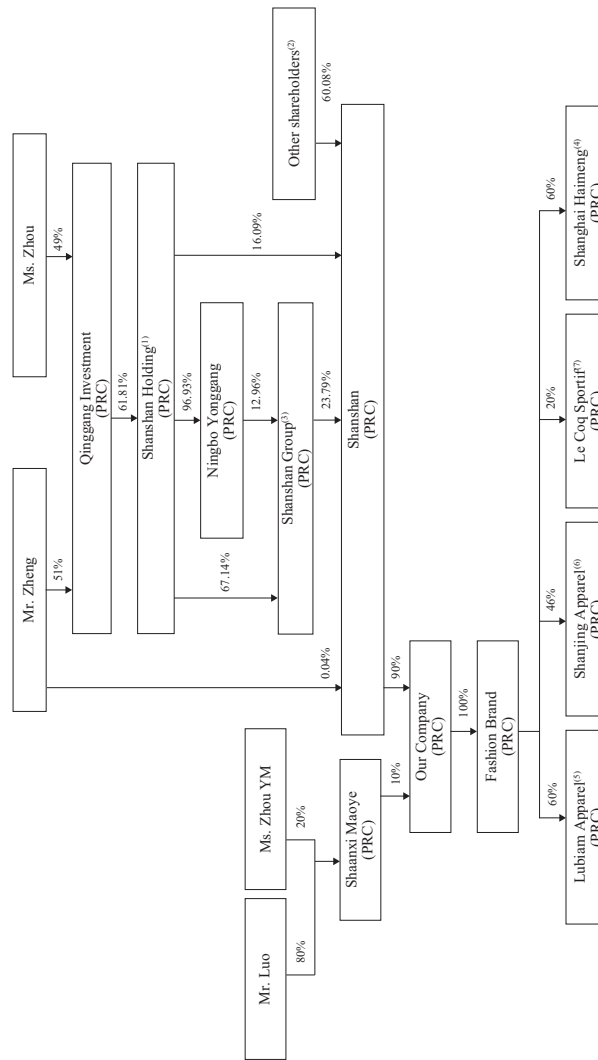
Mr. Wang Qin (王沁) duly settled the above nominal considerations in April 2018. Our PRC Legal Advisers have confirmed that the above transfers were properly and legally completed and settled in May 2018 and Fashion Brand has obtained and completed all necessary approvals, consents, and registrations from the relevant PRC authorities.

For further details of our historical MARCO AZZALI branded products, please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus.



**CORPORATE AND SHAREHOLDING STRUCTURE**

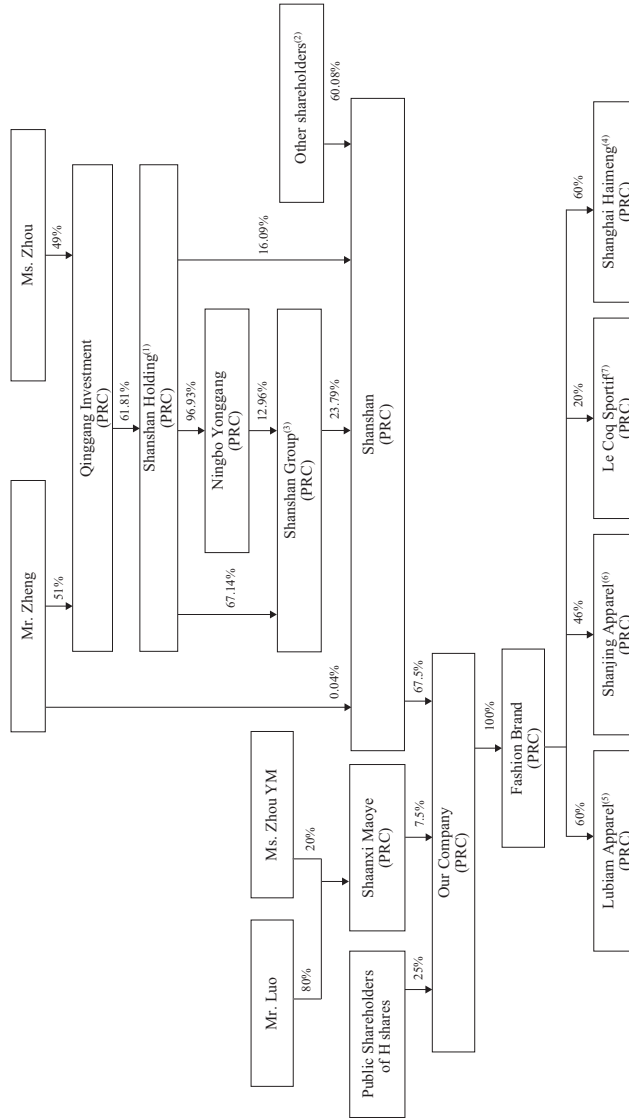
The following chart sets forth our corporate and shareholding structure immediately after the Reorganization and the disposal of JIC Garments but before the completion of the Global Offering:



*Notes:*

- (1) The remaining 38.19% equity interest in Shanshan Holding is owned as to 2.2% by Mr. Zhuang Wei, 0.98% by Mr. Weng Huiping, a director of the subsidiaries of our Company, 0.73% by Mr. Cao Yang and 34.28% by five Independent Third Parties through their respective domestic companies.
- (2) The other shareholders of Shanshan are all public shareholders.
- (3) The remaining 19.9% equity interest in Shanshan Group was owned as to 16.9% by Itochu Corporation and 3% by Itochu (China) Group Co., Ltd (伊藤忠(中國)有限公司) respectively, both of which are not related to our Company save for being a substantial shareholder and a shareholder of Shanshan Group, respectively.
- (4) The remaining 40% equity interest in Shanghai Haimeng is owned by Mr. Li Guowei (栗國威), an Independent Third Party.
- (5) The remaining 40% equity interest in Lubiam Apparel was owned by Lubiam Moda per L'Uomo, which is not related to our Company save for being a substantial shareholder of Lubiam Apparel.
- (6) The remaining 54% equity interest in Shanjing Apparel was owned as to 48% by Lirong Electronics Technology (Ningbo) Co., Ltd (立榮電子科技(寧波)有限公司) and 6% by Japan Modern Co., Ltd (日本現代株式會社) respectively, both of which are not related to our Company save for being a substantial shareholder and a shareholder of Shanjing Apparel, respectively.
- (7) The remaining 80% equity interest in Le Coq Sportif was owned by Independent Third Parties.

The following chart sets forth our corporate and shareholding structure immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

- (1) The remaining 38.19% equity interest in Shanshan Holding is owned as to 2.2% by Mr. Zhuang Wei, 0.98% by Mr. Weng Huiping, a director of the subsidiaries of our Company, 0.73% by Mr. Cao Yang and 34.28% by five Independent Third Parties through their respective domestic companies.
- (2) The other shareholders of Shanshan are all public shareholders.
- (3) The remaining 19.9% equity interest in Shanshan Group was owned as to 16.9% by Itochu Corporation and 3% by Itochu (China) Group Co., Ltd (伊藤忠(中國)有限公司) respectively, both of which are not related to our Company save for being a substantial shareholder and a shareholder of Shanshan Group, respectively.
- (4) The remaining 40% equity interest in Shanghai Haimeng is owned by Mr. Li Guowei (栗國威), an Independent Third Party.
- (5) The remaining 40% equity interest in Lubiam Moda per L'Uomo, which is not related to our Company save for being a substantial shareholder of Lubiam Apparel.
- (6) The remaining 54% equity interest in Shanjing Apparel was owned as to 48% by Litrong Electronics Technology (Ningbo) Co., Ltd (立榮電子科技(寧波)有限公司) and 6% by Japan Modern Co., Ltd (日本現代株式會社) respectively, both of which are not related to our Company save for being a substantial shareholder and a shareholder of Shanjing Apparel, respectively.
- (7) The remaining 80% equity interest in Le Coq Sportif was owned by Independent Third Parties.

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## BUSINESS

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### OVERVIEW

Our business primarily involves the design, marketing and sale of formal and casual business menswear in the PRC under three brands, namely, FIRS, SHANSHAN and LUBIAM, each having distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. Our products are primarily targeted at male consumers who seek quality menswear products.

We design, market and sell products primarily under our FIRS brand, which is our core and signature brand. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. Products under our FIRS brand are targeted at medium-to-high income male consumers aged between 35 and 45 with a preference for premium quality formal business menswear. Our FIRS brand, which was originated from the “杉杉” brand established by Mr. Zheng in 1989, has been recognized as a pioneer in the PRC menswear industry. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the top three bestsellers in the PRC for five consecutive years from 2013 to 2017 by sales volume among major PRC retailers. We appoint distributors to market and sell our FIRS branded products in the PRC. As of December 31, 2017, we had (i) 125 first-tier distributors operating 482 FIRS branded retail outlets; and (ii) 130 second-tier distributors operating 148 FIRS branded retail outlets. Please see “Distributorship model” in this section for further details.

In September 2015, we launched SHANSHAN brand, which is primarily targeted at middle income male consumers aged between 25 and 35 who are fashion conscious and frequent buyers of trendy and value for money menswear products. We primarily sell our SHANSHAN branded products through the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. We believe such consignment arrangements have significantly reduced our inventory risks and enhanced our operational flexibility and profitability. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details. We believe the addition of the SHANSHAN brand to our brand portfolio enables us to offer products with trendy designs which track ever-changing market trends and serve consumers in a wider range of age and income groups.

Our brand portfolio also includes an international brand, LUBIAM, which was launched by us in the PRC in 2005, in cooperation with an Italian partner, namely Lubiam Moda per L’Uomo. Products under the LUBIAM brand are targeted at affluent male consumers aged between 35 and 45 who pursue low-profile luxury. We sell our LUBIAM branded products to end-customers through self-operated retail outlets and the LUBIAM Franchising Arrangements. Pursuant to the joint venture agreement with the relevant Italian partner, we share the profits derived from the sales of LUBIAM branded products with the joint venture partner in proportion to its equity interests in Lubiam Apparel. Please see “Franchisee sales — LUBIAM Franchising Arrangements” in this section for further details. In view of the deteriorating sales performance of our LUBIAM branded products and in order to strategically reallocate our resources for the development of our two core and signature brands, namely, FIRS and SHANSHAN brands, we intend to find appropriate buyers to acquire our LUBIAM operations. We have no intention to change our business focus after the disposal of our LUBIAM operations. Please see “Our brands and products — Brand portfolio — LUBIAM brands — Identifying buyers for our LUBIAM brand operations” in this section for further details.

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## BUSINESS

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During the Track Record Period, we sold products under MARCO AZZALI, an Italian brand, through self-operated retail outlets and a franchising arrangement similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Our brands and products — Our historical MARCO AZZALI brand” in this section for further details.

According to the CIC Report, online shopping has become increasingly prevalent in the PRC, especially among the younger generation. To capitalize on this market trend and to make our products available to end-customers around the clock and throughout the year, we offer certain products under our FIRS and SHANSHAN brands to customers via certain third-party PRC e-commerce platforms, including “Tmall”, “JD.com” and “VIP.com”. We believe that the use of third party e-commerce platforms enables us to extend our geographical coverage and customer reach without having to physically establish a large number of retail outlets, which requires higher set up and maintenance costs, and at the same time allows us to capture sales in regions where we do not have a presence. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the bestsellers in the PRC in 2015 by e-commerce sales volume among major PRC e-commerce platforms. Please see “Direct sales — Third-party e-commerce platforms” in this section for further details.

We are committed to enhancing our product design and development capabilities. We had an in-house design team for each of FIRS, SHANSHAN and LUBIAM brand as of the Latest Practicable Date. The strength of our product design and development capabilities is integral to our ability to offer a broad product portfolio that appeals to our target customers. In recognition of our strong product design and development capabilities, we have been invited for a number of years to participate in the China International Fashion Fair, at which our FIRS brand is one of the major brands and has received a number of awards. We have been retained by the National Apparel Standardization Technical Committee (全國服裝標準化技術委員會) as one of the drafting parties for industry standards for the Chinese apparel industry since 2001, and have also been a core member of the Business Wear Research Center (中國服裝協會職業裝研究中心) at the China National Garment Association (中國服裝協會) since 2011. Please see “Product design, research and development” in this section for further details.

We outsource the production of our products to various domestic OEM suppliers, which we believe can enable us to focus our resources on our core competencies in brand management, design and product development and sales and marketing management. We believe this strategy also enables us to avoid direct exposure to the risks and expenses of establishing and operating production facilities, while at the same time allowing us to promptly adjust our product offerings in response to shifting market trends so as to maintain a highly competitive cost structure. Our OEM suppliers consist primarily of apparel and accessories manufacturers located in Zhejiang and Jiangsu Provinces. Please see “Supply chain, warehousing and logistics management — Production outsourcing” in this section for further details.

During the Track Record Period, all of our revenue was derived in the PRC. For the years ended December 31, 2015, 2016 and 2017, our revenue amounted to RMB526.1 million, RMB592.1 million and RMB797.9 million, respectively, and our net profit attributable to the owners of our Company amounted to RMB52.8 million, RMB35.2 million and RMB45.0 million, respectively. Please see “Financial Information” in this prospectus for a detailed analysis of our financial performance during the Track Record Period.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from our competitors and enable us to compete effectively in the PRC menswear industry.

**We are a major menswear company in the PRC with nearly three decades of experience in the PRC menswear industry.**

As a pioneer in the PRC menswear industry, we started our apparel business in 1989 under the “杉杉” brand. We subsequently introduced FIRS as the English name of “杉杉” in 1994. Since then, FIRS brand, which remains as our core and signature brand, has been developed into a nationwide byword for premium quality and cutting edge business menswear.

Compared to market players with less market recognition, brand appeal and industry experience in the PRC menswear industry, we believe we are able to effectively market and sell appealing menswear products in a more efficient and cost-effective manner. Through the continued accumulation of experience, we believe we are on track to become a leading market player in the PRC menswear industry in the future.

**We have two core and signature brands targeting consumers in particular age and income groups to seize and capitalize on strong industry growth.**

We believe our success stems from our effective brand positioning. We design, market and sell products primarily under our two brands, FIRS and SHANSHAN. The FIRS brand is targeted at medium-to-high income male consumers aged between 35 and 45 with a preference for premium quality formal business menswear, while the SHANSHAN brand is targeted at middle income male consumers aged between 25 and 35 who are both fashion conscious and frequent buyers of trendy and value for money menswear products. Our FIRS brand is a perennial favorite in the PRC menswear industry. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the top three bestsellers in the PRC for five consecutive years from 2013 to 2017 by sales volume among major PRC retailers.

We believe the strong market recognition of our brands and our continual brand building distinguish us from our competitors and will enable us to further expand our market share and maximize our growth potential.

**We have strong product design and development capabilities.**

We are committed to enhancing our product design and development capabilities. To this end, we had a dedicated and experienced product design team for each of FIRS, SHANSHAN and LUBIAM brands as of the Latest Practicable Date. We design and produce approximately 1,200 new prototypes under our FIRS brand every year for the selection of our distributors at

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the “spring/summer” and “autumn/winter” procurement conferences organized by us. The strength of our product design and development capabilities is integral to our ability to offer a broad product portfolio that appeals to our target customers. Our menswear product offerings are suitable for most business occasions. Please see “Product design, research and development” in this section for details. As evidenced by our FIRS brand being the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017 according to the CIC Report, we believe we have successfully demonstrated our ability to launch menswear products that match the appetites of our target customers, and prove our ability to address the evolving needs and preferences of PRC consumers.

In recognition of our strong product design and development capabilities, we have been invited for a number of years to participate in the China International Fashion Fair (中國國際服裝服飾博覽會), at which our FIRS brand is one of the major brands and has received a number of awards. We have been retained by the National Apparel Standardization Technical Committee (全國服裝標準化技術委員會) as one of the drafting parties for industry standards for the Chinese apparel industry since 2001, and have also been a core member of the Business Wear Research Center (中國服裝協會職業裝研究中心) at the China National Garment Association (中國服裝協會) since 2011. As a result of our strong design and product development capabilities, we believe we will continue to successfully drive strong product volume and sales growth going forward.

**We have accumulated solid experience of managing our effective and extensive sales and distribution network across the PRC.**

Our sales and distribution network has a wide geographical reach. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and our franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet. Among these retail outlets, 482 retail outlets were operated by our first-tier distributors, 148 retail outlets were operated by our second-tier distributors, 136 retail outlets were operated by ourselves, 274 retail outlets were operated by our SHANSHAN franchisees under the SHANSHAN Cooperative Arrangements and 12 retail outlets were operated by our LUBIAM franchisees under the LUBIAM Franchising Arrangements and our historical MARCO AZZALI franchisees. To make our products available to end-customers around the clock and throughout the year, we also offer certain products under our FIRS and SHANSHAN brands to customers via certain third-party PRC e-commerce platforms.

We have accumulated extensive experience of overseeing and managing our distributors and franchisees and ensuring our retail networks grow in a manner commensurate with our business expansion. Leveraging this experience, we oversee and manage our sales and distribution network through a comprehensive set of management measures. Please see “Retail network management” in this section for further details.

We believe our effective and extensive sales and distribution network provides us with a solid foundation to capture future growth opportunities arising in different regions in the PRC. For descriptions of retail outlets operated by our distributors, ourselves and our franchisees and our e-commerce sales, please see “Sales and distribution” in this section.

### **We have an experienced, dedicated and dynamic management team.**

We have an experienced, dedicated and dynamic management team. We believe the solid operational expertise and the in-depth understanding of the PRC menswear industry, and in particular the formal and casual business menswear market, of our senior management team, which is under the leadership of our executive Directors, provide us with invaluable insights which enhance different facets of our business operations, and enable us to anticipate market trends, unmet demand and consumer preferences.

We believe the extensive knowledge and experience of our senior management team has been crucial to the success of our business and the implementation of our business strategies, and serves as a strong pillar for our Group's many achievements and future development. For further details of the biographies and relevant industry experience of our executive Directors and senior management team, please see "Directors, Supervisors and Senior Management" in this prospectus.

### **BUSINESS STRATEGIES**

We believe the following business strategies, which build upon our core competitive strengths, will enable us to achieve market leadership in the PRC menswear industry:

#### **We plan to optimize and expand our sales and distribution network in the PRC.**

We believe maintaining an effective and extensive sales and distribution network is crucial to our business success and future growth. According to the CIC Report, the total retail revenue of the PRC menswear industry expanded rapidly from RMB407.9 billion in 2013 to RMB649.8 billion in 2017, up by over RMB200.0 billion in four years at a CAGR of 12.3%. It is forecast that the PRC menswear industry will reach RMB1,068.6 billion in 2022 from RMB720.9 billion in 2018, achieving a CAGR of 10.3%. In order to fully capitalize on the business opportunities in the PRC menswear industry, we intend to adopt the following initiatives to optimize and further expand our sales and distribution network in the PRC:

- ***Developing our retail network across the PRC:*** We plan to further develop our existing markets in Eastern, Northern and Central China, and further expand our markets in Southwestern, Northeastern and Northwestern China. We plan to allocate the net proceeds from the Global Offering to open (i) six flagship self-operated retail outlets in the prime locations of the main commercial districts in the Tier One, New Tier One and Tier Two Cities of Eastern, Northern and Central China, such as Shanghai, Beijing, Suzhou, Ningbo, Nanchang and Zhengzhou, to strengthen our market presence in the relevant regions; and (ii) 38 new SHANSHAN branded self-operated retail outlets in the New Tier One, Tier Two, Tier Three and Tier Four cities of Southwestern, Northeastern and Northwestern China, such as cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces, where we have not yet established a strong retail network, as our bases in the relevant regions to explore the market potential of the relevant regions. Please see "Expansion plans – Developing our retail network in the PRC" in this section for further details of this expansion plan, and "Retail network management — Site selection" in this section for the factors we consider during the selection process for our new retail outlets;

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- ***Expanding our SHANSHAN branded franchisee retail network under the SHANSHAN Cooperative Arrangements:*** We sell SHANSHAN branded products through the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. We plan to allocate the net proceeds from the Global Offering to open 60 new SHANSHAN branded franchisee retail outlets under the SHANSHAN Cooperative Arrangements in the New Tier One, Tier Two, Tier Three and Tier Four cities of Southwestern, Northeastern and Northwestern China, such as cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces, where we have not yet established a strong retail network to explore the market potential of the relevant regions. The implementation of this expansion plan enables us to further (i) expand our customer base; (ii) reduce our inventory risks and enhance our operational flexibility and profitability; and (iii) promote a healthy financial model and optimize our cash flow. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” and “Expansion plans – Developing our retail network in the PRC” in this section for further details; and
- ***Streamlining and optimizing our distributor retail network:*** We will continue to tighten our distributorship management in order to streamline and optimize our distributor retail network. Distributor retail outlets which fail to meet our assessments may be closed. Please see “Distributorship model — Movement of distributors — Assessments of our first-tier and second-tier distributors” in this section for details. We also intend to upgrade, decorate and renovate our existing retail outlets in order to enhance the shopping experience of our customers.

We believe that the optimization and expansion of our sales and distribution network will enable us to increase our sales volume and extend our geographical coverage and customer reach.

### **We plan to increase our brand promotion and marketing efforts.**

We are committed to promoting our two core and signature brands, FIRS brand and SHANSHAN brand, as we believe our success stems from the reputation and popularity of these brands. We intend to deploy a variety of publicity campaigns in the PRC, including placing advertisements on high-speed trains, high-speed train stations and airports, aiming at our target customers. Owing to the increased internet penetration rates and widespread use of smartphones nowadays, we intend to increase our online advertising expenditure in order to promote our brands and products online. We also intend to increase the use of online social media platforms such as WeChat and Weibo to promote our brands and products.

We also plan to participate in both domestic and international fashion shows to further elevate our brand recognition and awareness. In addition, we plan to enhance our profile and promote our core values by sponsoring artistic and cultural events. We believe these measures will augment our market position in the PRC menswear industry and increase our brand profile.

By enhancing the market recognition and awareness of our brands, we believe we will maintain our competitiveness and effectively promote our products to our target customers.



**We plan to further enhance our information technology systems and our supply chain, logistics and inventory management capabilities.**

Continuously enhancing our supply chain, logistics and inventory management capabilities is key to strengthening our competitiveness in the PRC menswear industry and capitalizing on the growth in this industry. We plan to enhance our supply chain, logistics and inventory management capabilities to optimize product replenishment, transport coordination and inventory and quality control. To this end, we intend to (i) establish an advanced new warehousing and logistics center; (ii) upgrade our existing ERP systems; (iii) introduce an advanced warehouse management system; (iv) upgrade our existing inventory sharing and allocation system; and (v) expand our existing information technology facilities.

In order to capitalize on the strong demand for our business casual menswear brought about by the expansion of our SHANSHAN branded retail network, we consider our plan to enhance our supply chain, logistics and inventory management capabilities, which will in turn assist us in monitoring and managing our retail network and supply chain, to be essential to supporting our future growth. In addition, by enhancing our supply chain, logistics and inventory management capabilities, we believe we will maintain our competitiveness, optimize inventory balance and enhance the effectiveness and cost-efficiency of our business operation. Please see “Expansion plans – Enhancing our supply chain, logistics and inventory management capabilities” in this section for further details.

**We plan to further develop our e-commerce sales.**

Online shopping has become increasingly prevalent in the PRC, especially among the younger generation, and has significantly contributed to our results of operations during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017, revenue generated from sales through third party e-commerce platforms amounted to RMB89.1 million, RMB126.5 million and RMB159.0 million, respectively, representing approximately 16.9%, 21.4% and 19.9% of the total revenue for the respective years.

According to the CIC Report, the online menswear market in the PRC is expected to grow at a CAGR of 16.3% from RMB142.1 billion in 2018 to RMB259.7 billion in 2022. To further capitalize on the significant growth potential brought by e-commerce sales, and in order to extend our geographical coverage and customer reach without having to physically establish a large number of retail outlets, we intend to use our internal resources to adopt the following initiatives to further develop our e-commerce sales:

- ***Exploring other third-party e-commerce platforms:*** In addition to the third-party e-commerce platforms which we currently use to sell our products, as new e-commerce platforms gain in popularity and market reach, we intend to strategically reallocate our resources to explore other third-party e-commerce platforms and thereby optimizing the return on our e-commerce marketing investment and further enhancing our brand awareness, reputation and market presence in the PRC;

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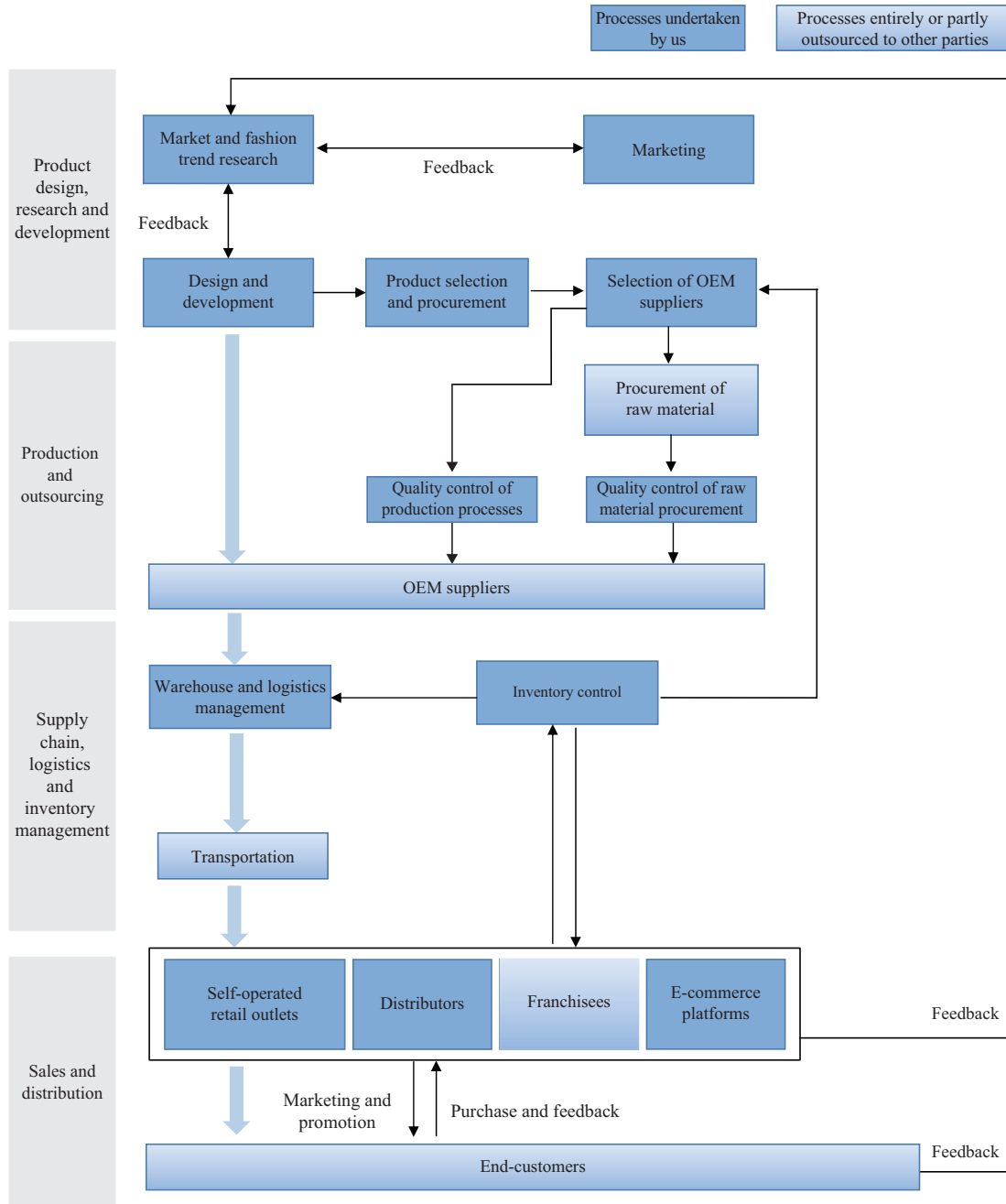
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- ***Expanding our product portfolio for e-commerce sales:*** We intend to expand our product portfolio for e-commerce sales with a focus on value for money menswear products that are suitable for sales on e-commerce platforms. The designs of our e-commerce products are based on information collected by us from third-party e-commerce platforms so as to match the appetites of our targeted customers and to address the evolving needs and preferences of PRC consumers;
- ***Rolling out an e-commerce membership scheme:*** We intend to roll out an e-commerce membership scheme to collect information from our e-commerce customers including their identities, purchasing records, preferences and feedback such that we are able to launch marketing campaigns aiming at these members with a view to cultivating consumer loyalty and brand awareness. We intend to offer promotional discounts to the members of our e-commerce membership scheme from time to time and notify them when we launch any new products or collections; and
- ***Expanding our e-commerce sale department and actively participating in online promotion activities and sales events:*** To further develop our e-commerce sales, we intend to recruit experienced personnel to manage our e-commerce sales activities. We also intend to actively participate in promotion activities and sale events organized by third party e-commerce platforms to spur consumer demand for our products.

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## OUR BUSINESS MODEL

Our business primarily involves the design, marketing and sale of formal and casual business menswear in the PRC. The following diagram illustrates our business model during the Track Record Period and as of the Latest Practicable Date:



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- ***Product design, research and development.*** For each of FIRS, SHANSHAN and LUBIAM brands, we had a dedicated product design, research and development team as of the Latest Practicable Date which is responsible for designing new products for each season based on our market and fashion trend research efforts and the feedback from our marketing team and our sales and distribution network. We divide our products into “spring/summer” collections and “autumn/winter” collections. Each year, we design the next spring collections between February and April, the next summer collections between May and August, the next autumn collections between September and October, and the next winter collections between November and January. Please see “Product design, research and development” in this section for further details.
- ***Production and outsourcing.*** We outsource the production of our products to various domestic OEM suppliers, consisting primarily of apparel and accessory manufacturers located in Zhejiang and Jiangsu provinces. Please see “Supply chain, warehousing and logistics management — Production outsourcing” in this section for further details. We have established rigorous quality control measures, which are built into the various stages of our product procurement processes, according to the applicable national standards to avoid product quality issues. Please see “Quality control” in this section for further details.
- ***Supply chain, logistics and inventory management.*** We had a warehouse and logistics center for each of FIRS, SHANSHAN and LUBIAM brands as of the Latest Practicable Date. We engage independent logistic service providers, who deliver products by land transportation from our warehouse and logistics centers in Ningbo to self-operated retail outlets and the retail outlets or warehouses designated by our distributors, franchisees and e-commerce customers. Please see “Supply chain, logistics and inventory management” in this section for further details.
- ***Sales and distribution.*** We sell our products across the PRC primarily through (i) distributors; (ii) self-operated retail outlets; (iii) franchisees; and (iv) third party e-commerce platforms. Please see “Sales and distribution” in this section for further details.

## OUR BRANDS AND PRODUCTS

### Brand portfolio

We design, market and sell formal and casual business menswear in the PRC under three brands, namely, FIRS, SHANSHAN and LUBIAM, each having distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. Our products are primarily targeted at male consumers who seek quality menswear products.

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The tables below set forth the sales performance of our FIRS, SHANSHAN, MARCO AZZALI and LUBIAM branded products by sales channels for the years indicated:

*For the year ended December 31, 2015*

	<u>Revenue</u> <i>RMB'000</i>	<u>Sales volume</u> <i>Units</i>	<u>Average selling price</u> <i>RMB</i>	<u>Gross profit margin</u>
<b>FIRS</b>				
– Sales to distributors <sup>(1)</sup>	303,402	1,729,270	175.5	44.7%
– Self-operated retail outlets <sup>(2)</sup>	4,452	20,740	214.7	36.7%
– E-commerce platforms <sup>(3)</sup>	89,093	705,026	126.4	42.4%
<b>SHANSHAN</b>				
– Franchisee retail outlets <sup>(4)</sup>	1,553	5,100	304.5	62.7%
– Self-operated retail outlets <sup>(2)</sup>	N/A	N/A	N/A	N/A
– E-commerce platforms <sup>(3)</sup>	N/A	N/A	N/A	N/A
<b>MARCO AZZALI<sup>(6)</sup></b>				
– Self-operated retail outlets <sup>(2)</sup>	19,489	41,928	464.8	43.1%
– Franchisee retail outlets <sup>(5)</sup>	8,315	11,222	741.0	54.7%
<b>LUBIAM</b>				
– Self-operated retail outlets <sup>(2)</sup>	20,604	17,377	1,185.7	56.5%
– Franchisee retail outlets <sup>(5)</sup>	26,554	11,013	2,411.2	85.3%

*For the year ended December 31, 2016*

	<u>Revenue</u> <i>RMB'000</i>	<u>Sales volume</u> <i>Units</i>	<u>Average selling price</u> <i>RMB</i>	<u>Gross profit margin</u>
<b>FIRS</b>				
– Sales to distributors <sup>(1)</sup>	266,145	1,550,830	171.6	40.2%
– Self-operated retail outlets <sup>(2)</sup>	28,590	75,501	378.7	69.4%
– E-commerce platforms <sup>(3)</sup>	126,517	932,233	135.7	46.5%
<b>SHANSHAN</b>				
– Franchisee retail outlets <sup>(4)</sup>	48,037	182,445	263.3	62.8%
– Self-operated retail outlets <sup>(2)</sup>	5,808	28,939	200.7	60.4%
– E-commerce platforms <sup>(3)</sup>	N/A	N/A	N/A	N/A
<b>MARCO AZZALI<sup>(6)</sup></b>				
– Self-operated retail outlets <sup>(2)</sup>	16,647	34,063	488.7	46.3%
– Franchisee retail outlets <sup>(5)</sup>	6,500	10,021	648.6	50.7%
<b>LUBIAM</b>				
– Self-operated retail outlets <sup>(2)</sup>	20,655	20,056	1,029.9	54.1%
– Franchisee retail outlets <sup>(5)</sup>	13,929	6,672	2,087.7	80.5%

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*For the year ended December 31, 2017*

	<u>Revenue</u> <i>RMB'000</i>	<u>Sales volume</u> <i>Units</i>	<u>Average selling price</u> <i>RMB</i>	<u>Gross profit margin</u>
<b>FIRS</b>				
– Sales to distributors <sup>(1)</sup>	200,973	1,111,410	180.8	49.4%
– Self-operated retail outlets <sup>(2)</sup>	73,582	187,843	391.7	68.3%
– E-commerce platforms <sup>(3)</sup>	155,486	1,194,963	130.1	45.0%
<b>SHANSHAN</b>				
– Franchisee retail outlets <sup>(4)</sup>	208,984	822,334	254.1	61.1%
– Self-operated retail outlets <sup>(2)</sup>	22,442	91,098	246.4	60.5%
– E-commerce platforms <sup>(3)</sup>	3,464	12,517	276.7	63.1%
<b>MARCO AZZALI<sup>(6)</sup></b>				
– Self-operated retail outlets <sup>(2)</sup>	17,535	31,984	548.2	50.7%
– Franchisee retail outlets <sup>(5)</sup>	5,039	7,978	631.6	59.3%
<b>LUBIAM</b>				
– Self-operated retail outlets <sup>(2)</sup>	21,563	18,386	1,172.8	58.8%
– Franchisee retail outlets <sup>(5)</sup>	9,195	5,676	1,620.0	77.0%

*Notes:*

- (1) We sell our FIRS branded products through our extensive distribution network. Please see “Distributorship model” in this section for further details.
- (2) We sell our FIRS, SHANSHAN, MARCO AZZALI and LUBIAM branded products through self-operated retail outlets. Please see “Direct sales — Self-operated retail outlets” in this section for further details.
- (3) We offer certain products under our FIRS and SHANSHAN brands to customers through certain third-party PRC e-commerce platforms, including “Tmall”, “JD.com” and “VIP.com”. Please see “Direct sales — Third party e-commerce platforms” in this section for further details.
- (4) We sell our SHANSHAN branded products under the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details.
- (5) We sell LUBIAM branded products under the LUBIAM Franchising Arrangements and MARCO AZZALI branded products under an arrangement similar to that of the LUBIAM Franchising Arrangements. Please see “Franchisee sales — LUBIAM Franchising Arrangements” in this section for further details.
- (6) We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Our brands and products — Our historical MARCO AZZALI brand” in this section for further details.

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Our products are primarily targeted at male consumers who seek quality formal and casual business menswear. The following table sets forth certain information about our brand portfolio during the Track Record Period:

<u>Brands</u>	<u>Brand rights</u>	<u>Targeted consumers</u>	<u>Years of launch</u>
<b>FIRS</b>	Shanshan has granted our Group a licence to use the FIRS brand in the PRC on a perpetual basis	Medium-to-high income male consumers aged between 35 and 45 with a preference for premium quality formal business menswear.	1989
<b>SHANSHAN</b>	Shanshan has granted our Group a licence to use the SHANSHAN brand in the PRC on a perpetual basis	Middle income male consumers aged between 25 and 35 who are fashion conscious and frequent buyers of trendy and value for money menswear products.	2015
<b>MARCO AZZALI</b>	Forall Confezioni has granted JIC Garments the licence to use the MARCO AZZALI brand in the PRC on perpetual basis	Medium-to-high income male consumers aged between 27 and 37 who seek fashion that reflects their personal taste.	2001
<b>LUBIAM</b>	Lubiam Moda per L'Uomo has granted Lubiam Apparel a licence to use the LUBIAM brand in the PRC until the expiry of the operation term of Lubiam Apparel	Affluent male consumers aged between 35 and 45 who pursue low-profile luxury.	2005

### ***FIRS brand***

We market and sell products primarily under our FIRS brand, which is our core and signature brand. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. Our FIRS brand, which was originated from the “杉杉” brand established by Mr. Zheng in 1989, has been recognized as a pioneer in the PRC menswear industry. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the top three bestsellers in the PRC for five consecutive years from 2013 to 2017 by sales volume among major PRC retailers. The design philosophy of our FIRS brand is simple classic style and high quality.

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### *SHANSHAN brand*

In September 2015, we launched SHANSHAN brand, which is primarily targeted at middle income male consumers aged between 25 and 35 who are both fashion conscious and frequent buyers of trendy and value for money menswear products. We believe the addition of the SHANSHAN brand to our brand portfolio enables us to offer products with trendy designs which track ever-changing market trends. The design philosophy of our SHANSHAN branded products is trendiness and value for money.

As the target customers of SHANSHAN branded products distinct from the target customers of FIRS branded products, we believe the development of SHANSHAN brand does not affect the sales and profitability of our FIRS branded products. As evidenced by the fact that the gross profit margin in respect of the sales of our FIRS branded products increased from 43.8% for the year ended December 31, 2016 to 48.8% for the year ended December 31, 2017, the introduction of SHANSHAN brand in September 2015 did not adversely affect the gross profit margin of our FIRS branded products. Alternatively, our overall gross profit margin increased from 48.7% for the year ended December 31, 2016 to 54.1% for the year ended December 31, 2017 as a result of an increase in the sales of our SHANSHAN branded products, which we were able to sell at a higher gross profit margin than FIRS branded products.

### *LUBIAM brand*

LUBIAM brand is an Italian brand owned by Lubiam Moda per L'Uomo, holder of a 40% equity interest in one of our subsidiaries, Lubiam Apparel. Lubiam Apparel has been granted a licence to sell LUBIAM branded products in the PRC on perpetual basis since 2005. The profits derived by Lubiam Apparel from the sales of LUBIAM branded products are shared between our Group and Lubiam Moda per L'Uomo in proportion to their respective equity interests in Lubiam Apparel.

Under the licensing arrangement of LUBIAM brand, Lubiam Apparel is responsible for the daily operation, administration and management of the LUBIAM brand, while a designated team from Lubiam Moda per L'Uomo is responsible for providing training to Lubiam Apparel on product research and development, production technology, brand promotion and marketing management. This cooperation model enables our LUBIAM branded products to maintain their Italian style while fitting Chinese consumers' spending habits and preferences.

Please see “History, Reorganization and Corporate Structure — Our corporate development — Our subsidiaries — Lubiam Apparel” in this prospectus for further details relating to the corporate development history of Lubiam Apparel and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements — 2. Trademark licence agreement with Lubiam Moda per L'Uomo” for further details relating to the licensing arrangements between Lubiam Apparel and Lubiam Moda per L'Uomo.



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### *Identifying buyers for our LUBIAM operations*

In view of the deteriorating sales performance of our LUBIAM branded products from a net profit of RMB4.5 million and RMB1.0 million for the years ended December 31, 2015 and 2016, respectively, to a net loss of RMB1.6 million for the year ended December 31, 2017, and in order to strategically reallocate our resources for the development of our two core and signature brands, namely, FIRS and SHANSHAN brands, we intend to find appropriate buyers to acquire our LUBIAM operations. As of the Latest Practicable Date, we had not identified any suitable buyers.

We believe the disposal of our LUBIAM operations will improve our operational efficiency through a simplified group structure and brand portfolio. In addition, we believe LUBIAM brand does not represent a competitive threat to our business operation after disposal as LUBIAM branded products are targeted at affluent male consumers that are not served by our FIRS and SHANSHAN branded products.

### **Our historical MARCO AZZALI brand**

During the Track Record Period, we sold products under MARCO AZZALI, an Italian brand, through self-operated retail outlets and franchising arrangements similar to that of the LUBIAM Franchising Arrangements. MARCO AZZALI brand was owned by Forall Confezioni, holder of a 35% equity interests in a then subsidiary of our Group, JIC Garments. Forall Confezioni has licensed JIC Garments to sell MARCO AZZALI branded products in the PRC since 2001. In view of the deteriorating financial performance of our MARCO AZZALI brand operations, and in order to strategically reallocate our resources for the development of our two core and signature brands, namely, FIRS and SHANSHAN brands, we identified an appropriate buyer, Mr. Wang Qin (王沁), who is an employee of JIC Garments and an Independent Third Party, in October 2017 to acquire our MARCO AZZALI operations. On March 26, 2018, Fashion Brand, Forall Confezioni and Shanshan HK entered into an equity transfer agreement with Mr. Wang Qin (王沁) pursuant to which Fashion Brand, Forall Confezioni and Shanshan HK disposed of their respective 55%, 35% and 10% equity interests in JIC Garments at EUR0.85, EUR1.0 and EUR0.15, respectively. The disposals were properly and legally completed and settled in May 2018. Please see “History, Reorganization and Corporate Structure — Disposal of JIC Garments after the Reorganization” in this prospectus for further details about the disposal.

We believe MARCO AZZALI brand does not represent a competitive threat to our business operation after disposal as MARCO AZZALI branded products are targeted at affluent male consumers that are not served by our FIRS and SHANSHAN branded products.

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The table below sets forth the financial performance of our MARCO AZZALI branded products for the years indicated:

	For the year ended December 31,								
	2015			2016			2017		
	Revenue	Gross profit	Net loss	Revenue	Gross profit	Net loss	Revenue	Gross profit	Net loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
MARCO AZZALI branded products	27,804	12,942	3,863	23,145	11,001	4,098	22,575	11,874	9,363

### Product portfolio

Our products can be grouped into five categories: (i) suits; (ii) pants; (iii) shirts; (iv) casual wear and (v) others menswear including T-shirts, sweaters, cotton and down feather products, jackets, leather apparel and accessories. We aim to continue expanding our product portfolio to capitalize on the increasing demand for menswear in the PRC.

The following table sets forth the price range of our key products as of the Latest Practicable Date:

	FIRS	SHANSHAN	LUBIAM
<b>1. Suits</b>			
Price range (in RMB)	1,400-20,000	600-1,700	6,000-25,000
<b>2. Pants</b>			
Price range (in RMB)	500-1,200	190-460	1,200-4,500
<b>3. Shirts</b>			
Price range (in RMB)	300-1,800	100-400	1,500-5,500

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	FIRS	SHANSHAN	LUBIAM
4. <b>Casual wear</b>			
Price range (in RMB)	1,000-18,000	300-2,000	4,500-25,000

### PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

We are committed to enhancing our product design and development capabilities. Our design and product development efforts primarily focus on improving our products and enhancing the distinct design identity of each of our brands.

#### Product design, research and development teams

We have established an in-house design team for each of FIRS, SHANSHAN, MARCO AZZALI and LUBIAM brands during the Track Record Period. As of December 31, 2017, our in-house design, research and development teams comprised 31 designers, design assistants and research and development personnel. As we disposed of JIC Garments to an Independent Third Party, the in-house design team of MARCO AZZALI had been transferred to the Independent Third Party upon completion of the disposal in May 2018.

The design, research and development of our FIRS and SHANSHAN branded products are led by Mr. Yang Yong, our design director and one of our senior management members. Mr. Yang Yong has accumulated over 16 years of experience in the PRC apparel industry, with extensive knowledge of market trends and consumer preferences for apparel. In addition, the design, research and development teams of our FIRS and SHANSHAN brands include graduates from professional institutions and universities with an average of over five years of experience in the PRC menswear industry. Going forward, the combined experience of our design, research and development teams will allow us to explore new design concepts while maintaining our focus on brand development, thereby achieving the right balance between tradition and innovation.

#### Product design, research and development cycle

We divide our FIRS, SHANSHAN and LUBIAM branded products into “spring/summer” collections and “autumn/winter” collections. Each year, we design the next spring collections between February and April, the next summer collections between May and August, the next autumn collections between September and October, and the next winter collections between November and January. Typically, we take the following steps when we design our new collections:

- **Step 1: Market and fashion trend research** – Our experienced design, research and development teams conduct comprehensive market and fashion trend research before designing our new collections. When we design the product mix for each collection, we require our designers to study our historical sales performance and feedback from our sales and distribution network to understand the preferences of our customers;

- **Step 2: *Design and development*** – Based on the product positioning of our brands and the findings from our market and fashion trend research, complemented by the insights of our experienced designers and the feedback from our sales and distribution network, our designers formulate detailed design proposals for each of our collections. Each of our brands has distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. In the design proposals, our designers set out, among other things, the design themes and philosophies of the relevant collections, sketches of the relevant designs and the fabrics used on the products. Through market analysis, our design, research and development teams develop diversified product portfolios that meet the prevailing market trends and consumer preferences for menswear. In addition, our LUBIAM brand designers work closely with the Italian design teams of our joint venture partner, namely, Lubiam Moda per L’Uomo, to keep abreast of and analyze the latest fashion trends in the domestic market prior to the launching of new collections for each season.

- **Step 3: *Product selection and procurement***

*Distributor retail networks* – We organize three procurement conferences every year to showcase our upcoming FIRS branded products to our existing and potential distributors and their sub-distributors. We design and produce approximately 1,200 new prototypes under our FIRS brand every year for our distributors to select at procurement conferences. We place orders to our OEM suppliers for the production of our FIRS branded products based on purchase orders received from our distributors at these procurement conferences. Please see “Distributorship model — Procurement conferences” in this section for further details.

*Self-operated retail outlets and LUBIAM branded franchisee retail outlets* – Based on the findings from our market and fashion trend research, feedback from our sales and distribution channels and our historical sales records, we procure selected products from OEM suppliers for sale at self-operated retail outlets and LUBIAM branded franchisee retail outlets under the LUBIAM Franchising Arrangements. We procure products from OEM suppliers in batches to prevent overstocking.

*Franchisee retail outlets under the SHANSHAN Cooperative Arrangements of our SHANSHAN brand* – Under the SHANSHAN Cooperative Arrangements for our SHANSHAN branded products, we either enter into purchasing agreements or consignment agreements with our OEM suppliers pursuant to which we design SHANSHAN branded products in collaboration with our OEM suppliers and sell such products to end-customers through the retail outlets of our franchisees. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details.

- **Step 4: *Feedback from sales and distribution channels*** – After the launching of new collections at our retail outlets, our design, research and development teams closely monitor sales performance and customer feedback in respect of new collections and take this information into account when designing new collections for the next season.

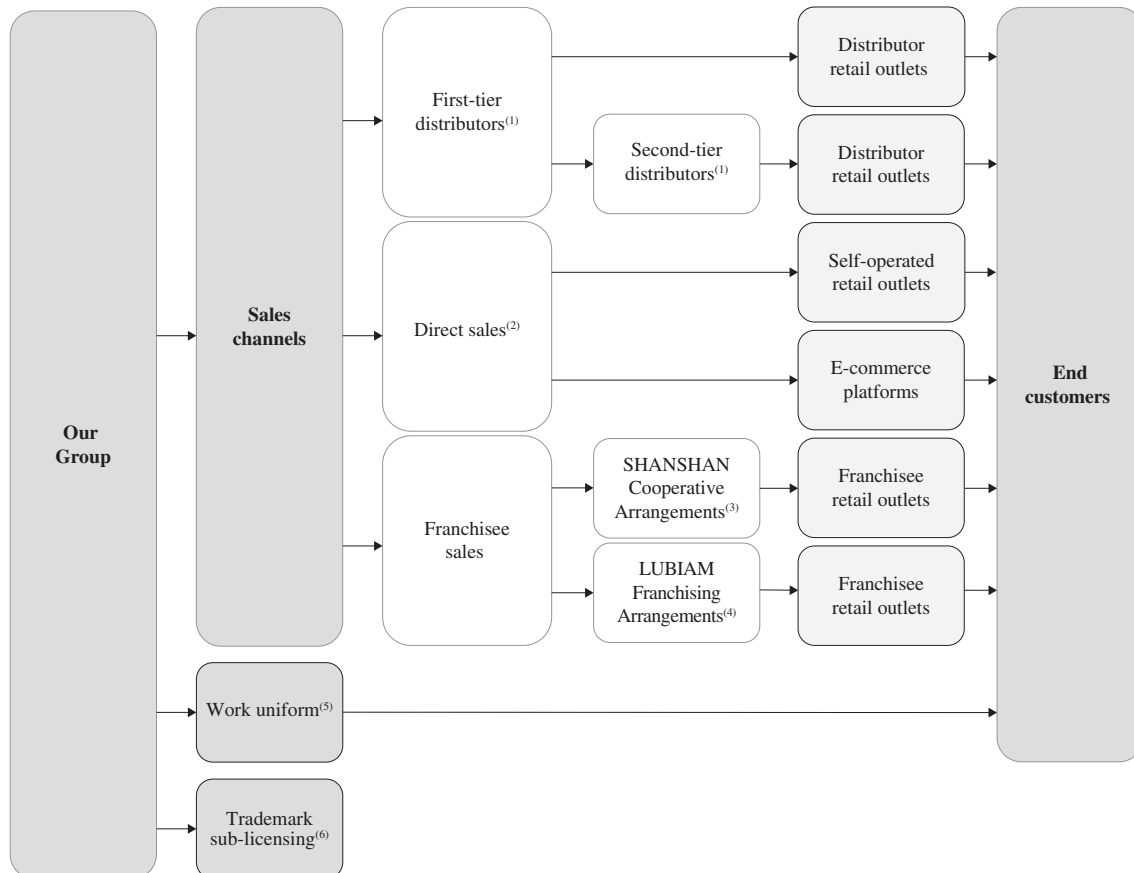
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Through market analysis, our design, research and development teams develop diversified product portfolios that meet the prevailing market trends and consumer preferences for menswear.

In recognition of our strong product design and development capabilities, we have been invited for a number of years to participate in the China International Fashion Fair, at which our FIRS brand is one of the major brands and has received a number of awards. We have been retained by the National Apparel Standardization Technical Committee (全國服裝標準化技術委員會) as one of the drafting parties for industry standards for the Chinese apparel industry since 2001, and have also been a core member of the Business Wear Research Center (中國服裝協會職業裝研究中心) at the China National Garment Association (中國服裝協會) since 2011. As evidenced by our FIRS brand being the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017 according to the CIC Report, we believe we have successfully demonstrated our ability to launch menswear products that match the appetites of our target customers, and proven our ability to address the evolving needs and preferences of PRC consumers. In order to stay competitive, we plan to continue to invest in product design, research and development with a focus on innovation.

### SALES AND DISTRIBUTION

We sell our products across the PRC primarily through (i) our distributors; (ii) direct sales; and (iii) our franchisees. The following diagram illustrated our sales and distribution model as of the Latest Practicable Date:



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*Notes:*

- (1) We sell our FIRS branded products on a wholesale basis to our first-tier distributors, who then sell the products to end-customers through retail outlets operated by themselves or resell the products to second-tier distributors, who in turn sell the products to end-customers through retail outlets that they operate. Please see “Distributorship model” in this section for further details.
- (2) We sell our products directly to end-customers through self-operated retail outlets and third party e-commerce platforms. Please see “Direct sales” in this section for further details.
- (3) We sell our SHANSHAN branded products to end-customers through the SHANSHAN Cooperative Arrangements. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details.
- (4) We sell our LUBIAM branded products to end-customers through the LUBIAM Franchising Arrangements. Please see “Franchisee sales — LUBIAM Franchising Arrangements” in this section for further details.
- (5) We participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. Please see “Work uniforms” in this section for further details.
- (6) We sub-licensed certain trademarks registered under the respective names of Shanshan and Shanshan Group to selected sub-licensees in the PRC for the production of certain products which are not our business focus. Please see “Trademark sub-licensing” in this section and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholder’s approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

Please see “Financial Information — Description of selected items in our consolidated statements of comprehensive income — Revenue — Revenue by sales channels” in this prospectus for a breakdown of our revenue by sales channels.

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The table below summarizes certain features in respect of the business models of our distributor retail outlets, self-operated retail outlets and franchisee retail outlets:

	<u>Applicable brand</u>	<u>Sales model</u>	<u>Product ownership</u>	<u>Pricing and revenue recognition policy</u>
<b>Distributor retail outlets<sup>(1)</sup></b>	FIRS branded products	<p>We procure products from OEM suppliers and sell them to first-tier distributors on a wholesale basis. First-tier distributors then sell the products procured from us to:</p> <p>(i) end-customers on a retail basis through FIRS branded distributor retail outlets operated by themselves; or</p> <p>(ii) resell the products to second-tier distributors on a wholesale basis for onward retail sales to end-customers through the second-tier FIRS branded distributor retail outlets.</p>	The ownership of the products for sale at first-tier and second-tier distributor retail outlets is retained by first-tier distributors or second-tier distributors, respectively.	<p>We generally sell products to our first-tier distributors at uniform wholesale prices.</p> <p>We provide suggested retail prices, which are similar to the uniform retail prices we adopt, to first-tier and second-tier distributors for the sale of our products.</p> <p>We recognize the entire proceeds from the sales of the relevant products when our products have been sold to first-tier distributors.</p>
<b>Self-operated retail outlets<sup>(2)</sup></b>	FIRS, SHANSHAN and LUBIAM branded products	We procure products from OEM suppliers and sell them to end-customers on a retail basis through the respective FIRS, SHANSHAN and LUBIAM branded retail outlets operated by us.	The ownership of the products for sale at self-operated retail outlets is retained by our Group.	<p>We generally sell products to end-customers at uniform retail prices.</p> <p>We recognize the entire proceeds from the sales of the relevant products when our products have been sold to end-customers.</p>

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	Applicable brand	Sales model	Product ownership	Pricing and revenue recognition policy
<b>Franchisee retail outlets</b> – SHANSHAN Cooperative Arrangements <sup>(3)</sup>	SHANSHAN branded products	<p><b><i>Between our Group and OEM suppliers:</i></b> We either:</p> <p>(i) procure products from OEM suppliers as a purchaser by entering into purchasing agreements with them; or</p> <p>(ii) obtain consignment products from OEM suppliers as a consignee by entering into consignment agreements with them.</p> <p><b><i>Between our Group and our franchisees:</i></b> We sell products procured from or consigned by our OEM suppliers to end customers through the SHANSHAN branded franchisee retail outlets of our franchisees, who bear all operational costs including rental expenses and staff costs.</p>	<p>The ownership of the products for sale at SHANSHAN branded franchisee retail outlets is retained by:</p> <p>(i) our Group if we procured these products from OEM suppliers as a purchaser through purchasing agreements; or</p> <p>(ii) our OEM suppliers if we obtain the relevant products as a consignee through consignment agreements.</p> <p>The ownership of the products for sales at SHANSHAN branded franchisee retail outlets does not pass to the franchisees at any point.</p>	<p>We provide suggested retail prices, which are similar to the uniform retail prices we adopt at SHANSHAN branded self-operated retail outlets, to SHANSHAN branded franchisees for the sale of our products.</p> <p>We recognize the entire proceeds from the sales of the relevant consignment and non-consignment products having been sold to end-customers at SHANSHAN branded franchisee retail outlets as our revenue.</p>
– LUBIAM Franchising Arrangements <sup>(4)</sup>	LUBIAM branded products	<p>We sell products procured from our OEM suppliers to end customers through the LUBIAM branded retail outlets operated by our franchisees, who bear all operational costs including rental expenses and staff costs.</p>	<p>The ownership of products for sale at LUBIAM branded franchisee retail outlets is retained by our Group and does not pass to the franchisees at any point.</p>	<p>We provide suggested retail prices, which are similar to the uniform retail prices we adopt at LUBIAM self-operated retail outlets, to LUBIAM branded franchisees for the sale of our products.</p> <p>We recognize the entire proceeds from the sales of the relevant products when our products have been sold to end-customers.</p>



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The table below summarizes the risk profile in respect of our distributor retail outlets, self-operated retail outlets and franchisee retail outlets:

	<u>Inventory risk</u>	<u>Credit risk</u>	<u>Termination risk</u>
<b>Distributor retail outlets<sup>(1)</sup></b>	Applicable in respect of the products before selling to distributors, as the ownership of these products is retained by our Group.	Applicable, as we provide credit terms to certain of our first-tier distributors who purchase products from us for sale at distributor retail outlets.	Applicable, as we enter into distributorship agreements with our distributors typically on an annual basis.
	Not applicable in respect of the products sold to distributors, as the ownership of products for sale at distributor retail outlets is retained by the relevant distributors. We do not accept return of goods except for quality defects		
<b>Self-operated retail outlets<sup>(2)</sup></b>	Applicable, as the ownership of products for sale at self-operated retail outlets is retained by our Group.	Not applicable, as we do not provide credit terms to end-customers who purchase products from us at self-operated retail outlets.	Not applicable.
<b>Franchisee retail outlets</b> – SHANSHAN Cooperative Arrangements <sup>(3)</sup>	Applicable in respect of the products we procure from our OEM suppliers, as the ownership of such products is retained by our Group.	Not applicable, as we do not provide credit terms to end-customers who purchase products from us at SHANSHAN branded franchisee retail outlets.	Applicable, as we enter into franchising agreements with our SHANSHAN franchisees for a fixed term of five years commencing from the effective date of the respective agreements.
	Not applicable in respect of products consigned by our OEM suppliers, as the ownership of such consignment products is retained by the relevant OEM suppliers.		
– LUBIAM Franchising Arrangements <sup>(4)</sup>	Applicable, as the ownership of products for sale at LUBIAM franchisee retail outlets is retained by our Group.	Not applicable, as we do not provide credit terms to end-customers who purchase products from us at LUBIAM branded franchisee retail outlets.	Applicable, as we enter into franchising agreements with our LUBIAM franchisees for a fixed term of one to three years commencing from the effective date of the respective agreements.

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The tables below summarize the financial performance in respect of our distributor retail outlets, self-operated retail outlets and franchisee retail outlets for the years indicated:

	For the year ended December 31,								
	2015			2016			2017		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	<i>RMB'000</i>	<i>RMB'000</i>	(%)	<i>RMB'000</i>	<i>RMB'000</i>	(%)	<i>RMB'000</i>	<i>RMB'000</i>	(%)
<b>Distributor retail outlets<sup>(1)</sup></b>	303,402	135,505	44.7	266,145	106,875	40.2	200,973	99,359	49.4
<b>Self-operated retail outlets<sup>(2)</sup></b>	44,545	21,677	48.7	71,700	42,222	58.9	135,122	85,388	63.2
<b>Franchisee retail outlets</b>									
– SHANSHAN Cooperative Arrangements <sup>(3)</sup>									
• Products procured from our OEM suppliers	1,553	974	62.7	34,043	22,320	65.6	116,821	74,302	63.6
• Products consigned by our OEM suppliers <sup>(4)</sup>	Nil	Nil	Nil	13,994	7,841	56.0	92,163	53,422	58.0
	<b>1,553</b>	<b>974</b>	<b>62.7</b>	<b>48,037</b>	<b>30,161</b>	<b>62.8</b>	<b>208,984</b>	<b>127,724</b>	<b>61.1</b>
– LUBIAM Franchising Arrangements <sup>(5)</sup>	26,554	22,640	85.3	13,929	11,209	80.5	9,195	7,081	77.0
– Historical MARCO AZZALI franchising arrangements <sup>(6)</sup>	8,315	4,548	54.7	6,500	3,294	50.7	5,040	2,987	59.3

*Notes:*

- (1) Please see “Distributorship model” in this section for further details regarding our distributorship model.
- (2) Please see “Direct sales — Self-operated retail outlets” in this section for further details regarding our self-operated retail outlets.
- (3) We sell the products procured from or consigned by our OEM suppliers to end customers through the SHANSHAN branded franchisee retail outlets of our franchisees. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details regarding the SHANSHAN Cooperative Arrangements.
- (4) Since June 2016, we have been actively looking for OEM suppliers for entering into consignment agreements with us. Please see “Franchisee sales – SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers — (ii) Consignment agreements” in this section for further details.
- (5) Please see “Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details regarding the LUBIAM Franchising Arrangements.
- (6) We sold MARCO AZZALI branded products during the Track Record Period through franchisee retail outlets operated in a manner similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Our brands and products — Our historical MARCO AZZALI brand” in this section for further details.

### **Pricing strategy**

We sell products at uniform wholesale prices to our first-tier distributors and at uniform retail prices to end-customers through self-operated retail outlets, e-commerce platforms and franchisee retail outlets. We also provide suggested retail prices, which are similar to the uniform retail prices we adopt, to first-tier and second-tier distributors for the sale of our products, which enables our distributors to adjust their selling prices in accordance with retail market dynamics, competition and customer demand in the regions in which they operate.

We adopt a market-oriented pricing approach. We price our products based on a number of key factors including the following:

- brand positioning;
- the results of market research and analyses, including the consumption propensity of our target consumers and market trends;
- historical sales data;
- production costs, such as raw material costs, OEM procurement costs and the complexity of designs and productions;
- desired profit margins; and
- amortization expenses.

Our marketing department determines an initial retail pricing plan for each product by referencing the product prices of our competitors and our product positioning. We then adjust the retail price for each product by carrying out the following steps: (i) our design, research and development teams take production costs and desired profit margins into consideration during product design and development processes; and (ii) our procurement and production team estimates the production costs and sets our profit objectives in accordance with the initial retail pricing plans to arrive at the final retail price for each product. Under this market-oriented pricing approach, we do not restrict ourselves to a specified range of mark-up percentages based on the costs incurred when we price our products. According to CIC Report, the adoption of this market-oriented pricing approach as our pricing strategy is in line with industry practice in the PRC menswear industry.

We conduct regular reviews of our pricing strategy and the pricing for different products. Such reviews take into account prevailing market conditions, brand positioning, product design, raw materials costs, OEM costs as well as competition.

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### Geographical distribution

Our sales and distribution network has a wide geographical reach across the PRC. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and our franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet. The table below sets forth the geographical distribution of our retail outlets as of December 31, 2017:

<b>Sales region</b>	<b>Number of retail outlets</b>
Eastern China <sup>(1)</sup>	528
Northern China <sup>(2)</sup>	168
Southwestern China <sup>(3)</sup>	47
Northwestern China <sup>(4)</sup>	95
Central China <sup>(5)</sup>	169
Northeastern China <sup>(6)</sup>	35
Southern China <sup>(7)</sup>	10
<b>Total</b>	<b>1,052</b>

*Notes:*

- (1) Eastern China includes Anhui Province, Fujian Province, Jiangsu Province, Jiangxi Province, Shandong Province, Shanghai City and Zhejiang Province.
- (2) Northern China includes Beijing City, Hebei Province, Inner Mongolia Autonomous Region, Shanxi Province and Tianjin City.
- (3) Southwestern China includes Guizhou Province, Sichuan Province, Yunnan Province and Chongqing City.
- (4) Northwestern China includes Ningxia Autonomous Region, Qinghai Province, Xinjiang Autonomous Region, Shaanxi Province and Gansu Province.
- (5) Central China includes Henan Province, Hunan Province and Hubei Province.
- (6) Northeastern China includes Heilongjiang Province, Jilin Province and Liaoning Province.
- (7) Southern China includes Guangxi Autonomous Region and Guangdong Province.

### DISTRIBUTORSHIP MODEL

We sell our FIRS branded products primarily through the retail outlets operated by our first-tier and their sub-distributors, i.e. second-tier distributors. In line with industry practice, we are in a seller-buyer relationship with our distributors where we sell our products on a wholesale basis to our first-tier distributors, who then sell the products to end-customers through retail outlets operated by themselves or resell the products to second-tier distributors, who in turn sell the products to end-customers through their own retail outlets. We pass the title

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of products to distributors when we deliver the products to them. Distributors are mainly responsible for the operation of their retail outlets and the selection and procurement of products from us. For the years ended December 31, 2015, 2016 and 2017, revenue generated from the sales of our FIRS branded products to our first-tier distributors for onward sale to end-customers or resell to second-tier distributors amounted to RMB303.4 million, RMB266.1 million and RMB201.0 million, respectively, representing approximately 57.7%, 45.0% and 25.2% of our total revenue for the respective years.

As the PRC's menswear markets are characterized by broad geographic reach and regional differences, the current distribution model enables us to leverage the local market knowledge of first-tier distributors and second-tier distributors to drive geographical expansion and regional market penetration, hence allowing us to focus on our core competencies in brand management, design and product development, sales and distribution management, and enabling us to achieve rapid expansion in a relatively cost efficient manner.

To the best knowledge, information and belief of our Directors, having made all reasonable enquiries, save for Shaanxi Maoye, Mr. Luo Xianfei and a few of our ex-employees as disclosed in the paragraph headed "Retail network management – Major customers" in this section, none of our Directors or their respective associates or any Shareholders owning more than 5% of our issued Shares had any interest in any of our first-tier distributors and second-tier distributors during the Track Record Period and up to the Latest Practicable Date.

### **First-tier distributors**

We select first-tier distributors based on stringent criteria, including their industry experience, business scale, working capital, retail capabilities, managerial skills, transportation and logistics capabilities and their compliance records with the applicable laws and regulations in relation to their operations. In addition, prior to engaging a new first-tier distributor, we conduct examinations of their business licences or other relevant legal documents and perform on-site inspections to assess their operating platforms, inventory control and logistics support. We require our first-tier distributors to seek our approval prior to the opening, furnishing, moving or closing of any retail outlets in their respective territories.

We require first-tier distributors to sell our products exclusively within a defined geographical territory to prevent market share cannibalization within our distribution network, price competition between our distributors and over-concentration of retail outlets.

### **Second-tier distributors**

We permit our first-tier distributors to engage sub-distributors, i.e. second-tier distributors, in their designated geographical territories. The second-tier distributors are only permitted to sell our products to end-customers through their retail outlets and are prohibited from further engaging distributors for sales.

We do not have direct contractual relationships with second-tier distributors and we manage these second-tier distributors through our first-tier distributors, who have direct contractual relationship with us. Our first-tier distributors are required to enter into

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sub-distributorship agreements with second-tier distributors on substantially the same terms and conditions as the sub-distributorship agreement template provided by us. Our first-tier distributors are responsible for ensuring that second-tier distributors comply with the terms and conditions as set out in the sub-distributorship agreement. In the event that a second-tier distributor fails to comply with the terms and conditions as set out in the sub-distributorship agreement, we will require the relevant first-tier distributor to terminate the sub-distributorship agreement that it entered into with such second-tier distributor and close down the retail outlets operated by such second-tier distributor if such second-tier distributor failed to rectify the identified non-compliances. Under the sub-distributorship agreements, the sub-distributors do not have any minimum procurement commitments set by first-tier distributors, and first-tier distributors do not accept product returns from its sub-distributors unless there are quality defects in the products. Further, first-tier distributors are required to seek our approval before their second-tier distributors open, furnish, move or close any retail outlets.

During the Track Record Period, all of our first-tier distributors had their own retail outlets. We do not have any first-tier distributors who only engaged in wholesale to second-tier distributors.

### Movement of distributors

As of December 31, 2017, we had (i) 125 first-tier distributors operating 482 retail outlets; and (ii) 130 second-tier distributors operating 148 retail outlets. The table below sets forth the changes in our distribution networks for the years indicated:

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<i><b>First-tier distributors</b></i>			
<b>Number of first-tier distributors at the beginning of the year</b>	<b>119</b>	<b>139</b>	<b>126</b>
<i>Add:</i> Number of first-tier distributors added	22	2	4
<i>Less:</i> Number of first-tier distributors terminated	2	15	5
<b>Number of first-tier distributors at the end of the year</b>	<b>139</b>	<b>126</b>	<b>125</b>
<b>Number of first-tier distributor retail outlets at the beginning of the year</b>	<b>733</b>	<b>775</b>	<b>493</b>
<i>Add:</i> Number of additional first-tier distributor retail outlets opened	27	32 <sup>(1)</sup>	17
<i>Add:</i> Number of first-tier distributor retail outlets converted from second-tier distributor retail outlets <sup>(2)</sup>	31	–	8
<i>Less:</i> Number of first-tier distributor retail outlets closed	16	251	24
<i>Less:</i> Number of first-tier distributor retail outlets converted into self-operated retail outlets	–	61 <sup>(3)</sup>	12 <sup>(4)</sup>
<i>Less:</i> Number of first-tier distributor retail outlets converted into second-tier distributor retail outlets <sup>(5)</sup>	–	2	–

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	For the year ended December 31,		
	2015	2016	2017
<b>Number of first-tier distributor retail outlets at the end of the year</b>	<b>775</b>	<b>493</b>	<b>482</b>
<i><b>Second-tier distributors</b></i>			
<b>Number of second-tier distributors at the beginning of the year</b>	<b>179</b>	<b>161</b>	<b>129</b>
<i>Add:</i> Number of second-tier distributors added	2	5	2
<i>Less:</i> Number of second-tier distributors terminated	20	37	1
<b>Number of second-tier distributors at the end of the year</b>	<b>161</b>	<b>129</b>	<b>130</b>
<b>Number of second-tier distributor retail outlets at the beginning of the year</b>	<b>234</b>	<b>203</b>	<b>158</b>
<i>Add:</i> Number of additional second-tier distributor retail outlets opened	1	6	1
<i>Add:</i> Number of second-tier distributor retail outlets converted from first-tier distributor retail outlets <sup>(5)</sup>	–	2	–
<i>Less:</i> Number of second-tier distributor retail outlets closed	1	52	3
<i>Less:</i> Number of second-tier distributor retail outlets converted into first-tier distributor retail outlets operated in a manner similar to that of the SHANSHAN Cooperative Arrangements	–	1 <sup>(1)</sup>	–
<i>Less:</i> Number of second-tier distributor retail outlets converted into first-tier distributor retail outlets <sup>(2)</sup>	31	–	8
<b>Number of second-tier distributor retail outlets at the end of the year</b>	<b>203</b>	<b>158</b>	<b>148</b>

*Notes:*

- (1) In July 2016, we converted a FIRS branded second-tier distributor retail outlet in Ningbo into a FIRS branded first-tier distributor retail outlet operated in a manner similar to that of the SHANSHAN Cooperative Arrangements as the relevant second-tier distributor faced financial difficulties for its own reasons in procuring products from its first-tier distributor, while we were at the relevant time looking for a retail outlet as a testing outlet for the development and modification of the SHANSHAN Cooperative Arrangements. Due to the maturing of the SHANSHAN Cooperative Arrangements, the recovery of the relevant distributor from its financial difficulties and in order to distinguish the brand positioning of our FIRS brand from our SHANSHAN brand, we converted this FIRS branded retail outlet into a first-tier distributor retail outlet operated in a manner similar to that of other FIRS branded distributor retail outlets in July 2017. All of our FIRS branded retail outlets were either self-operated retail outlets or distributor retail outlets following this conversion and up to the Latest Practicable Date.
- (2) During the years ended December 31, 2015, 2016 and 2017, a total of 31, nil and eight second-tier distributor retail outlets, respectively, were converted into first-tier distributor retail outlets. Please see “Distributorship model — Movement of distributors — Conversion from second-tier distributor retail outlets into first-tier distributor retail outlets” in this section for further details relating to these conversions.

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- (3) During the year ended December 31, 2016, (i) a total of 29 first-tier distributor retail outlets operated by Shaanxi Maoye and Mr. Luo Xianfei were converted into self-operated retail outlets to avoid conflict of interest and reduce connected transactions, see “Retail network management – Major customers” in this section for further details; and (ii) a total of 32 first-tier distributor retail outlets operated by a third-party first-tier distributor were converted into self-operated retail outlets as the relevant distributor faced financial difficulties for its own reasons, while we were at the relevant time looking for expanding our self-operated retail outlets.
- (4) During the year ended December 31, 2017, a total of 12 first-tier distributor retail outlets, which were operated by two third-party first-tier distributors and located in the prime locations of Nanjing, Hangzhou and Ningbo, were converted into self-operated retail outlets. These conversions were initiated by us upon our recognition of the unmet potential of these prime locations and the inability of the relevant first-tier distributors to fully utilize this potential due to a lack of financial resources. Compared to distributorship sales where the amount of revenue we generate is dependent on the procurement strategies, and is limited by the financial resources, of the relevant first-tier distributors, we believe we can better explore the market potential of these prime locations through converting the relevant distributorship retail outlets into self-operated retail outlets, as we are able to promptly replenish inventory for these self-operated retail outlets based on market demand as we have stronger financial resources. Our Directors have confirmed that there were no material disputes between us and the relevant first-tier distributors.
- (5) During the year ended December 31, 2016, one of our first-tier distributors ceased to renew its distributorship agreement with us for its own reasons. Accordingly, this first-tier distributor transferred its two retail outlets, together with the relevant geographical territories, to two second-tier distributors of another first-tier distributor at nil consideration.

### *Assessments of our first-tier and second-tier distributors*

While we continue to focus on the sale of our FIRS branded products to distributors for onward sales to end-customers, in a move to streamline and optimize our distributor retail network, we have tightened our distributorship management since September 2015. We assess the performance of individual distributor retail outlet based on, among other things, the following:

- (i) ***Inventory levels and the inventory turnover rate of the relevant distributors:*** To promote a healthy financial model and improve the cash flow of our distributors so as to develop a sustainable distributorship network, we had been monitoring the inventory levels and the inventory turnover rate of our distributors throughout the Track Record Period and up to the Latest Practicable Date based on the sales and inventory reports provided by first-tier distributors and second-tier distributors (through their respective first-tier distributors) every February and August. We request distributors with excessive inventory or low inventory turnover rate to reduce their inventory levels within a specific period by, for example, participating in seasonal sales or promotional activities. Such inventory level and inventory turnover rate assessments are based on retail outlet locations, historical procurement volume from us and historical sales performance to end-customers. To tighten the enforcement of our inventory control, we have implemented a measure to request our distributors to close down all or some of their retail outlets if they fail to reduce their inventory levels or improve their inventory turnover rate within the periods specified under the relevant notifications, or if they receive notifications for more than three times. We believe this initiative could reduce the exposure of our distributors to financial and operational risks and hence promote a healthy distributorship network;



- (ii) ***Retail outlet locations:*** Over-concentration of distributor retail outlets may create market share cannibalization, resulting price competition between distributor retail outlets and lowering the profitability of our distributors. This could in turn affect our sales to distributors in the long run. To optimize our distributor retail network and better allocate our resources, we set a maximum number of distributor retail outlets for each geographical region. We adjust such maximum numbers from time to time with reference to, among other factors, the GDP, population size, local spending power, competitive landscape, historical sales performance and the historical procurement levels of the relevant region. In view of such adjustment, we may require the relevant distributors to close down some of their retail outlets to optimize our distributor retail network;
  
- (iii) ***Procurement targets:*** While we do not set minimum procurement commitments under distributorship agreements, we provide procurement targets under which if the purchases of distributors achieve the procurement targets, we reward them by offering a discount on those purchases. We do not penalize our distributors if they fail to achieve the procurement targets. We adjust the procurement targets annually when we renew the distributorship agreements with our distributors with reference to their retail outlet locations, the number of retail outlet operated by them, historical procurement volume from us and historical sales performance to end-customers. In a move to streamlining and optimizing our distributorship retail network, we assessed the performance of individual distributor retail outlets in September 2015 with reference to, among other factors, the amounts of their procurement targets; and
  
- (iv) ***Compliance with our decoration and product display guideline:*** We place great emphasis on cultivating our brand image. To provide standardized shopping experiences, we require our distributor retail outlets to adopt uniform designs, appearance, decoration, layout, color and lighting scheme aiming to provide a relaxing and comfortable environment through reasonable space planning and display layout. We conduct on-site inspections at each of the retail outlets operated by our first-tier and second-tier distributors from time to time and at least once a year to assess the measures implemented by distributors on promoting and protecting our brand names, brand image and market reputation. We issue warning letter to distributor retail outlets which fail to comply with our retail outlet decoration and product display guidelines. We require distributors who fail to rectify the relevant irregularities or received warning letter for more than three times to close down the relevant distributor retail outlets, depending on the type of irregularities and the rectification measures undertaken by the relevant distributors.

In the event that the relevant distributor retail outlets fail to pass our internal assessments, we require our first-tier and second-tier distributors to close down all or some of their retail outlets which failed to pass our internal assessments.

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The table below sets forth the number of closed first-tier and second-tier distributor retail outlets by key reasons for the years indicated:

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<i><b>Number of first-tier distributor retail outlets closed</b></i>			
Failed to pass our internal inventory levels assessment	5	35	3
Failed to pass our retail outlet location assessment	2	108	12
Failed to pass our procurement target assessment	2	76	5
Failed to comply with our retail outlet decoration and product display guidelines	7	32	4
	<b>16</b>	<b>251</b>	<b>24</b>
<i><b>Number of second-tier distributor retail outlets closed</b></i>			
Failed to pass our internal inventory levels assessment	1	14	nil
Failed to pass our retail outlet location assessment	nil	22	2
Failed to pass our procurement target assessment	nil	10	nil
Failed to comply with our retail outlet decoration and product display guidelines	nil	6	1
	<b>1</b>	<b>52</b>	<b>3</b>

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our distributors as a result of the closure of their distributor retail outlets.

***Closure of first-tier and second-tier distributor retail outlets***

We started streamlining and optimizing our distributor retail network in September 2015 in order to strategically reallocate our resources for the development of (i) e-commerce sales to further capitalize on the significant growth potential brought by e-commerce sales; and (ii) SHANSHAN Cooperative Arrangements as we believe these arrangements can reduce our inventory risks and improve our profitability. Notwithstanding that we experienced a decrease in revenue derived from the sales of our FIRS branded products to distributors following the adoption of this strategy, the overall revenue derived from the sales of our FIRS branded products increased as a result of the increased sales of FIRS branded products through e-commerce platforms and self-operated retail outlets. In addition, we also recorded a significant increase in the revenue derived from the sales of our SHANSHAN branded products as a result of the resources we allocated on developing our SHANSHAN Cooperative Arrangements. Please see “Financial Information — Discussions and analyses of results of operations” in this prospectus.

The number of first-tier distributor retail outlets decreased significantly from 775 retail outlets as of December 31, 2015 to 493 retail outlets as of December 31, 2016, and further decreased to 482 retail outlets as of December 31, 2017. This decrease was primarily due to (i) the closure of 251 and 24 first-tier distributor retail outlets during the years ended December 31, 2016 and 2017, respectively, as the relevant first-tier distributor retail outlets failed to meet our internal assessments as illustrated in “Movement of distributors — Assessments of our first-tier and second-tier distributors” in this section; and (ii) the conversion of 61 and 12 first-tier distributor retail outlets into self-operated retail outlets during the years ended December 31, 2016 and 2017 as disclosed in notes 3 and 4 of the table in “Distributorship model — Movement of distributors” in this section.

The number of second-tier distributor retail outlets decreased from 203 retail outlets as of December 31, 2015 to 158 retail outlets as of December 31, 2016, and further decreased to 148 retail outlets as of December 31, 2017. This decrease was primarily due to the closure of 52 and three second-tier distributor retail outlets during the years ended December 31, 2016 and 2017, respectively, as the relevant second-tier distributor retail outlets failed to meet our assessments as illustrated in “Movement of distributors — Assessments of our first-tier and second-tier distributors” in this section.

Our Directors have confirmed that they are not aware of any change in the market sentiment for our Group’s products during the years ended December 31, 2016 and 2017. The significant number of closures and conversions of distributor retail outlets during the years ended December 31, 2016 and 2017 were primarily attributable to the implementation of our strategies starting from September 2015 in respect of streamlining and optimizing our distributor retail network and reallocating our resources for the development of e-commerce sales and the SHANSHAN Cooperative Arrangements.

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To prevent channel stuffing, we have put in place various measures to cope with the inventory of distributor retail outlets which are closed or converted into other types of retail outlets. Please see “Inventory control — Inventory of our distributor retail outlets — Measures to cope with the inventory of closed and converted distributor retail outlets” in this section for further details.

### *Conversion from second-tier distributor retail outlets into first-tier distributor retail outlets*

During the years ended December 31, 2015, 2016 and 2017, a total of 31, nil and eight second-tier distributor retail outlets, respectively, were converted into first-tier distributor retail outlets. To the best knowledge, information and belief of our Directors, these conversions were primarily due to the increasing sales volumes of the relevant second-tier distributor retail outlets, driving them to enter into distributorship agreements directly with us instead of continuing to procure products from their first-tier distributors in order to (i) reduce their product procurement costs as they can procure products directly from us at better pricing terms than procuring from first-tier distributors, since first-tier distributors sell products procured from us to their sub-distributors at a mark-up; and (ii) improve their product procurement flexibility as they can procure products from us at larger volumes than from first-tier distributors.

Save for changing the contracting party from first-tier distributors to our Group and updating the pricing terms of the distributorship agreements, there were no material changes in the relevant distributorship agreements, including contract duration and geographical territory, with the second-tier distributors during the Track Record Period and up to the Latest Practicable Date. These were because our first-tier distributors are required to enter into sub-distributorship agreements with second-tier distributors on substantially the same terms and conditions as the sub-distributorship agreement template provided by us, and such agreement templates are similar to the standard distributorship agreements we enter into with our first-tier distributors.

To prevent market share cannibalization within our distribution network, we carved out second-tier distributors’ geographical territories from the original first-tier distributors’ geographical territories. Second-tier distributors are not required to pay any consideration to our Group or their first-tier distributors for such conversion and we have amended their distributorship agreements to reflect such changes. To the best knowledge, information and belief of our Directors, during the Track Record Period and up to the Latest Practicable Date, there were no material disputes between the original first-tier distributors and the second-tier distributors as a result of the conversion of second-tier distributor retail outlets into first-tier distributor retail outlets.

After their conversion from second-tier distributor retail outlets to first-tier distributor retail outlets, the relevant distributors continued the sales of the products procured from us in their distributor retail outlets. To the best knowledge, information and belief of our Directors and based on the written confirmations issued by the relevant distributors, all the products procured from us prior to such conversions had subsequently been sold.

### Distributorship agreements

We enter into standardized distributorship agreements with our first-tier distributors, pursuant to which the first-tier distributors, upon obtaining our approval, may authorize second-tier distributors to open retail outlets to sell FIRS branded products within the geographical territory authorized by us. We do not directly enter into distributorship agreements with second-tier distributors. In order to maintain flexibility, the distributorship agreements entered into between us and our first-tier distributors are typically negotiated and renewed on an annual basis. All distributorship agreements that we have entered into are legally binding and enforceable under the PRC laws. Our standardized distributorship agreement includes the following salient terms:

- ***Duration and renewal:*** typically one year, and renewable at our discretion based on the performance and credit history of our distributors;
- ***Geographical territory and exclusivity:*** to prevent market share cannibalization within our distribution network, price competition between our distributors and over-concentration of retail outlets, each of our first-tier distributors is authorized to operate retail outlets within a designated geographic territory on an exclusive basis under the relevant distributorship agreement. Authorized first-tier and second-tier distributors need to obtain our approval before they open, furnish, move or close any retail outlets in their respective territories;
- ***Sales performance and inventory management:*** we regularly review and assess our distributors' sales, financial and operational performance and monitor their inventory levels. We gradually install and upgrade our ERP systems at distributor retail outlets to keep track of the sales performance and inventory levels of our distributors. Distributors who have not yet installed our ERP system are required to send us reports on their sales performance and inventory levels at least twice a year in February and August. The distributorship agreements do not provide for minimum procurement commitments and targeted inventory levels;
- ***Procurement targets and awards:*** we provide procurement targets under distributorship agreements. For the purpose of encouraging our distributors to achieve procurement targets, we reward them by offering a discount on those purchases. We do not penalize our distributors if they fail to achieve the procurement targets. Excessive orders are discouraged as they may expose our distributors to financial and operational risks. We adjust the procurement targets annually when we renew the distributorship agreements with our distributors with reference to their retail outlet locations, the number of retail outlet operated by them, historical procurement volume from us and historical sales performance to end-customers. We evaluate amount of procurement targets of our distributors with reference to, among other things, the procurement targets;
- ***Suggested retail price:*** we provide suggested retail prices to first-tier and second-tier distributors for the sale of our products, which enables our distributors to adjust their selling prices in accordance with retail market dynamics, competition and customer demand in the regions in which they operate;

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- **Products:** our distributors are not allowed to sell products other than our FIRS branded products at the relevant distributor retail outlets;
- **Purchase orders:** purchases by distributors are made through purchase orders placed with us. Upon receipt of the purchase orders, we sell and deliver products in accordance with the terms and conditions of the distributorship agreements;
- **Return of products:** we do not accept product returns from our distributors unless there are quality defects in the products. For the years ended December 31, 2015, 2016 and 2017, the total value of the returned products from our distributors amounted to RMB0.5 million, RMB0.4 million and RMB0.4 million, respectively, representing approximately 0.1%, 0.1% and 0.1% of our total revenue for the respective years;
- **Obsolete stock arrangement:** we have undertaken a number of measures to handle the obsolete stock held by our distributors. Please see “Inventory control — Inventory of our distributor retail outlets” in this section for further details;
- **Transportation:** we engage independent logistics service providers to deliver products to our distributors. Delivery costs are shared equally by us and the distributors. Should a distributor specify another means of delivery other than our nominated independent logistic services providers, the additional costs of delivery are borne by the relevant distributor;
- **Payment and credit terms:** our distributors are generally required to pay us a non-refundable deposit, which is generally not more than 20% of the value of a purchase order, within 10 days of the purchase order being confirmed. Our distributors are required to settle the balance of the full payment no later than five days prior to the scheduled product delivery date. Subject to our management team’s approval, we provide discretionary credit terms ranging from 30 days to 240 days to certain distributors based on their (i) annual sales volume; (ii) annual recovery rate; and (iii) creditability;
- **Use of brands:** We sell FIRS branded products to end-customers through distributor retail outlets. We require our distributors to protect the brand names and reputation of FIRS brand. Our distributors are authorized to use the trademarks and trade name of FIRS brand in the ordinary operation of their distributor retail outlets within the scope set out in the distributorship agreements. Our distributors are required to protect our reputation and keep our corporate information, business know-how and trade secrets in strict confidentiality during their ordinary course of business, marketing and promotional activities. Upon the closure of any distributor retail outlets, the relevant distributors are required to remove all signs and decorations that bear our brand names upon termination of the agreements. In addition, distributors must deregister the retail outlets or alter the names of the retail outlets so that they no longer bear our brand names. We may require the relevant distributors to close down their retail outlets if their fail to protect our brand names and reputation; and

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- **Termination of rights:** the non-defaulting party may terminate the distributorship agreements if there is any breach of the agreements.

### **Procurement conferences**

We organize three procurement conferences every year to showcase our upcoming FIRS branded products for the “spring/summer” collections and “autumn/winter” collections to our existing and potential distributors and their sub-distributors.

At the procurement conferences, we organize fashion shows to present our new collections and introduce their design philosophy, characteristics, fabrics used and production techniques. We may use this opportunity to exchange ideas with our distributors about current and future market trends in the PRC menswear market and communicate with our first-tier distributors to understand their sales performance and inventory levels. We consider the procurement conferences as important events for our Group to interact with our distributors and to understand the latest market trends and demands.

After the procurement conferences, we receive purchase orders from our distributors who procure our products for themselves and on behalf of their sub-distributors. The purchase orders set forth, among other things, SKUs, prices, payment terms and purchasing quantities. During the Track Record Period and up to the Latest Practicable Date, none of our distributors canceled any purchase orders that they placed with us.

### **Distributor management, support and service**

Our sales and marketing team is responsible for managing and supporting our distributor retail outlets, which include, among other things, (i) soliciting and selecting potential distributor candidates; (ii) ensuring their compliance with the relevant distributorship agreements including the adoption of our uniform suggested retail price and our retail outlet decoration and product display guidelines; and (iii) monitoring and conducting on-site inspections of distributor retail outlets. We have also undertaken a number of measures to manage the inventory held by our distributor retail outlets. Please see “Inventory control — Inventory of our distributor retail outlets” in this section for further details. The support and services we provide to our distributors cover the key aspects of retail outlet management, including the following:

- **Assessment of retail outlet locations:** our business development, sales and marketing team assists our distributors to identify potential retail outlet sites. Upon request, we also provide distributors with outlet opening reports that contain a detailed analysis of factors such as (i) population density; (ii) the purchasing power of consumers in the vicinity; (iii) locations of and within malls by making comparisons with retail outlets opened by competitors; and (iv) projected sales revenue. Such reports help our distributors make informed decisions on their site selection processes;

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- **Retail outlet decoration and product display:** to provide standardized shopping experiences and deliver a consistent brand image to end-customers, we provide retail outlet decoration and product display guidelines to all distributors to ensure that our distributor retail outlets adopt uniform designs, appearance, decoration, layout, color and lighting schemes. The distributors bear all the costs of renovation and decoration. We may require the relevant distributors to close down their retail outlets if the relevant retail outlets do not comply with our retail outlet decoration and product display guidelines;
- **Training:** we place great emphasis on the training of retail outlet staff and provide our distributors with training on a variety of topics, including our brand history, brand image, marketing strategies, our operational best practices and product knowledge; and
- **After-sale services:** we maintain a service hotline to answer distributors' questions or troubleshoot problems on issues such as product quality, order status, product return and exchange and handling customers' complaints.

We believe our support and services to distributors have strengthened our relationships with our distributors and helped us maintain their loyalty. We may also benefit from word-of-mouth references from our existing distributors to attract potential distributors.

### DIRECT SALES

#### Self-operated retail outlets

During the Track Record Period, we sold FIRS, SHANSHAN, MARCO AZZALI and LUBIAM branded products through self-operated retail outlets. The table below sets forth a breakdown of the number of self-operated retail outlets by brands as of the dates indicated:

	As of December 31,		
	2015	2016	2017
FIRS	9	73	83
SHANSHAN	1	9	17
MARCO AZZALI <sup>(1)</sup>	16	22	20
LUBIAM	13	18	16
<b>Total:</b>	<b>39</b>	<b>122</b>	<b>136</b>

Note:

1. We disposed of MARCO AZZALI brand operations in May 2018 in view of its deteriorating financial performance. Please see "Our brands and products — Our historical MARCO AZZALI brand" in this section for further details.



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For the years ended December 31, 2015, 2016 and 2017, revenue generated from self-operated retail outlets amounted to RMB44.5 million, RMB71.7 million and RMB135.1 million, respectively, representing approximately 8.5%, 12.1% and 16.9% of the total revenue for the respective years.

As of December 31, 2017, we had 136 self-operated retail outlets. The table below sets forth the changes in the number of self-operated retail outlets for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of self-operated retail outlets at the beginning of the year</b>	<b>40</b>	<b>39</b>	<b>122</b>
<i>Add:</i> Number of additional self-operated retail outlets opened	12	30	17
<i>Add:</i> Number of self-operated retail outlets converted from first-tier distributor retail outlets	–	61	12
<i>Less:</i> Number of self-operated retail outlets closed	13	8	15
<b>Number of self-operated retail outlets at the end of the year</b>	<b>39</b>	<b>122</b>	<b>136</b>

The number of self-operated retail outlets increased significantly from 39 retail outlets as of December 31, 2015 to 122 retail outlets as of December 31, 2016 and 136 retail outlets as of December 31, 2017. This increase was primarily due to (i) the opening of 30 and 17 self-operated retail outlets during the years ended December 31, 2016 and 2017, respectively; and (ii) the conversion of 61 and 12 first-tier distributor retail outlets into self-operated retail outlets in the years ended December 31, 2016 and 2017, respectively. Please see “Distributorship model — Movement of distributors” in this section for further details.

Set forth below are certain key arrangements in respect of self-operated retail outlets:

- ***Product ownership:*** products for sale at self-operated retail outlets are owned by us;
- ***Logistics distribution:*** products for sale at self-operated retail outlets are under our centralized distribution. Inventory distribution plans are based on, among other factors, our product procurement schedule, the sales performance of the relevant outlets, and the seasonal demands of the market. We replenish inventory for and allocate inventory among relevant retail outlets on a weekly basis based on sales performance;

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- ***Uniform retail price:*** uniform retail prices are adopted for all products in self-operated retail outlets. Our self-operated retail outlets must follow the product promotion and discount policies and plans determined and adjusted by our headquarters from time to time. Self-operated retail outlets must apply to us in advance if they need to change the discount rate for a particular product due to special circumstances;
- ***Employees:*** we generally enter into labor contracts with our employees directly or indirectly through third party labor service providers;
- ***Transportation and delivery management:*** we engage independent logistics service providers to deliver products to self-operated retail outlets, the cost of which is settled by us with the relevant logistics service providers on a centralized basis;
- ***Return of inventory:*** off-season products are returned to our warehouse;
- ***Warranty and after-sales service:*** please see “Warranties and after-sales service” in this section for further details;
- ***Costs of retail outlets:*** we bear the costs incurred in respect of the operation of self-operated retail outlets; and
- ***Information management:*** we install our ERP systems at each self-operated retail outlet to keep track of its sales, sales performance and inventory levels.

### ***Third-party e-commerce platforms***

According to the CIC Report, online shopping has become increasingly prevalent in the PRC, especially among the younger generation. To capitalize on this market trend and to make our products available to end-customers around the clock throughout the year, we offer certain products under our FIRS and SHANSHAN brands to customers via certain third-party PRC e-commerce platforms, including “Tmall”, “JD.com” and “VIP.com”. We believe that the use of third party e-commerce platforms enables us to extend our geographical coverage and customer reach without having to physically establish a large number of retail outlets, which require higher set up and maintenance costs, and at the same time allows us to capture sales in regions where we do not have a presence.

Most of our products sold through third party e-commerce platforms are exclusives and are different from products sold at our retail outlets. We design and develop the e-commerce exclusives through the joint efforts of our e-commerce sales department and our design, research and development teams. Our e-commerce sales department analyzes sales data and consumer feedback. Our design, research and development teams use these analyses to target designs at identified e-commerce consumer preference. Products we offer on e-commerce platforms are typically value for money menswear products with standardized size and cutting. The production and quality control for our e-commerce exclusives are managed by the same

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team and in the same manner as our other products. We participate in sales events and promotional activities conducted by third party e-commerce platforms and issue discount coupons to e-commerce consumers for their purchases on these platforms. In the course of our e-commerce business, we make use of the technical support provided by third party e-commerce platforms and the logistics services provided by third party logistic service providers.

End-customers can place orders for products that are available on our online stores at the relevant e-commerce platforms and make payments through the electronic settlement services provided by the relevant e-commerce platform operators. Upon confirmation of the order and payment, we arrange independent logistics service providers to deliver the products ordered to the customers.

We entered into agreements with e-commerce platform operators. Set forth below are the salient terms of the agreements we entered into with third party e-commerce platform operators as of the Latest Practicable Date.

- **Term:** the agreements covered service periods up to one year and are renewable or re-negotiated on an annual basis;
- **Fees:** we are required to pay the third party e-commerce platform operators fixed service fees together with commissions equal to a pre-agreed percentage of the sales value for each transaction;
- **Product type and pricing:** we are responsible for determining the type and pricing of the products for sale on e-commerce platforms. We design products for e-commerce sales with a focus on value for money menswear products with standardized size and cutting;
- **Product ownership and delivery:** products for sale at e-commerce platforms are owned by us. We are responsible for arranging independent logistics service providers to deliver the products ordered to end-customers;
- **Settlement:** the service fees payable to the third party e-commerce operators are deducted from our proceeds from sales of products;
- **Technical support:** some of our agreements with e-commerce platform operators require them to provide us with necessary technical support to facilitate our e-commerce sales through their platforms; and
- **Termination:** the service agreements may be terminated by us or by the third party e-commerce platform operators after serving 15 days prior written notice.

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For the years ended December 31, 2015, 2016 and 2017, revenue generated from sales through third party e-commerce platforms amounted to RMB89.1 million, RMB126.5 million and RMB159.0 million, respectively, representing approximately 16.9%, 21.4% and 19.9% of the total revenue for the respective years. According to China General Chamber of Commerce (中國商業聯合會) and Chinese National Commerce Information Center (中華全國商業信息中心), our FIRS branded suits were one of the bestsellers in the PRC in 2015 by e-commerce sales volume among major PRC e-commerce platforms.

As advised by our PRC Legal Advisers, pursuant to (i) the “Administrative Measures for Internet Information Services” (《互聯網信息服務管理辦法》) and (ii) the “Administrative Measures for Filing of Non-operational Internet Information Services” (《非經營性互聯網信息服務備案管理辦法》), we are not required to apply for a business licence given that we sell products only on e-commerce platforms operated by third parties. We are not subject to any registration requirements in respect of the sales of our products through third-party e-commerce platforms in the PRC. Please see “Regulatory Overview — Regulations relating to the PRC online trading” in this prospectus for details. As advised by the PRC Legal Advisers, our e-commerce sales channels are in compliance with the relevant PRC laws and regulations.

We plan to further develop our own e-commerce sales. We will comply with all applicable laws and regulations when we implement this business strategy. Please see “Business strategies — We plan to further develop our e-commerce sales” in this section for further details.

### FRANCHISEE SALES

Apart from selling products to end-customers through our distributor retail network, where we pass the title of our products to first-tier distributors for sale at their retail outlets or the retail outlets operated by their sub-distributors, we also sell our products through our franchisee retail network, where the ownership of the products sold at franchisee retail outlets does not pass to franchisees at any point and is either retained by our OEM suppliers or us. We sell our products through two franchising models, namely (i) the SHANSHAN Cooperative Arrangements for the sales of our SHANSHAN branded products; and (ii) the LUBIAM Franchising Arrangements for the sales of our LUBIAM branded products.

Under our two franchising models, our Group, as franchisor, provides our franchisees with products, operating systems, brands and support, while our franchisees bear all the operational costs of the franchisee retail outlets including rental expenses, staff costs and other day-to-day operational costs in accordance with the terms of the relevant franchising agreements. Although we do not charge our franchisees a separate franchise fee under the relevant franchising agreements, we are entitled to the share an agreed percentage of the revenue derived from the sales proceeds of the products at franchisee retail outlets, which is akin to a variable franchise fee. According to the CIC Report, terming these two business models as a type of franchising arrangements is in line with the practice of some market players in the PRC menswear industry.

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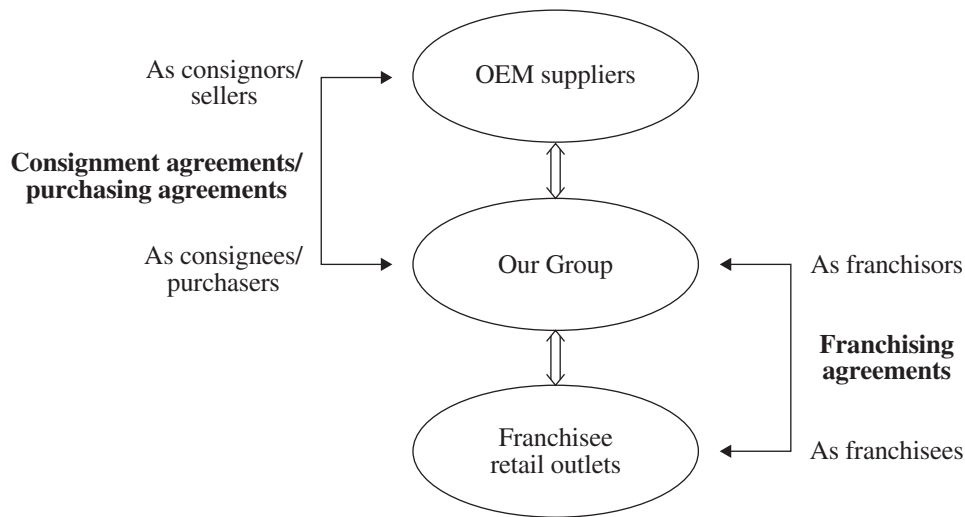
## BUSINESS

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Set forth below are the details of our two franchising models:

### SHANSHAN Cooperative Arrangements

We launched SHANSHAN brand in September 2015. We sell our SHANSHAN branded products through the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. The SHANSHAN Cooperative Arrangements comprise (i) the consignment or purchasing relationship between our Group and our OEM suppliers; and (ii) the franchising relationship between our Group and our franchisees. According to the CIC Report, the business model of the SHANSHAN Cooperative Arrangements as well as the structure and terms of the consignment agreements with our SHANSHAN franchisees are in line with common practice in the PRC apparel industry. The following diagram illustrates the relationships between the relevant parties under the SHANSHAN Cooperative Arrangements.



### *Relationship between our Group and OEM suppliers*

We enter into (i) purchasing agreements with selected OEM suppliers pursuant to which we purchase SHANSHAN branded products from OEM suppliers for sale to customers; or (ii) consignment agreements with selected OEM suppliers pursuant to which we procure SHANSHAN branded products from OEM suppliers for consignment sales to customers. During the Track Record Period, there were OEM suppliers who entered into both purchasing agreements and consignment agreements with us.

#### *(i) Purchasing agreements*

We procure SHANSHAN branded products from OEM suppliers by entering into purchasing agreements with them. Our OEM suppliers, as sellers, sell the finished products to our Group, as purchaser, for onward sale to end-customers. Since the ownership of the purchased products passes to our Group upon purchase, we do account the purchased products as our inventory in our financial statements.

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We enter into purchasing agreements in order to support the expansion of our SHANSHAN branded retail outlets and meet the strong demand for our SHANSHAN branded products. Since June 2016, we have been actively looking for OEM suppliers to enter into consignment agreements with us. We intend to gradually phase out all sales and purchase relationships with the OEM suppliers of our SHANSHAN branded products after we have identified sufficient number of appropriate OEM suppliers for consignment sale.

(ii) *Consignment agreements*

Since June 2016, we have been actively looking for OEM suppliers for entering into consignment agreements with us. Pursuant to the terms of the relevant consignment agreements, we design SHANSHAN branded products in collaboration with our OEM suppliers and sell such products on consignment to end-customers. Our OEM suppliers, as consignors, consign the finished products to our Group, as consignee, for sale to end-customers. The ownership of consignment products is retained by our OEM suppliers until the products are sold to end-customers. Since the ownership of the consignment products does not pass to our Group at any points, we do not account the consignment products as our inventory in our financial statements.

All of our consignors are required to enter into our standardized legally binding consignment agreements, which include the following salient terms:

- ***Details of consignment products:*** such details include the product categories, SKUs, delivery dates, compositions and quantities of consignment products;
- ***Term of consignment:*** the agreements generally provide for a fixed term of two years commencing from the effective date of the respective agreements;
- ***Use of brands:*** consignors are authorized to produce our SHANSHAN branded products. All auxiliary materials and trimmings that bear our logos are manufactured by our designated suppliers, and are provided to our OEM suppliers for production;
- ***Consignment prices:*** the agreement sets forth the consignment prices payable to consignors for each consignment product sold. We pay our consignors in accordance with the schedules set out in consignment agreements;
- ***Retail selling prices:*** we sell the consignment products to end-customers through the relevant SHANSHAN franchisees at retail selling prices as agreed by us and our OEM suppliers. Please see “Financial Information – Critical accounting policies and estimates – Revenue recognition” in this prospectus for details of our revenue recognition policy;

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- ***Refundable earnest money:*** in order to induce OEM suppliers to enter into consignment agreements with us, we pay refundable earnest money to consignors, which in general not more than 30% of the total value of consignment products to be supplied under the consignment agreements within 15 business days after we enter into consignment agreements with our OEM suppliers. The refundable earnest money is used to offset the amounts payable to consignors for each consignment product sold. As of December 31, 2016 and 2017, the outstanding balance of the total refundable earnest money we paid to OEM suppliers amounted to RMB13.7 million and RMB65.4 million, respectively. During the same period, we did not receive any refund of earnest money from our OEM suppliers;
- ***Returns policy:*** we are entitled to return to consignors any consignment products that remain unsold for two years or contain quality defects after removing the images and/or logos of SHANSHAN brand from the relevant consignment products. Since the launch of our SHANSHAN brand in September 2015 and up to the Latest Practicable Date, we had not returned any products to our OEM suppliers. If we return any consignment products that remain unsold for two years to our OEM suppliers, our OEM suppliers are required to return to us the remaining earnest money received from us that has not yet been used to offset the amount payable to OEM suppliers for consignment products sold. For example, assuming an OEM supplier consigns RMB100,000 consignment products to us for sale and the refundable earnest money payable by us to the OEM supplier amounted to 30% of the total value of consignment products, we would pay RMB30,000 refundable earnest money to this OEM supplier. In the event that we subsequently sold RMB20,000 consignment products to our customers, the amounts payable to the OEM supplier of RMB20,000 would be offset by the refundable earnest money we paid to the OEM supplier. In this case, if the remaining RMB80,000 consignment products remained unsold for two years, we would be entitled to return these unsold products to the OEM supplier, and the OEM supplier should return to us RMB10,000 earnest money, being the remaining earnest money received from us that has not yet been used to offset the amount payable to the OEM supplier. In the event that the entire refundable earnest money was used to offset the amounts payable to the relevant OEM supplier, the OEM supplier would not be required to return any earnest money to us when we return unsold products to them;
- ***Delivery of consignment products:*** consignors are responsible for delivering consignment products to our designated warehouses and bear all the relevant transportation costs; and
- ***Termination:*** upon the termination of consignment agreements, consignors can no longer produce our SHANSHAN branded products or use images or logos bearing our SHANSHAN brand.

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As the ownership of consignment products is retained by our OEM suppliers and we do not guarantee the sale of all consignment products to end-customers, we believe the consignment arrangements with OEM suppliers have significantly reduced our inventory risks and enhanced our operational flexibility as they enable us to adjust and tailor our product portfolio proactively, and respond to constantly changing customer preferences and market trends promptly and efficiently. Furthermore, our Directors believe consignment promotes a healthy financial model and optimizes our cash flow when compiling our SHANSHAN branded product portfolio. On the other hand, we believe our consignors also benefit from consigning their products to us as the consignors are able to better utilize their production capacity and increase the sale of their products using our SHANSHAN brand and extensive retail network. Further, many OEM suppliers see these agreements as recognition of their product quality. In addition, we allow our OEM suppliers to set a higher consignment price for consigning their products to us for sale than the procurement prices that we pay to OEM suppliers for product procurement, such that OEM suppliers can benefit from larger profit margins for each of the consignment products sold. We allow our consignors to have larger profits margins than other OEM suppliers primarily because:

- (i) **Lower inventory risks:** if we procure products from OEM suppliers, there are risks that we may not be able to resell the relevant products, or the value of the products procured may go down, while if our OEM suppliers consign their products to us for sale, the OEM suppliers, as consignors, bear all such inventory risks; and
- (ii) **Better cash flow management:** if we procure products from OEM suppliers, there are possible cash flow mismatches arising from the time lags between making payments to OEM suppliers for product procurements and receiving payments from the resale of the relevant products, while if our OEM suppliers consign their products to us for sale, save for the payment of a refundable earnest money to OEM suppliers, we are not required to pay any amount to our OEM suppliers upfront for selling to customers.

We select OEM suppliers as consignors based on stringent criteria. Please see “Supply chain, warehousing and logistics management — OEM suppliers — Selection of OEM suppliers” in this section for further details. As of December 31, 2017, we had 65 OEM suppliers under this consignment arrangement. The table below sets forth the changes in the number of OEM suppliers under this consignment arrangement for the years indicated:

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of OEM suppliers under the consignment arrangement at the beginning of the year</b>	–	–	<b>36</b>
<i>Add:</i> Number of OEM suppliers under the consignment arrangement added	–	36	29
<b>Number of OEM suppliers under the consignment arrangement at the end of the year</b>	–	<b>36</b>	<b>65</b>



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Our Directors have confirmed that none of the OEM suppliers under the SHANSHAN Cooperative Arrangements since the launch of our SHANSHAN brand in September 2015 and up to the Latest Practicable Date had any past or present relationship with our Group as well as our Shareholders, Directors, senior management and any of their respective associates.

### *Relationship between our Group and our franchisees*

We enter into franchising agreements with our franchisees pursuant to which our franchisees provide premises for the opening of SHANSHAN branded franchisee retail outlets and bear all the relevant operational costs, while our Group manages and operates the franchisee retail outlets. We sell the products consigned by or procured from OEM suppliers at these franchisee retail outlets. The ownership of the products sold at franchisee retail outlets does not pass to franchisees at any points.

All of our franchisees are required to enter into our standardized legally binding franchising agreements include the following salient terms:

- ***Location of retail outlets:*** franchisees are responsible for providing premises agreed by us for opening SHANSHAN branded franchisee retail outlets. Franchisees are required to seek our approval before opening, furnishing, moving or closing any franchisee retail outlets;
- ***Guaranteed deposit:*** all franchisees are required to pay us in general not more than RMB500,000 as guaranteed deposits for each franchisee retail outlet. We are entitled to retain the guaranteed deposit should our franchisees breach the terms under the franchising agreements or terminate the franchising agreements. As of December 31, 2015, 2016 and 2017, we received RMB3.5 million, RMB49.2 million and RMB123.2 million from our franchisees, respectively, as guaranteed deposits, and we did not retain any guaranteed deposits during the Track Record Period;
- ***Operational costs:*** our franchisees bear all the operational costs of the retail outlets including rental expenses and staff costs;
- ***Revenue sharing:*** franchisees are entitled to share the revenue derived from the sale of SHANSHAN branded products based on an agreed percentage which is generally not more than 50%. We perform reconciliation with our franchisees on a regular basis;
- ***Store daily operation and management:*** we designate retail outlet managers to supervise the daily operations of our SHANSHAN branded franchisee retail outlets. They are also responsible for ensuring that the operation of our franchisee retail outlets comply with our requirements. Our Group is responsible for managing and operating the franchisee retail outlets including replenishing products, providing staff training and conducting advertising activities;

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- ***Retail outlet decoration and product display:*** to provide standardized shopping experiences and deliver a consistent brand image to end-customers, we are responsible for determining retail outlet decoration and product display so as to ensure that our franchisee retail outlets adopt uniform designs, appearance, decoration, layout, color and lighting schemes. The franchisees bear all the costs of renovation and decoration while we provide certain furnitures and product display to franchisees at our own costs;
- ***ERP systems:*** we install our ERP system at our franchisee retail stores to keep track of its sales, sales performance and inventory levels. The franchisees bear all the costs of installing our ERP system;
- ***Staff employment and training:*** we select retail outlet staff including retail outlet managers and such retail outlet staff are employees of our franchisees. We have no employment relationship with such retail outlet staff and all staff costs are borne by our franchisees. Although the staff of our SHANSHAN branded retail outlets are not our employees, we provide internal and external training to them on areas such as product knowledge, sales techniques, product selection and fitting, customer service, store operation and safety measures. Furthermore, we require all retail outlet staff to follow our standard procedures on various aspects of retail operations, including greeting consumers upon their entry and exit, addressing frequently-asked questions from customers, assisting consumers in selecting suitable apparel and handling consumer complaints. Please see “Retail network management – Retail outlet staff” in this section for further details;
- ***Retail selling prices:*** we provide suggested retail prices of the products sold at the franchisee retail outlets, which prices are similar to the uniform retail prices we adopt at SHANSHAN branded self-operated retail outlets. Save for special sales events to be organized by us from time to time, we do not offer any discount to end-customers. We are entitled to deduct a fixed agreed penalty amount from the retained guaranteed deposits if we discover that our franchisees have sold our products at a discount to end-customers;
- ***Use of brands:*** the franchisees are not allowed to use our brands outside of the relevant franchisee retail outlets;
- ***Term of franchising agreement:*** the agreements generally provide for a fixed term of five years commencing from the effective date of the respective agreements;
- ***Renewal of franchising arrangements:*** we do not set out any terms and conditions for renewal of such franchising arrangements in the agreements with our franchisees in order to retain an absolute right to determine whether to renew the franchising agreements with our franchisees upon expiry. Since the launch of our SHANSHAN brand in September 2015 and up to the Latest Practicable Date, none of the franchising agreements had been expired as the franchising agreements provide a fixed term of five years commencing from the effective date of the respective agreements; and

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- **Termination:** upon the termination of franchising agreements, franchisees can no longer use our SHANSHAN brands.

We consider that rental expenses and staff costs are the major operational costs in our business operation. Under the franchising model of the SHANSHAN Cooperative Arrangements for the sales of our SHANSHAN branded products, rental expenses are borne by our SHANSHAN brand franchisees and they are responsible for employing the franchisee retail outlet staff selected by us and bear all staff costs, we believe such franchising arrangements can significantly reduce the stress on our cash flow of fulfilling these capital requirements and improve our profitability. On the other hand, as our franchisees are not required to procure any products from us and we centrally manage and operate the franchisee retail outlets including replenishing products, providing training to franchisee retail outlet staff and conducting advertising activities, we believe by entering into the franchising agreement our franchisees can leverage on our management skills and experience in the sale of SHANSHAN branded products without bearing any inventory risks or incurring substantial costs. While all employment of staff is undertaken by franchisees, day to day management of staff is under our control. According to CIC, our Group, as franchisor, manages the staff of, and replenishes inventory for, its franchisees are in line with the practice of some market players in the PRC menswear industry. In addition, as we involve in the management and operation of the franchisee retail outlets, we believe this franchising arrangement can help us expand our SHANSHAN branded retail networks rapidly at a relatively low level of risk.

Our Directors have confirmed that there had been no material disagreements, disputes or terminations under the SHANSHAN Cooperative Arrangements since the launch of our SHANSHAN brand in September 2015 and up to the Latest Practicable Date.

As of December 31, 2017, we had 274 franchisee retail outlets. The table below sets forth the changes in our the franchisee retail outlets for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of retail outlets operated by our franchisees at the beginning of the year</b>	–	7	<b>113</b>
<i>Add:</i> Number of additional retail outlets opened	7	106	161
<b>Number of retail outlets operated by our franchisees at the end of the year</b>	<b>7</b>	<b>113</b>	<b>274</b>

Our Directors have confirmed that none of the franchisees under the SHANSHAN Cooperative Arrangements since the launch of our SHANSHAN brand in September 2015 and up to the Latest Practicable Date had any past or present relationship with our Group as well as our Shareholders, Directors, senior management and any of their respective associates.

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### *Financial performance of the SHANSHAN Cooperative Arrangements*

We sell products procured from or consigned by our OEM suppliers to end customers through the SHANSHAN branded franchisee retail outlets of our franchisees. The tables below set forth the financial performance of the SHANSHAN Cooperative Arrangements for the years indicated:

	For the year ended December 31,											
	2015				2016				2017			
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	Revenue	total	Gross	Average	Revenue	total	Gross	Average	Revenue	total	Gross	Average
(% of total revenue)	gross profit	margin	selling price	(% of total revenue)	gross profit	margin	selling price	(% of total revenue)	gross profit	margin	selling price	
RMB'000	RMB'000	%	RMB	RMB'000	RMB'000	%	RMB	RMB'000	RMB'000	%	RMB	
Products procured from our OEM suppliers	1,553	974	62.7	304.5	34,043	22,320	65.6	237.7	116,821	74,302	63.6	230.8
	(0.3%)	(0.4%)			(5.7%)	(7.8%)			(14.6%)	(17.2%)		
Products consigned by our OEM suppliers <sup>(1)</sup>	Nil	Nil	Nil	Nil	13,994	7,841	56.0	356.9	92,163	53,422	58.0	291.4
	(nil)	(nil)			(2.4%)	(2.7%)			(11.6%)	(12.4%)		
	<b>1,553</b>	<b>974</b>	<b>62.7</b>	<b>304.5</b>	<b>48,037</b>	<b>30,161</b>	<b>62.8</b>	<b>263.3</b>	<b>208,984</b>	<b>127,724</b>	<b>61.1</b>	<b>254.1</b>
	(0.3%)	(0.4%)			(8.1%)	(10.5%)			(26.2%)	(29.6%)		

The table below sets forth the volume of products we sold under the SHANSHAN Cooperative Arrangements for the years indicated:

	For the year ended December 31,		
	2015	2016	2017
	Units	Units	Units
Products procured from our OEM suppliers	5,100	143,231	506,088
Products consigned by our OEM suppliers <sup>(1)</sup>	Nil	39,214	316,246
	<b>5,100</b>	<b>182,445</b>	<b>822,334</b>

*Note:*

- (1) Since June 2016, we have been actively looking for OEM suppliers for entering into consignment agreements with us. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers — (ii) Consignment agreements” in this section for further details.

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The table below sets forth the outstanding deposits due to or owed by our Group under the SHANSHAN Cooperative Arrangements as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balance of the refundable earnest money we paid to our OEM Suppliers <sup>(1)</sup>	Nil	13,662	65,393
Outstanding balance of the guarantee deposits we received from our franchisees <sup>(2)</sup>	3,500	49,160	123,200

*Notes:*

- (1) Please see “Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers” in this section for further details regarding the refundable earnest money we paid to our OEM suppliers.
- (2) Please see “Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and our franchisees” in this section for further details regarding the guarantee deposits we received from our SHANSHAN franchisees.

### **LUBIAM Franchising Arrangements**

Apart from selling our LUBIAM branded products at self-operated retail outlets, we also sell these products through retail outlets that are operated by our franchisees under the LUBIAM Franchising Arrangements which are distinct from the SHANSHAN Cooperative Arrangements for our SHANSHAN brand. Under the LUBIAM Franchising Arrangements, the franchisees enter into franchising agreements with us, pursuant to which we authorize the franchisees to enter into agreements with the relevant shopping malls on our behalf and provide us with store management services including day-to-day operation of the relevant retail outlets. We either authorize the franchisees as our agents to deal with shopping malls, or we are responsible to deal with shopping malls and we entrust the franchisees to manage the store.

We believe the LUBIAM Franchising Arrangements allow us to utilize the relationship of our franchisees with shopping malls, as well as the local resources and retail management skills of the franchisees to facilitate our market expansion and on-site retail management. By entering into the LUBIAM Franchising Arrangements, our franchisees are able to sell LUBIAM branded products without bearing any inventory risks as we are responsible for replenishing products for sales at these franchisee retail outlets. According to the CIC Report, the LUBIAM Franchising Arrangements are in line with the practice of some market players in the PRC menswear industry.

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For the years ended December 31, 2015, 2016 and 2017, revenue generated from sales through LUBIAM branded franchisee retail outlets amounted to RMB26.6 million, RMB13.9 million and RMB9.2 million, respectively, representing approximately 5.0%, 2.4% and 1.2% of our total revenue for the respective years.

The table below sets forth a breakdown of LUBIAM branded franchisee retail outlets as of the dates indicated:

	As of December 31,		
	2015	2016	2017
LUBIAM brand	10	7	7

Our Directors have confirmed that none of the franchisees under the LUBIAM Franchising Arrangements during the Track Record Period and up to the Latest Practicable Date had any past or present relationship with our Group as well as our Shareholders, Directors, senior management and any of their respective associates.

Our LUBIAM branded franchisee retail outlets are managed in substantially the same manner as self-operated retail outlets, except for the following:

- **Management of the retail outlets:** the franchisees are responsible for the day-to-day operation of the franchisee retail outlets including routine sales and employee management of the franchisee retail outlets in accordance with the rights and obligations under the relevant franchising agreements. They are obligated to ensure the normal operation of the relevant retail outlets. We have installed our ERP systems at each of these franchisee retail outlets to keep track on their sales and sales performance and our inventory levels at these retail outlets;
- **Service fees:** the service fees we pay to the franchisees are calculated based on an agreed percentage to the sales proceeds derived from the sales of LUBIAM branded products. Such percentage is generally not more than 15% and is determined by us on a case by case basis with reference to, among other things, (i) the locations of the retail outlets; and (ii) the services provided by the franchisees. For the years ended December 31, 2015, 2016 and 2017, the total service fees we paid to our LUBIAM franchisees amounted to RMB2.2 million, RMB1.5 million and RMB1.4 million, respectively;
- **Retail selling prices:** we provide suggested retail prices of the products sold at the franchisee retail outlets, which prices are similar to the uniform retail prices we adopt at LUBIAM self-operated retail outlets;

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- **Settlement methods:** the settlement methods of the sales proceeds between our Group and our franchisees depend on the details of the franchising agreements of which there are two types: (i) we are responsible for dealing with shopping malls directly and we entrust the franchisees to manage the retail outlets (the “**Entrustment Arrangement**”) and (ii) we have authorized the franchisees as our agents to deal with shopping malls and manage the retail outlets (the “**Agency Arrangement**”):
  - in respect of the Entrustment Arrangement, we receive sales proceeds directly from end-customers or the relevant shopping malls and then pay the relevant service fees to our franchisees; or
  - in respect of the Agency Arrangement, the franchisees receive sales proceeds directly from end-customers or the relevant shopping malls and then redistribute the sales proceeds to us after deducting the relevant services fees;
- **Employees:** employees enter into labor contracts with the franchisees;
- **Costs of retail outlets:** under the franchising agreements, we are responsible for expenses relating to the fitting out and initial set up of the franchisee retail outlets, such as expenses for renovation. Depending on the terms of the franchising agreements, the franchisees are generally responsible for expenses arising from the normal business operations of the retail outlets such as rental expenses, staff salary and utilities expenses;
- **Use of brands:** the franchisees are not allowed to use our LUBIAM brand outside of the relevant franchisee retail outlets;
- **Term of franchising agreement:** the agreement generally provides for a fixed term of one to three years commencing from the effective date of the respective agreements;
- **Renewal of franchising arrangements:** we do not set out any terms and conditions for renewal of such franchising arrangements in the agreements with our franchisees in order to retain an absolute right to determine whether to renew the franchising agreements with our franchisees upon expiry. During the years ended December 31, 2015, 2016 and 2017, the franchising agreements of seven, six and three franchising retail outlets, respectively, expired in the relevant years, out of which, the franchising agreements of seven, four and three franchising retail outlets were renewed in the relevant years, representing a renewal rate of approximately 100.0%, 66.6% and 100.0% for the respective years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our franchisees as a result of the renewal of franchising agreements; and
- **Termination:** upon the termination of franchising agreements, franchisees can no longer use our LUBIAM brand.

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To supervise the operation of the retail outlets under franchising arrangements, we provide the employees working in such retail outlets with the same training as that provided to employees of self-operated retail outlets to ensure these retail outlets are operated in accordance with our policies and operational procedures.

Our Directors have confirmed that there had been no material disagreements, disputes or terminations under the LUBIAM Franchising Arrangements during the Track Record Period and up to the Latest Practicable Date.

### EXPANSION PLANS

#### Developing our retail network in the PRC

In order to fully capitalize on the business opportunities arising from the growth of the PRC menswear industry, we intend to allocate approximately HK\$28.4 million (equivalent to approximately RMB23.2 million), representing approximately 37.8%, of the net proceeds from the Global Offering for further developing our retail network in the PRC. We intend to implement this expansion plan as follows:

- ***Establishing six new flagship self-operated retail outlets:*** within the first 18 months after the Listing, we plan to open six flagship self-operated retail outlets in the prime locations of the main commercial districts in the Tier One, New Tier One and Tier Two cities of Eastern, Northern and Central China, including Shanghai, Beijing, Suzhou, Ningbo, Nanchang and Zhengzhou, to strengthen our market presence in the relevant regions. In order to showcase our latest collections, enhance the shopping experience of our customers and strengthen our brand recognition and awareness, each of our new flagship retail outlets is expected to have a gross floor area of approximately 400 to 500 sq.m.. The total planned capital expenditure for establishing these flagship retail outlets is dependent upon the individual flagship retail outlet size and location. Based on our experience in establishing self-operated retail outlets in past years and assuming each of these six new flagship retail outlets has a gross floor area of approximately 450 sq.m., establishing six new flagship retail outlets is expected to incur a total capital expenditure of approximately RMB10.7 million, among which, approximately RMB6.4 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB4.3 million will be funded from our internal resources, including cash generated from operations and bank financing; and



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- ***Establishing 38 new SHANSHAN branded self-operated retail outlets:*** within the first 18 months after the Listing, we plan to open 38 new SHANSHAN branded self-operated retail outlets in the New Tier One, Tier Two, Tier Three and Tier Four cities of Southwestern, Northeastern and Northwestern China, such as Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces, where we have not yet established a strong retail network, as our bases in the relevant regions to explore the local market potential. In particular, we plan to:
  - (i) open eight new SHANSHAN branded self-operated retail outlets in New Tier One and Tier Two cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces; and
  - (ii) open 30 new SHANSHAN branded self-operated retail outlets in Tier Three and Tier Four cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces.

We expect to open these retail outlets on streets, department stores and shopping malls with no other SHANSHAN branded retail outlets in close proximity and with large volumes of foot traffic, and preferably in the main commercial districts of regions and cities in the PRC. In line with our existing self-operated retail outlets, each of our new self-operated retail outlets is expected to have a gross floor area of approximately 200 to 400 sq.m.. The total planned capital expenditure for establishing these self-operated retail outlets is dependent upon the individual retail outlet size and location. Based on our experience in establishing self-operated retail outlets in past years and assuming each of these 38 new self-operated retail outlets has a gross floor area of approximately 300 sq.m., establishing 38 new self-operated retail outlets is expected to incur a total capital expenditure of approximately RMB16.9 million, among which, approximately RMB10.2 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB6.7 million will be funded from our internal resources, including cash generated from operations and bank financing.

Even though the growing number of SHANSHAN branded self-operated retail outlets increases our risk exposure in sourcing, managing and selling products, as opposed to SHANSHAN branded franchisee retail outlets where our role is limited to facilitating and managing the purchase and sale of SHANSHAN branded products, our Directors believe these risks to be acceptable and manageable as the vast majority of our new retail outlets will be franchisee retail outlets. We consider the establishment of additional SHANSHAN branded self-operated retail outlets to be essential to support the development of the SHANSHAN Cooperative Arrangements as these additional SHANSHAN branded self-operated retail outlets will serve as:

- (i) model retail outlets for the SHANSHAN branded franchisee retail outlets located in the vicinity to ensure all SHANSHAN branded retail outlets adopt uniform designs, appearance, decoration, layout, color and lighting schemes, which in turn will enable us to provide standardized shopping experiences and deliver a consistent brand image to end-customers;

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- (ii) our bases in the relevant regions to support and manage the SHANSHAN branded franchisee retail outlets located in the vicinity including providing staff training and conducting advertising activities, which in turn can enhance the service quality of our SHANSHAN branded franchisee retail outlets, strengthen our relationships with our SHANSHAN franchisees and enable us to closely monitor the operation of SHANSHAN branded franchisee retail outlets; and
  - (iii) local market and fashion trend research centers to solicit feedback from end-customers and explore local market potential, which in turn will enable us to develop diversified product portfolios that meet the prevailing market trends and consumer preferences for menswear; and
- ***Establishing 60 new SHANSHAN branded franchisee retail outlets:*** within the first 18 months after the Listing, we plan to open 60 new SHANSHAN branded franchisee retail outlets in the New Tier One, Tier Two, Tier Three and Tier Four cities of Southwestern, Northeastern and Northwestern China, such as cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces, where we have not yet established a strong retail network to explore the market potential in the relevant regions. In particular, we plan to:
  - (i) open 10 new SHANSHAN branded franchisee retail outlets in New Tier One and Tier Two cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces; and
  - (ii) open 50 new SHANSHAN branded franchisee retail outlets in Tier Three and Tier Four cities in Sichuan, Shanxi, Shaanxi, Liaoning and other selected provinces.

We expect to open these retail outlets on streets, department stores and shopping malls with no other SHANSHAN branded retail outlets in close proximity and with large volumes of foot traffic, and preferably in the main commercial districts of regions and cities in the PRC. In line with our existing SHANSHAN branded franchisee retail outlets, each of our new SHANSHAN branded franchisee retail outlets is expected to have a gross floor area of approximately 150 to 200 sq.m. While our SHANSHAN franchisees will bear all costs of renovation and decoration, to provide a standardized shopping experience and deliver a consistent brand image to end-customers, we provide certain furniture and product display to franchisees at our own cost. The total planned capital expenditure for establishing these SHANSHAN branded franchisee retail outlets is dependent upon the individual retail outlet size. Based on our experience in establishing SHANSHAN branded franchisee retail outlets since September 2015 and assuming each of these new SHANSHAN branded franchisee retail outlets has a gross floor area of approximately 175 sq.m., establishing 60 new SHANSHAN branded franchisee retail outlets is expected to incur a total capital expenditure of approximately

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RMB11.0 million, among which, approximately RMB6.6 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB4.4 million will be funded from our internal resources, including cash generated from operations and bank financing.

The above expansion plans will be carried out and monitored by a team designated by our Board comprising, among others, two of our executive Directors, Mr. Cao Yang and Mr. Luo Yefei. If the actual amount incurred for implementing any of the above expansion plans exceed our expectations, the relevant shortfalls will be funded from our internal resources, including cash generated from operations and bank financing. We believe there is sufficient demand for our Group's products to warrant such expansion for the following reasons:

- ***Strong demand for SHANSHAN branded products:*** According to the CIC Report, the market for business casual menswear in the PRC, which is the focus of the SHANSHAN brand, achieved a CAGR of 11.9% from RMB125.4 billion in 2013 to RMB196.5 billion in 2017, and will achieve a CAGR of 9.7% from RMB217.0 billion in 2018 to RMB314.4 billion in 2022. Capitalizing on this strong demand for business casual menswear in the PRC, we recorded a significant increase in revenue from the sales of our SHANSHAN branded products from RMB1.6 million for the year ended December 31, 2015 to RMB53.8 million for the year ended December 31, 2016, and further increased to RMB234.9 million for the year ended December 31, 2017. To further build on this success, we believe it is in the best interests of our Group to open 38 SHANSHAN branded self-operated retail outlets and 60 SHANSHAN branded franchisee retail outlets after the Listing to take advantage of the existing strong demand for business casual menswear in the PRC;
- ***Strong industry growth of the PRC menswear industry:*** We believe there is growing demand for formal and casual business menswear in the PRC. According to the CIC Report, Chinese men are becoming more conscious about style and fashion, and they are increasingly willing to invest more in their appearances. Over the forecast period from 2018 to 2022, the PRC menswear industry is expected to maintain steady growth with a CAGR of 10.3%, and reaching RMB1,068.6 billion in 2022. To strengthen our market position and improve the value perception of our brands with a view to further tapping into this growing market, we consider the establishment of our six flagship retail outlets at prime locations of the main commercial districts in Tier One, New Tier One and Tier Two cities of Eastern, Northern and Central China, such as Shanghai, Beijing, Suzhou, Ningbo, Nanchang and Zhengzhou, to be the cornerstone supporting our future growth; and

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- ***Rapid economic development in New Tier One, Tier Two, Tier Three and Tier Four cities:*** We plan to open 38 new SHANSHAN branded self-operated retail outlets and 60 new SHANSHAN branded franchisee retail outlets in New Tier One, Tier Two, Tier Three and Tier Four cities to take advantage of the current relatively low establishment costs, raise the profile of our brands relative to our competitors in these cities, and benefit from the increasing affluence of consumers in these cities. According to the CIC Report, there will be rapid economic development in New Tier One, Tier-Two, Tier Three and Tier Four cities from 2018 to 2022, and CIC observed that the market potential of business formal and casual menswear is still far from being fully explored in New Tier One, Tier Two, Tier Three and Tier Four cities. We believe such market potential represents an important opportunities for us to take advantage of the growing demand for formal and casual menswear so as to support our continuous business growth.

To better manage our cash flow, expand our retail network effectively and efficiently, and provide us with sufficient time to evaluate and modify our retail network expansion plans when necessary, we intend to use the net proceeds from the Listing to (i) gradually and progressively open six new flagship self-operated retail outlets at an interval of not less than two months; (ii) focus on establishing self-operated retail outlets before opening franchisee retail outlets; and (iii) focus on establishing SHANSHAN branded retail outlets in New Tier One, Tier Two and Tier Three cities before establishing in Tier Four cities. Set forth below is a detailed implementation plan in respect of the development of our retail network in the PRC with the net proceeds of the Listing from the Listing Date to December 2019. Investors should note that the following plans are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. The implementation of this expansion plan may vary from our current plans as set forth below. We cannot assure you that our plans will be carried out in accordance with our expected time frame and budget.

***(i) From the Listing Date to December 31, 2018***

<b>Implementation plan</b>	<b><u>Use of proceeds</u></b>
Opening two new flagship self-operated retail outlet in Shanghai and Beijing, respectively	RMB2.1 million
Opening 15 SHANSHAN branded self-operated retail outlets, among which:	RMB4.0 million
<ul style="list-style-type: none"><li>• one retail outlet located in a selected New Tier One or Tier Two City of Sichuan Province</li></ul>	

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- one retail outlet located in a selected Tier Two City of Shanxi Province
- one retail outlet located in a selected New Tier One or Tier Two City of Liaoning Province
- one retail outlet located in a selected Tier Two City of Jilin Province
- five retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province
- one retail outlet located in a selected Tier Three or Tier Four City of Shanxi Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province
- one retail outlet located in a selected Tier Three or Tier Four City of Liaoning Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Inner Mongolia

Opening 21 SHANSHAN branded franchisee retail outlets, among which:

RMB2.3 million

- one retail outlet located in a selected Tier Two City of Shanxi Province
- one retail outlet located in a selected New Tier One or Tier Two City of Liaoning Province
- two retail outlets located in selected Tier Two Cities of Jilin Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province
- one retail outlet located in a selected Tier Three or Tier Four City of Shanxi Province

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- three retail outlets located in selected Tier Three or Tier Four Cities of Liaoning Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province
- four retail outlets located in selected Tier Three or Tier Four Cities of Jilin Province
- five retail outlets located in selected Tier Three or Tier Four Cities of Inner Mongolia

**Total:** RMB8.4 million

*(ii) For the six months ending June 2019*

**Implementation plan**

**Use of proceeds**

Opening two new flagship self-operated retail outlet in Suzhou and Ningbo, respectively

RMB2.1 million

Opening 14 SHANSHAN branded self-operated retail outlets, among which:

RMB3.8 million

- one retail outlet located in a selected New Tier One or Tier Two City of Sichuan Province
- one retail outlet located in a selected New Tier One or Tier Two City of Shaanxi Province
- one retail outlet located in a selected New Tier One or Tier Two City of Liaoning Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province
- five retail outlets located in selected Tier Three or Tier Four Cities of Shanxi Province

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- two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province
- one retail outlet located in a selected Tier Three or Tier Four City of Liaoning Province
- one retail outlet located in a selected Tier Three or Tier Four City of Inner Mongolia

Opening 24 SHANSHAN branded franchisee retail outlets, RMB2.6 million  
among which:

- one retail outlet located in a selected New Tier One or Tier Two City of Sichuan Province
- one retail outlet located in a selected Tier Two City of Shanxi Province
- two retail outlets located in selected New Tier One or Tier Two Cities of Shaanxi Province
- two retail outlets located in selected New Tier One or Tier Two Cities of Liaoning Province
- six retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province
- four retail outlets located in selected Tier Three or Tier Four Cities of Shanxi Province
- two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province
- five retail outlets located in selected Tier Three or Tier Four Cities of Liaoning Province
- one retail outlet located in a selected Tier Three or Tier Four Cities of Jilin Province

**Total:** RMB8.5 million

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*(iii) For the six months ending December 2019*

<b>Implementation plan</b>	<u><b>Use of proceeds</b></u>
Opening two new flagship self-operated retail outlets in Nanchang and Zhengzhou, respectively	RMB2.2 million
Opening nine SHANSHAN branded self-operated retail outlets, among which:	RMB2.4 million
<ul style="list-style-type: none"> <li>• one retail outlet located in a selected Tier Two City of Shanxi Province</li> <li>• three retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province</li> <li>• two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province</li> <li>• two retail outlets located in selected Tier Three or Tier Four Cities of Shanxi Province</li> <li>• one retail outlet located in a selected Tier Three or Tier Four City of Liaoning Province</li> </ul>	
Opening 15 SHANSHAN branded franchisee retail outlets, among which:	RMB1.7 million
<ul style="list-style-type: none"> <li>• three retail outlets located in selected Tier Three or Tier Four Cities of Sichuan Province</li> <li>• two retail outlets located in selected Tier Three or Tier Four Cities of Shaanxi Province</li> <li>• one retail outlet located in a selected Tier Three or Tier Four City of Shanxi Province</li> <li>• one retail outlet located in a selected Tier Three or Tier Four City of Liaoning Province</li> <li>• one retail outlet located in a selected Tier Three or Tier Four City of Inner Mongolia</li> <li>• seven retail outlets located in other selected Tier Three or Tier Four Cities in the PRC</li> </ul>	
<b>Total:</b>	<u><u>RMB6.3 million</u></u>



### Enhancing our supply chain, logistics and inventory management capabilities

To support the development of our retail network, we intend to (i) allocate HK\$6.2 million (equivalent to approximately RMB5.1 million), representing approximately 8.2%, of the net proceeds from the Global Offering, for establishing an advanced new warehousing and logistics center; and (ii) allocate HK\$14.5 million (equivalent to approximately RMB11.8 million), representing approximately 19.3%, of the net proceeds from the Global Offering, for enhancing our information technology systems. We intend to implement these expansion plans as follows:

- ***Establishing an advanced new warehousing and logistics center:*** within the first six months after the Listing, we plan to lease a premises in the Yangtze River Delta region to establish a new warehousing and logistics center. In order to provide sufficient space for installing advanced product sorting and distribution equipment and storing our inventory products and SHANSHAN branded consignment products, the new warehousing and logistics center is expected to have a gross floor area of approximately 10,000 sq.m.. The total planned capital expenditure for establishing this warehousing and logistics center is dependent upon the actual size of our warehousing and logistics center, refurbishment costs and equipment costs. Based on our experience in operating our existing warehouse and logistics centers in past years, establishing this new warehousing and logistics center is expected to incur a total capital expenditure of approximately RMB5.4 million, among which, approximately RMB5.1 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB0.3 million will be funded from our internal resources, including cash generated from operations and bank financing;
- ***Upgrading our existing ERP systems:*** we intend to install an upgraded ERP systems at each of (i) our self-operated retail outlets within the first 24 months after the Listing; (ii) the retail outlets of our first-tier and second-tier distributors within the first 24 months after the Listing; and (iii) the retail outlets of our franchisees within the first 24 months after the Listing.

The upgraded ERP systems will feature some new functions including (i) a centralized customer relationship management function for recording customer contact details and facilitating the distribution of marketing and promotion materials; (ii) a 24-hour surveillance system for real time monitoring of our retail network from headquarters; and (iii) a centralized human resources management function. The new ERP system will also provide various analytical functions such as analysis and comparison of the sales performance and inventory levels of our products at different retail outlets so as to facilitate product replenishment for our retail network, product procurement from our OEM suppliers and product design for our new collections.

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To minimize the likelihood of any material disruptions resulting from the introduction of this upgraded system, there will be a trial period of three months so as to ensure a smooth transition process. During the trial period, the upgraded system will only be used as a backup to support our existing ERP systems so as to facilitate adjustments and modifications before the full introduction of the upgraded system. We expect to incur a total capital expenditure of approximately RMB9.9 million for this plan, among which, approximately RMB6.3 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB3.6 million will be funded from our internal resources, including cash generated from operations and bank financing;

- ***Introducing an advanced warehouse management system:*** we intend to (i) install an advanced warehouse management system at our newly established logistics and warehousing center in Ningbo within the first six months after the Listing; and (ii) introduce this advanced warehouse management system to our existing FIRS and SHANSHAN logistics and warehousing centers within the first 24 months after the Listing.

As we do not currently have a specific information technology system for warehouse management purposes, the new warehouse management system, which will integrate with our upgraded ERP systems, will enhance our product storage and distribution capabilities and assist us in monitoring and managing our inventory levels in a more effective and cost efficient manner.

To minimize the likelihood of any material disruptions resulting from the introduction of this new system, there will be a trial period of three months so as to ensure a smooth transition process. During the trial period, the new system will only be used as a backup to support our current warehouse operation, and so facilitate adjustments and modifications before the full introduction of the new system. We expect to incur a total capital expenditure of approximately RMB1.4 million for this plan, among which, approximately RMB0.9 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB0.5 million will be funded from our internal resources, including cash generated from operations and bank financing;

- ***Upgrading our existing inventory sharing and allocation system:*** we intend to upgrade our existing inventory sharing and allocation system within the first 24 months after the Listing to enable centralized management of tasks such as tracking inventory levels and stock locations. In combination with the upgrading of our ERP systems across all our retail outlets, we will achieve end-to-end management of inventory levels at all stages of our supply chain. We expect to incur a total capital expenditure of approximately RMB2.9 million for this plan, among which, approximately RMB1.8 million is expected to be funded by the net proceeds from the Global Offering, and the remaining RMB1.1 million will be funded from our internal resources, including cash generated from operations and bank financing; and

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- ***Expanding our existing information technology facilities:*** we intend to expand our existing information technology facilities within the first 24 months after the Listing. In order to accommodate the new equipment required for our new ERP system, warehouse management system and inventory sharing and allocation system, we expect to expand our information technology facilities to a gross floor area of approximately 200 sq.m.. We believe it is prudent for us to expand our existing information technology facilities as such refurbishment will enhance the operational efficiency and safety of our information technology systems and reduce the chance of future breakdowns that may interrupt the operation of our information technology systems. We expect to incur a total capital expenditure of approximately RMB2.8 million, the entire amount of which is expected to be funded by the net proceeds from the Global Offering.

The above expansion plans will be carried out and monitored by a team designated by our Board comprising, among others, two of our executive Directors, Mr. Cao Yang and Mr. Luo Yefei. If the actual amount incurred for implementing any of the above expansion plans exceed our expectations, the relevant shortfalls will be funded from our internal resources, including cash generated from operations and bank financing.

Although we had three warehousing and logistics centers as of the Latest Practicable Date, we consider the establishment of a new warehousing and logistics center to be essential to supporting the development of our retail network for the following reasons:

- ***Enhancing our product sorting and distribution capabilities to support the development of our retail network:*** our three existing warehousing and logistics centers do not cater for the sorting and distribution of small quantities of products, as is necessary for small scale product replenishment for retail outlets. To cope with the development of our retail network in past years, we incurred significant staff costs to expand our warehousing and logistics team in order to manually sort and distribute products for small scale product replenishment. To enhance the effectiveness and cost-efficiency of our business operation, our Directors believe it is in the best interests of our Group to establish a new warehousing and logistics center equipped with automated sorting and distribution equipment to assist us in fulfilling the growing demand brought about by the development of our retail network;

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- ***Enhancing our inventory management capabilities:*** our three existing warehousing and logistics centers had been operated for more than six years as of the Latest Practicable Date, and these centers do not currently have distinctive areas for separately storing products procured from OEM suppliers and consignment products from consignors under SHANSHAN Cooperative Arrangements. To support the development of our SHANSHAN retail network, we consider it is in the best interests of our Group to establish a new warehousing and logistics center, which will have distinctive areas for separately storing inventory products and consignment products and which will be equipped with an upgraded warehouse management system, to maintain, monitor and manage our inventory levels in a more effective and cost efficient manner; and
- ***Enhancing our product storage capabilities:*** in view of the expansion of our retail network, we expect that the stock-in and stock-out of products at our warehousing and logistics centers will become more frequent and greater in volumes as, among other reasons, (i) products for sale at self-operated retail outlets are under our centralized distribution; (ii) we are responsible for replenishing products for sales at franchisee retail outlets; and (iii) we are entitled to return SHANSHAN branded consignment products that remained unsold for two years to consignors. As our new warehousing and logistics center is expected to have a gross floor area of approximately 10,000 sq.m., which is larger than our existing warehousing and logistics centers, and will be equipped with automated sorting and distribution equipment and an advanced warehouse management system, we believe this center will enable us to cope with the increase in the number of our retail outlets.

### RETAIL NETWORK MANAGEMENT

#### Monitoring and assessing our retail network

We actively monitor and assess the sales, financial and operational performance of our retail outlets and monitor their inventory levels. We use the ERP systems installed at the retail outlets operated by ourselves, our distributors and our franchisees to retrieve and analyze operational data, including sales and inventory, from our sales and distribution network. Retail outlets which have not yet installed our ERP system are required to send us reports on their sales performance and inventory levels from time to time.

In a move to streamline and optimize our distributor retail network, we have tightened our distributorship management since September 2015. Please see “Distributorship model – Movement of distributors” in this section for further details.

### Site selection

We believe site selection is critical to the success of our retail outlets operation, including our distributor retail outlets, self-operated retail outlets and franchisee retail outlets. We have a stringent standard in evaluating and selecting potential sites for our retail outlets. Our retail outlets are typically located on streets with large volumes of foot traffic, department stores and shopping malls, and preferably in the main commercial districts of regions and cities in the PRC. We believe our ability to identify and secure attractive sites for our retail outlets is one of the key factors contributing to our success.

Our business development, sales and marketing team prepares a detailed outlet opening report after they have identified a potential site for opening retail outlets. Based on this report, we analyze factors such as (i) population density; (ii) the purchasing power of consumers in the vicinity; (iii) locations of and within malls by making comparisons with retail outlets opened by competitors and their respective sales data; and (iv) projected sales revenue.

We generally consider and evaluate the following factors during our site selection process:

- geographical location and the operating history of the potential site;
- disposable income and spending power of target consumers in the region where the potential site is located;
- regional population;
- geographical coverage of the potential site;
- competitive landscape of major menswear brands within the region;
- estimated initial capital investment and expected return;
- whether the potential site is helpful to the future presence of the brand in the region;
- projected sales; and
- level of rental expenses.

We plan to seek attractive sites to expand our retail network in a prudent manner. Going forward, we plan to focus on increasing the number of self-operated retail outlets and SHANSHAN branded franchisee retail outlets to further develop our existing market presence.

### **Design and appearance of our retail outlets**

To provide standardized shopping experiences and deliver a consistent brand image to end-customers, we require self-operated retail outlets, our distributor retail outlets and franchisee retail outlets to adopt uniform designs, appearance, decoration, layout, color and lighting schemes. We aim to provide consumers with a relaxing and comfortable environment through reasonable space planning and display layout.

We maintain a flexible in-store display layout for our retail outlets that changes periodically throughout the year to attract consumers' attention to our newly launched items. In addition, when allocating outlet space, we take into account factors such as the expected consumer flow, consumer purchasing habits, the growth potential of different types of products, seasonality, projected sales and promotional campaigns.

The following picture illustrates the appearance of our FIRS branded retail outlets:



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The following picture illustrates the appearance of our SHANSHAN branded retail outlets:



### **Retail outlet staff**

We believe that our retail outlet staff play a key role in promoting sales, maintaining our brand image, and communicating consumer feedback to our design, research and development teams. Retail outlet staff are responsible for daily operation of retail outlets, including promotion, fitting, cash handling, store security and customer service. The number of staff per retail outlet depends on the size, location and type of the retail outlet. We conduct random evaluations of the performance of our retail outlet staff.

We place great emphasis on training and development of our retail outlet staff. We provide internal and external training to the staff of our self-operated retail outlets, distributor retail outlets and franchisee retail outlets on areas such as product knowledge, sales techniques, product selection and fitting, customer service, store operation and safety measures. All new retail outlet staff are required to attend induction courses to ensure they are equipped with the necessary skills to perform their duties. Our retail outlet staff are required to attend training prior to new product launches. Furthermore, we require our retail outlet staff to follow our standard procedures on various retail operation aspects, including greeting consumers upon their entry and exit, addressing frequently-asked questions from customers, assisting consumers in selecting suitable apparel and handling consumer complaints. Such training can ensure that all consumers receive attentive and professional assistance when shopping at our retail outlets.

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### Cash management

We accept cash payments at our self-operated retail outlets and our franchisee retail outlets. We have adopted and implemented strict internal control procedures for cash handling, which include the following:

- each self-operated retail outlet and franchisee retail outlet is equipped with our ERP system, which is directly connected to the systems at our headquarters in order to avoid losses due to misappropriation by employees;
- some of our self-operated retail outlets and franchisee retail outlets have surveillance cameras which are connected to our headquarters to avoid potential misconducts of our employees;
- the retail outlet manager or a designated staff member at each retail outlet is required to check sales receipts against sales and cash proceeds and record the results in our ERP system;
- cash proceeds are kept in the retail outlet's safe unless they exceed a specified amount, and the cash proceeds shall be deposited into our designated bank accounts on a daily basis;
- the finance, accounting and internal control team at our headquarters verifies the reconciliation of sales and actual cash proceeds each month by cross-checking the sales information recorded in our information technology system and cash deposited in the designated bank accounts in respect of each retail outlet. Once the reconciliation is verified, the accounting department confirm the relevant sales records; and
- in the event that any discrepancy is found in the cash reconciliation in respect of any retail outlet, such discrepancy must report to the manager of our finance, accounting and internal central team for investigation.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material cash loss or theft of cash.

### Major customers

During the Track Record Period, our five largest customers include first-tier distributors and work uniform customers. For the years ended December 31, 2015, 2016 and 2017, revenue derived from sales to our largest customer accounted for approximately 3.0%, 3.1% and 2.5% of our total revenue, respectively, and revenue derived from sales to our five largest customers in aggregate accounted for approximately 12.7%, 11.9% and 10.1% of our total revenue, respectively.



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During the Track Record Period, we sold our products through certain related distributors, namely (i) Shaanxi Maoye, a limited liability company established in the PRC which is owned as to 80% by Mr. Luo, our executive Director, and 20% by Ms. Zhou YM, the spouse of Mr. Luo; (ii) Mr. Luo Xianfei, the brother of Mr. Luo; and (iii) a few of our ex-employees. The total revenue attributed to these related distributors accounted for approximately 4.7%, 0.9% and nil of our total revenue for the years ended December 31, 2015, 2016 and 2017, respectively. Other than the aforementioned relationships, to the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, each of our five largest customers was Independent Third Parties. Shaanxi Maoye and Mr. Luo's brother ceased to be our distributors upon expiry of the relevant distributorship agreements in November 2016. We have also terminated all the distributorship agreements with all our ex-employees. To the best knowledge, information and belief of our Directors, having made all reasonable enquiries, save for Shaanxi Maoye, Mr. Luo Xianfei and a few of our ex-employees as mentioned above, none of our Directors or their respective associates or any Shareholders owning more than 5% of our issued Shares had any interest in any of our first-tier and second-tier distributors during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, none of our major customers were our suppliers or vice versa.

### MARKETING AND PROMOTION

We continuously invest in advertising and promotion to enhance customer loyalty, brand reputation and market recognition. We advertise our brands and products through a wide variety of channels including (i) television; (ii) websites; (iii) light-box advertisements in certain airport and high-speed train stations; and (iv) advertisements on high-speed trains. We also actively leverage our own website and social network platforms to share our design philosophy, artistic and lifestyle visions and new collections to the general public so as to enhance our brand image and to increase consumer awareness of our products in the market. To spur end-customers' demand for our products, we have also engaged a spokesperson to improve the value perception of our brands and our retail outlets may from time to time offer discounts and promotions, especially on end-of-season and out-of-season inventory. Our retail stores may also participate in the seasonal sales or promotional activities organized by department stores during holidays or festivals.

For the years ended December 31, 2015, 2016 and 2017, our advertising and promotional expenses amounted to RMB18.5 million, RMB24.6 million and RMB24.5 million, respectively, representing approximately 3.5%, 4.2% and 3.1% of our total revenue for the respective years.

### **WARRANTIES AND AFTER-SALES SERVICE**

We have designed our after-sales policies to comply with all relevant PRC laws and regulations. In general, we do not accept product return or exchange from our end-customers unless the relevant customers can demonstrate that there are quality defects in the products sold within seven days of purchase or delivery. We generally provide one-year product warranties to products that we sold and such warranties are only limited to repair and replacements. We provide paid repair services to end-customers for products sold after the expiration of product warranties. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material product returns, exchanges or product liability claims from our end-customers.

In addition, we do not accept product returns from our distributors unless there are quality defects in the products. We offer a four-month quality assurance period, which commences on the third day following the receipt of the products by the relevant distributors. For the years ended December 31, 2015, 2016 and 2017, the total value of the returned products from our distributors amounted to RMB0.5 million, RMB0.4 million and RMB0.4 million, respectively, representing approximately 0.1%, 0.1% and 0.1% of our total revenue for the respective years. We did not record any provision for product warranties during the Track Record Period and up to the Latest Practicable Date.

We maintain a customer service hotline to answer end-customer, distributor and franchisee enquiries about product quality, order status, product return and exchange, and handle customer complaints. We did not receive any material complaints from consumers and distributors during the Track Record Period and up to the Latest Practicable Date.

### **INVENTORY CONTROL**

As the saleability of menswear products is affected by changes in consumer preferences and fashion trends, our sales levels fluctuate constantly, which in turn affects the inventory levels of self-operated retail outlets and other retail outlets operated by our distributors and franchisees. We believe maintaining appropriate inventory levels across our sales and distribution network is critical to our cash flow and overall profitability. We have undertaken a number of measures to manage the inventory held by our self-operated retail outlets and other retail outlets operated by our distributors and franchisees.

#### **Inventory of our distributor retail outlets**

We sell our FIRS branded products primarily through the retail outlets operated by first-tier and second-tier distributors. We pass the title of products to distributors when we deliver the products to them. The ownership of the inventory held by our distributor retail outlets belongs to our distributors. Inventory of retail outlets may be swapped among retail outlets of the same distributors. We do not allow inventory swaps between different distributors. We set procurement targets under distributorship agreements. If the purchases made by distributors achieve the procurement targets, we reward them by offering a discount

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on those purchases. We do not penalize our distributors if they fail to achieve the procurement targets but the procurement target is a factor which we would consider in forming our distributorship network strategy. Excessive orders are discouraged as they may expose our distributors to financial and operational risks.

### *Inventory control measures*

We have implemented the following measures to monitor the inventory levels of our distributor retail outlets:

- we require first-tier distributors and second-tier distributors (through their respective first-tier distributors) to submit standardized sales and inventory reports to us every February and August. Such reports contain information and updates regarding sales performance and inventory levels of our distributors. We cross-check and compare these sales and inventory reports with our internal sales records to ensure accuracy during the relevant period;
- we conduct on-site inspections at each of the retail outlets operated by our first-tier and second-tier distributors from time to time and at least once a year. We believe, through these inspections, we are able to conduct informal assessments of their sales performance and inventory levels;
- we gradually install our ERP systems at each of our distributor retail outlets. Through these ERP systems, the sales information of our distributor retail outlets is collated and uploaded to our information management system at headquarters on a real-time basis, enabling us to timely analyze and keep track of their sales performance and inventory levels. As of December 31, 2017, our ERP systems had been installed at 362 out of our total 630 first-tier and second-tier distributor retail outlets. We expect to install our ERP system at each of our distributor retail outlets by the end of 2018; and
- at each procurement conference we organize for our distributors, we make enquiries with our distributors as to their sales performance and inventory levels and we record the amount of products procured by our distributors at each procurement conference.

Apart from monitoring the inventory levels of our distributors, we have put in place the following measures to handle end-of-season and out-of-season inventory and expedite the inventory turnover rate of our distributors in order to prevent channel stuffing:

- we provide suggested promotion guidelines and allow our distributors to offer discounts and promotions, especially on end-of-season and out-of-season inventory, to end-customers. For distributor retail outlets that are located in department stores, we allow these retail outlets to participate in seasonal sales or promotional activities organized by the relevant department stores. Depending on the saleability, inventory aging, style, color and size of their inventory products, we do not generally allow our distributors to offer more than 70% discount to the suggested retail prices in these seasonal sales and promotional activities;

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- we provide guidances to distributors on how to promote and expedite the sales of products based on our years of experiences in the PRC menswear industry;
- we advertise our brands and new collections through a wide variety of channels to promote the sales of distributor products. We also encourage them to participate in promotions and advertising activities that have been pre-approved by us; and
- if there are specific indications and circumstances leading us to believe that our distributors or their sub-distributors have excessive inventory, we may refuse to sell additional products to them. We assess the inventory levels of first-tier and second-tier distributors based on information we retrieve from the ERP systems installed at first-tier and second-tier distributor retail outlets and the sales and inventory reports provided by them every February and August, and may consider our distributors as having excessive inventory and refuse to sell additional products to them when, among other indications and circumstances:
  - (i) the inventory levels accumulated by such distributors have exceeded a multiple of their historical annual procurement, which multiple is determined from time to time by the management based on, among other factors, historical procurement records, the product mix in their inventory and the management's understanding of market sentiment in the PRC menswear industry;
  - (ii) we identify a significant and sustained sales and procurement mismatch where the value of products to be procured by the relevant distributors significantly exceeds the historical sales of the relevant products based on data extracted from our ERP systems or the sales and inventory reports provided by distributors; or
  - (iii) we identify a significant delay in the settlement of receivables from the sales of our products by a distributor which we believe is indicative of a failure by the relevant distributor to successfully sell the products procured from us at a rate which justifies the scale of procurement.

Our Group has engaged Baker Tilly, an independent internal control consultant, to conduct a detailed review in November 2017 to verify the effectiveness and adequacy of our Group's internal control mechanism in connection with the prevention of channel stuffing. During this internal control review, Baker Tilly did not identify any internal control deficiencies, and has concluded that our internal control mechanism in connection with the prevention of channel stuffing was adequate and effective in all material respects.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any cases of overstocking of inventory by our distributors. This observation is evidenced by the fact that the composition of our major distributors remained relatively stable throughout the Track Record Period and up to the Latest Practicable Date. In particular, most of our top ten distributors for the year ended December 31, 2015 remained to be our distributors for the years ended December 31, 2016 and 2017, and contributed revenue in an aggregate sum of RMB119.6 million, RMB71.3 million and RMB67.6 million for the respective years, accounting for approximately 39.4%, 26.8% and 33.6% of our total sales to distributors for the respective years. Based on the fact that the revenue contributed by our major distributors remained to be relatively stable during the Track Record Period, and the view of Baker Tilly as mentioned above based on their review of our Group's internal control mechanism in connection with the prevention of channel stuffing, our Directors are of the view, and the Sole Sponsor concurs, that our Group has put in place adequate and appropriate measures to prevent channel stuffing, as our distributors continue to procure products from us.

***Measures to cope with the inventory of closed and converted distributor retail outlets***

During the years ended December 31, 2015, 2016 and 2017, (i) a total of ten, 84 and 15 first-tier distributors, respectively, had closed 16, 251 and 24 of their respective first-tier distributor retail outlets; and (ii) a total of one, 49 and three second-tier distributors, respectively, had closed one, 52 and three of their respective second-tier distributor retail outlets. During the same periods, a total of nil, 61 and 12 first-tier distributor retail outlets were converted into self-operated retail outlets and a total of 31, nil and eight second-tier distributor retail outlets were converted into first-tier distributor retail outlets.

The distributor retail outlets that were closed or converted into other types of retail outlets during the Track Record Period can be divided into retail outlets operated by (i) distributors having more than one retail outlet in their designated geographic territories; and (ii) distributors having closed all retail outlets in their designated geographic territories. The table below sets forth a breakdown of our closed and converted retail outlets for the years indicated.

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	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Closed retail outlets</b>			
First-tier distributor retail outlets which distributors having other retail outlets in operation	10	194	21
First-tier distributor retail outlets which distributors having closed all retail outlets	6	57	3
	<b>16</b>	<b>251</b>	<b>24</b>
Second-tier distributor retail outlets which distributors having other retail outlets in operation	–	16	2
Second-tier distributor retail outlets which distributors having closed all retail outlets	1	36	1
	<b>1</b>	<b>52</b>	<b>3</b>
<b>Retail outlets converted into other types of retail outlets</b>			
First-tier distributor retail outlets converted into self-operated retail outlets	–	61	12
Second-tier distributor retail outlets which distributors having converted the relevant retail outlets into first- tier distributor retail outlets	31	–	8

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We require first-tier distributors and second-tier distributors (through their respective first-tier distributors) to submit standardized sales and inventory reports to us every February and August. We also require distributors to provide us with inventory reports prior to the closure or conversion of retail outlets after closing down sales. The table below sets forth a breakdown of the inventory value and quantity of the closed first-tier and second-tier distributor retail outlets based on inventory reports for the years indicated:

*Year ended December 31, 2017*

	<u>Inventory value</u>	<u>Quantity</u>
	<i>RMB'000</i>	<i>Thousand units</i>
<b>21 first-tier distributor retail outlets which distributors having other retail outlets in operations</b>		
<i>As of August 31, 2016</i>	<b>4,924</b>	<b>28</b>
Less: Inventory sold during closing down sales	4,612	26
<i>After the closing down sales during the year ended December 31, 2017</i>	<b>312</b>	<b>2</b>
<b>Three first-tier distributor retail outlets which distributors having closed all retail outlets</b>		
<i>As of August 31, 2016</i>	<b>526</b>	<b>3</b>
Less: Inventory sold during closing down sales	519	3
<i>After the closing down sales during the year ended December 31, 2017</i>	<b>7</b>	<b>–</b>
<b>Two second-tier distributor retail outlets which distributors having other retail outlets in operations</b>		
<i>As of August 31, 2016</i>	<b>340</b>	<b>2</b>
Less: Inventory sold during closing down sales	314	2
<i>After the closing down sales during the year ended December 31, 2017</i>	<b>26</b>	<b>–</b>
<b>One second-tier distributor retail outlets which distributors having closed all retail outlets</b>		
<i>As of August 31, 2016</i>	<b>188</b>	<b>1</b>
Less: Inventory sold during closing down sales	188	1
<i>After the closing down sales during the year ended December 31, 2017</i>	<b>–</b>	<b>–</b>

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*Year ended December 31, 2016*

	<b>Inventory value</b>	<b>Quantity</b>
	<i>RMB'000</i>	<i>Thousand units</i>
<b>194 first-tier distributor retail outlets which distributors having other retail outlets in operation</b>		
<i>As of August 31, 2015</i>	<b>65,813</b>	<b>383</b>
Less: Inventory sold during closing down sales	60,260	350
<i>After the closing down sales during the year ended December 31, 2016</i>	<b>5,553<sup>(1)</sup></b>	<b>33</b>
<b>57 first-tier distributor retail outlets which distributors having closed all retail outlets</b>		
<i>As of August 31, 2015</i>	<b>20,973</b>	<b>122</b>
Less: Inventory sold during closing down sales	17,208	100
<i>After the closing down sales during the year ended December 31, 2016</i>	<b>3,765</b>	<b>22</b>
<b>16 second-tier distributor retail outlets which distributors having other retail outlets in operation</b>		
<i>As of August 31, 2015</i>	<b>2,804</b>	<b>16</b>
Less: Inventory sold during closing down sales	2,581	15
<i>After the closing down sales during the year ended December 31, 2016</i>	<b>223<sup>(1)</sup></b>	<b>1</b>
<b>36 second-tier distributor retail outlets which distributors having closed all retail outlets</b>		
<i>As of August 31, 2015</i>	<b>8,108</b>	<b>47</b>
Less: Inventory sold during closing down sales	6,853	40
<i>After the closing down sales during the year ended December 31, 2016</i>	<b>1,255</b>	<b>7</b>

*Note:*

- (1) Based on written confirmations provided by the relevant distributors, all of the remaining inventory has been subsequently sold during the year ended December 31, 2017.



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*Year ended December 31, 2015*

	<u>Inventory value</u>	<u>Quantity</u>
	<i>RMB'000</i>	<i>Thousand units</i>
<b>10 first-tier distributor retail outlets which distributors having other retail outlets in operation</b>		
<i>As of August 31, 2014</i>	<b>4,668</b>	<b>27</b>
Less: Inventory sold during closing down sales	4,630	27
<i>After the closing down sales during the year ended December 31, 2015</i>	<b>38</b>	<b>–</b>
<b>Six first-tier distributor retail outlets which distributors having closed all retail outlets</b>		
<i>As of August 31, 2014</i>	<b>2,102</b>	<b>12</b>
Less: Inventory sold during closing down sales	1,988	11
<i>After the closing down sales during the year ended December 31, 2015</i>	<b>114</b>	<b>1</b>
<b>One second-tier distributor retail outlet which distributor having closed all retail outlets</b>		
<i>As of August 31, 2014</i>	<b>160</b>	<b>1</b>
Less: Inventory sold during closing down sales	152	1
<i>After the closing down sales during the year ended December 31, 2015</i>	<b>8</b>	<b>–</b>

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Based on the inventory reports provided by first-tier distributors and second-tier distributors (through their respective first-tier distributors) in August 2014, 2015 and 2016, the total inventory value held by our closed first-tier and second-tier distributor retail outlets amounted to RMB6.9 million, RMB97.7 million and RMB6.0 million, respectively, among which:

- RMB4.7 million, RMB68.6 million and RMB5.3 million, representing approximately 68.1%, 70.2% and 88.3% of the total inventory value held by our closed first-tier and second-tier distributor retail outlets in August 2014, 2015 and 2016, respectively, belonged to closed distributor retail outlets operated by distributors having more than one retail outlets in their designated geographic territories. We allowed such retail outlets to continue selling their unsold products and hold closing down sales at discounted prices for a period of not more than six months in general. At the end of such period, we allowed the relevant distributors to move unsold inventory from closed and converted distributor retail outlets to their other retail outlets in operation for sale. The total amount of inventory moved by distributors to their other retail outlets in operation for sale amounted to approximately RMB38,000, RMB5.8 million and RMB0.3 million for the years ended December 31, 2015, 2016 and 2017, respectively; and
- RMB2.2 million, RMB29.1 million and RMB0.7 million, representing approximately 31.9%, 29.8% and 11.7% of the total inventory value held by our closed first-tier and second-tier distributor retail outlets in August 2014, 2015 and 2016, respectively, belonged to closed distributor retail outlets operated by distributors having closed all of their retail outlets. We allowed such retail outlets to continue selling their unsold products and hold closing down sales at discounted prices for a period of six months in general. At the end of such period, we require the relevant distributors to remove all signs, images and/or logos from the unsold inventory. The total amount of such unsold inventory amounted to approximately RMB122,000, RMB5.0 million and approximately RMB7,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

Notwithstanding that, as of December 31, 2016, there were RMB5.0 million of unsold inventory that were held by first-tier and second-tier distributors which had closed all retail outlets, we believe we have effectively prevented channel stuffing on the basis that:

- (i) the relevant distributors had successfully reduced their inventory levels from RMB29.1 million as of August 31, 2015 to RMB5.0 million as of December 31, 2016 during their respective closing down sales; and
- (ii) RMB5.0 million in unsold inventory was relatively insignificant as it represented approximately RMB54,000 on average for each of the 93 distributor retail outlets which distributors had closed all retail outlets.

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In respect of the 61 distributor retail outlets which were converted into self-operated retail outlets during the year ended December 31, 2016, the total inventory value of these converted distributor retail outlets as of August 31, 2015 amounted to RMB52.7 million. We repurchased such inventory when we converted these retail outlets into self-operated retail outlets at discounted prices based on the saleability, inventory aging, style, color and size of the unsold inventory products. We accounted the products repurchased from our distributors as purchase of inventory and reflected in our consolidated statements of financial position as inventories. We repurchased such inventory for an aggregate sum of RMB26.0 million during the year ended December 31, 2016. As of December 31, 2017, RMB23.0 million (or approximately 88.5%) of the inventory that we repurchased from our distributors in an aggregate sum of RMB26.0 million had been sold by us through our self-operated retail outlets.

In respect of the 12 distributor retail outlets which were converted into self-operated retail outlets during the year ended December 31, 2017, the total inventory value of these converted distributor retail outlets immediately before such conversion amounted to RMB3.0 million. We allowed the relevant distributors to move unsold inventory from converted distributor retail outlets to their other retail outlets in operation for sale. Based on written confirmations provided by the relevant distributors, approximately RMB2.8 million of such inventory moved by the relevant distributors has been subsequently sold through their other retail outlets in operation as of December 31, 2017.

Based on (i) information we retrieved from the ERP systems installed at closed first-tier and second-tier distributor retail outlets; and (ii) the inventory reports of the closing down retail outlets provided by the relevant first-tier distributors and second-tier distributors (through their respective first-tier distributors) before and after the relevant closing down sales, our distributors had substantially disposed of their respective inventory through their closing down sales during the Track Record Period. We believe we have successfully coped with the inventory of closed and converted distributor retail outlets and have effectively prevented channel stuffing in our distribution network. Our Directors have confirmed that they were not aware of any material channel stuffing of inventory held by closed and converted retail outlets during the Track Record Period.

### **Inventory of self-operated retail outlets**

The ownership of the inventory held by self-operated retail outlets is owned by us. In order to maintain sufficient levels of inventory at self-operated retail outlets to meet customer demand while preventing overstocking, we have implemented the following measures to monitor the inventory levels of self-operated retail outlets:

- we have installed ERP systems at each self-operated retail outlet. Through these ERP systems, the sales information of self-operated retail outlets is collated and uploaded to our information management system at headquarters on a real-time basis, enabling us to timely analyze and keep track of their sales performance and inventory levels. We analyze the inventory levels of unsold products and products in high demand and then realign our marketing strategies accordingly. We also take such information into account when we plan for the current and following seasons;

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- we conduct on-site stock taking at least once a year to cross-check and compare the inventory levels of each self-operated retail outlet with the information we retrieved from our ERP systems;
- we deliver products to self-operated retail outlets for sale based on the historical sales performance of the relevant products and their current inventory levels; and
- if certain products are out of stock, we replenish the relevant products from nearby self-operated retail outlets in order to effectively utilize our inventory and expedite our inventory turnover rates.

Apart from monitoring the inventory levels of self-operated retail outlets, we have put in place the following measures to handle end-of-season and out-of-season inventory and expedite the inventory turnover rate of our self-operated retail outlets:

- in respect of FIRS and LUBIAM branded products, we offer discounts and promotions, especially on end-of-season and out-of-season inventory, to end-customers at self-operated retail outlets that are situated at department stores. We allow these retail outlets to participate in seasonal sales or promotional activities organized by the relevant department stores. Depending on the saleability, inventory aging, style, color and size of our inventory products, we offer 30% to 50% discount to the uniform retail prices in these seasonal sales and promotional activities;
- in respect of SHANSHAN branded products procured from OEM suppliers, we intend to centralize all end-of-season and out-of-season inventory for sale to end-customers at special sale events organized by us from time to time. We do not offer any discounts for consignment products. Depending on the saleability, inventory aging, style, color and size of our inventory products, we offer 30% to 50% discount to the uniform retail prices in these special sale events; and
- in relation to obsolete inventory that we fail to sell for two to three years at self-operated retail outlets, we may offer a discount of 10% to 30% to the uniform retail prices of the relevant products to end-customers.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any cases of overstocking of inventory held by self-operated retail outlets.

### **Inventory of franchisee retail outlets**

The inventory held by our SHANSHAN branded franchisee retail outlets is either owned by us or by our OEM suppliers, and the inventory held by our LUBIAM franchisee retail outlets is owned by us. For the inventory which we purchase from OEM suppliers for sale at our franchisee retail outlets, we adopt similar inventory management measures as self-operated retail outlets.

Since June 2016, we have been procuring SHANSHAN branded products from OEM suppliers under consignment arrangements. Pursuant to the terms of the relevant consignment agreements, our OEM suppliers, as consignors, consign the finished products to our Group, as consignees, for sale to end-customers. The ownership of consignment products is retained by

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our OEM suppliers until the products are sold to end-customers. Since the ownership of the consignment products does not pass to our Group at any points, we do not account the consignment products as our inventory in our financial statements. Under this arrangement, we are entitled to return to consignors any consignment products that remain unsold for two years or contain quality defects after removing the images and/or logos of SHANSHAN brand from the consignment products. We did not return any products to our OEM suppliers during the Track Record Period.

We have put in place the following measures to handle end-of-season and out-of-season inventory and expedite the inventory turnover rate of our SHANSHAN and LUBIAM franchisee retail outlets:

- in respect of LUBIAM branded products, we offer discounts and promotions, especially on end-of-season and out-of-season inventory, to end-customers at franchisee retail outlets that are situated at department stores. We allow these retail outlets to participate in seasonal sales or promotional activities organized by the relevant department stores. Depending on the saleability, inventory aging, style, color and size of our inventory products, we offer 30% to 50% discount to the uniform retail prices in these seasonal sales and promotional activities;
- in respect of SHANSHAN branded products procured from OEM suppliers, we centralize all end-of-season and out-of-season inventory for sale to end-customers at special sale events organized by us from time to time. We do not offer any discounts for consignment products. Depending on the saleability, inventory aging, style, color and size of our inventory products, we offer 30% to 50% discount to the uniform retail prices in these special sale events; and
- in relation to obsolete inventory that we fail to sell for two to three years at franchisee retail outlets, we may offer a discount of 10% to 30% to the uniform retail prices of the relevant products to end-customers.

We believe the consignment arrangements with OEM suppliers significantly reduce our inventory risks and enhance our operational flexibility as they enable us to adjust and tailor our product portfolio proactively, and respond to constantly changing customer preferences and market trends promptly and efficiently. Furthermore, our Directors believe consignment promotes a healthy financial model and optimize our cash flow when compiling our SHANSHAN branded product portfolio. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements” in this section for further details.

### WORK UNIFORMS

Various large scale enterprises in the PRC procure their work uniforms by tender. We participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. During the Track Record Period, we participated in such tenders on our own or together with our Controlling Shareholder, Shanshan.

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During the years ended December 31, 2015, 2016 and 2017, revenue generated from the sales of our FIRS branded work uniforms amounted to RMB36.2 million, RMB40.3 million and RMB64.9 million, respectively, representing approximately 6.9%, 6.8% and 8.1% of our total revenue for the respective years. The table below sets forth a breakdown of the revenue derived from our work uniform business by tender type for the years indicated:

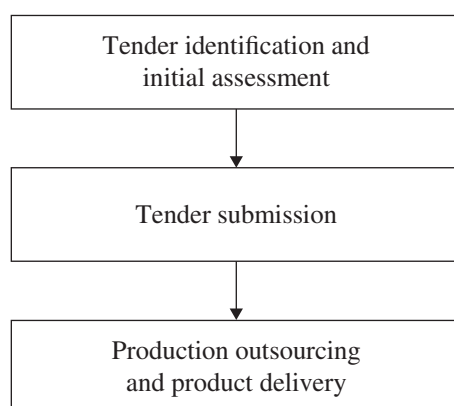
	For the year ended December 31,					
	2015		2016		2017	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of FIRS branded work uniforms through participating in the relevant tender on our own	20,523	56.7	36,545	90.8	49,238	75.9
Sales of FIRS branded work uniforms through participating in the relevant tender together with Shanshan	15,702	43.3	3,724	9.2	15,669	24.1
<b>Total:</b>	<b>36,225</b>	<b>100.0</b>	<b>40,269</b>	<b>100.0</b>	<b>64,907</b>	<b>100.0</b>

*Note:*

- (1) During the year ended December 31, 2017, we recognized revenue of RMB15.7 million from two successful tenders secured in May 2016 through participating in the relevant tenders together with Shanshan. Subsequent to these successful tenders, we ceased to submit tenders with Shanshan in May 2016 in anticipation of the Listing.

### ***Work flow of our work uniform business***

The diagram below illustrates the general work flow of our work uniform business:



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### *Tender identification and initial assessment*

Our business development, sales and marketing team closely monitors public information about tender invitations for work uniforms in the PRC. Once we identify a tender invitation, our business development and sales and marketing team assesses, among other factors, (i) the eligibility requirements for submitting the relevant tender, such as registered capital requirements and track records; (ii) the specifications of the work uniforms in the relevant tender invitation; and (iii) the estimated profitability to be derived from the relevant tender. If the tender offerors are new to us, we may also conduct background searches against the relevant tender offerors to assess their financial healthiness, credibility and reputation.

### *Tender submission*

If we decide to make a tender submission, we prepare the relevant tender submission documents in accordance with the requirements and specifications as set forth in the relevant tender invitation. The tender documents are required to be approved by our management team before submission. The preparation of a tender submission requires the joint efforts of different teams:

- *Business development, sales and marketing team*: coordinate the whole tender submission preparation process, and liaises with the relevant customers;
- *Product design, research and development team*: design the relevant work uniforms pursuant to the specifications in the relevant tender invitations; and
- *Procurement and production team*: estimates the production costs and determines our desired profit margins for the tender.

If a tender is successful, we enter into legally binding written agreements with the relevant customers.

### *Production outsourcing and product delivery*

We outsource the production of FIRS branded work uniforms to various domestic OEM suppliers. The selection and management of such OEM suppliers is similar to that of our other products. Please see “Supply chain, warehousing and logistics management — OEM suppliers” in this section for further information. We have also established rigorous quality control measures, which are built into the various stages of our product procurement processes. Please see “Quality control” in this section for further details. We deliver finished products to the designated places as stipulated in the relevant agreements.

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### *Participating in the tender process for work uniforms together with Shanshan*

Prior to May 2016, in respect of the tenders which we could not meet the relevant eligibility requirements, we participated in the relevant tendering processes together with Shanshan because Shanshan was our holding company prior to the proposed spin-off, and it is a listed company in the PRC with a long history and good reputation in the PRC apparel industry. Participating in these tendering processes with Shanshan helped us fulfill eligibility requirements, such as registered capital requirements, for these tenders. Under this arrangement, tenders were submitted in the name of Shanshan. As Shanshan itself does not engage in the design, marketing and sales of work uniforms, upon the success of these tenders, Shanshan engaged our Group to (i) source and engage OEM suppliers to produce the relevant work uniforms; (ii) arrange transportation for the delivery of work uniforms directly to the relevant customers; and (iii) provide after sales services that fulfill the specific requirements detailed in the relevant tenders.

Following delivery of work uniform products by our Group to Shanshan's customers, we would issue invoices to Shanshan in accordance with the contractual price in respect of such delivered goods, net of 1% of the entire contractual sum for the settlement of all service fees payable to Shanshan, inclusive of all administrative fees, management fees, tender costs and relevant taxes incurred on the part of Shanshan. Shanshan would then, in return, request the relevant customers on our behalf for the settlement of the contractual price. Under this arrangement, Shanshan retained 1% of the entire contractual sum, and then returned the remaining amount to our Group. For example, assuming the contractual price of work uniform products delivered by our Group to a Shanshan's customer amounted to RMB1,000,000, we would issue an invoice to Shanshan in the aggregate sum of RMB990,000, after deducting 1% of the entire contractual sum for the settlement of all service fees payable to Shanshan, inclusive of all administrative fees, management fees, tender costs and relevant taxes incurred on the part of Shanshan. Shanshan would then request the relevant customers on our behalf for the settlement of RMB1,000,000. Upon receiving RMB1,000,000 from the customer, Shanshan would then return RMB990,000 to our Group. The transaction amount of this arrangement, representing the amount we received from Shanshan, i.e. RMB990,000, would be accounted for as our Group's revenue. For the years ended December 31, 2015, 2016 and 2017, revenue generated from the sales of work uniforms to customers through Shanshan amounted to RMB15.7 million, RMB3.7 million and RMB15.7 million, respectively, representing approximately 3.0%, 0.6% and 2.0% of our total revenue for the respective years. For the same years, the gross profit derived from the sales of work uniforms to customers through Shanshan amounted to RMB6.2 million, RMB0.7 million and RMB5.4 million, respectively, representing approximately 2.5%, 0.3% and 1.3% of our gross profit for the respective years. We recognized the relevant revenue when work uniforms were delivered by us to Shanshan's customers. These transactions constituted related parties transactions to our Group. Please see note 33 in Appendix I to this prospectus for further details.



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For the years ended December 31, 2015, 2016 and 2017, the total tender success rates in respect of the work uniforms bids that both we and Shanshan participated in as the bidders were approximately 9.3%, 18.6% and nil, respectively. We ceased to submit tenders with Shanshan in May 2016 in view of (i) the experience accumulated by us throughout the years of tendering and bidding for work uniforms for large-scale enterprises on our own; (ii) our increased brand recognition in the PRC apparel industry; and (iii) our registered capital being increased to RMB100 million in May 2016. For the years ended December 31, 2015, 2016 and 2017, we engaged four, two and nil related parties or connected persons, respectively, in supplying work uniforms to our customers through Shanshan.

As advised by our PRC Legal Advisers, the above arrangement between our Group, Shanshan and customers did not violate the terms and conditions of the tender documents and complied with the relevant PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, there were no significant litigation, arbitration or administrative proceedings which were of material importance pending or threatened against us or any of our Directors regarding our work uniform business.

As we have the ability to bid and tender for work uniforms for large-scale enterprises after the Listing, our Directors consider the cessation of Shanshan in participating in the tenders for work uniforms for large-scale enterprises will have no material adverse effect on our business, financial conditions and results of operations. Shanshan has confirmed and undertaken that they will not participate in the tendering process for work uniforms after the Listing as long as it is our principal business.

### TRADEMARK SUB-LICENSING

Prior to the proposed spin-off, Shanshan and Shanshan Group have granted Fashion Brand, one of our subsidiaries, on a perpetual, exclusive and royalty-free basis, a right to use their trademarks (the “**Licensed Trademarks**”). We have also been granted the right to sub-license the Licensed Trademarks to other parties. Please see “Statutory and General Information — B. Further information about our business — 2. Intellectual property rights of our Group” in Appendix VII to this prospectus for further details relating to these trademarks. In contemplation of the Listing, we have entered into two trademark licence agreements, both dated May 20, 2016, and entered into between us as licensee and each of Shanshan and Shanshan Group as licensors (the “**Trademark Licence Agreements**”) to document the trademark licensing arrangements between our Group, Shanshan and Shanshan Group.

Pursuant to the Trademark Licence Agreements, both Shanshan and Shanshan Group have undertaken to us that they will not involve in any business that competes directly or indirectly to the business conducted by our Group. Save for our Company and our sub-licensees, no other party, including Shanshan and Shanshan Group, may use the Licensed Trademarks registered under the category of garments, accessories, luggages and bags, shoes and hats (the “**Licensed Category**”) and each of Shanshan and Shanshan Group has retained the right to use the Licensed Trademarks on goods or services other than the Licensed Category. To the best knowledge, information and belief of our Directors, having made all reasonable enquiries,

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Shanshan and Shanshan Group (i) had not used the Licensed Trademarks on goods and services other than the Licensed Category during the Track Record Period and up to the Latest Practicable Date; and (ii) have no current intention to use the Licensed Trademarks on goods and services other than the Licensed Category. Please see “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholders’ approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

During the Track Record Period, Fashion Brand sub-licensed the Licensed Trademarks to selected sub-licensees in the PRC, excluding Hong Kong, Macau and Taiwan, for use on certain products with the Licensed Category which are not our business focus including children’s clothing, women’s wear, shirts, T-shirts, jeans, underwear, leather goods, pants, socks and shoes. These sub-licensees generally paid Fashion Brand on a quarterly basis a fixed annual licence fee determined based on the arm’s length negotiations between Fashion Brand and the sub-licensees with reference to the market recognition and brand positioning of the relevant Licensed Trademarks. We do not need to share these annual licence fees from sub-licensees with Shanshan and Shanshan Group under the Trademark Licence Agreements. Pursuant to the relevant trademark sub-licensing agreements between Fashion Brand and the sub-licensees, Fashion Brand agreed not to use nor permit any other parties to use the relevant Licensed Trademarks to develop or sell the same products as those of the sub-licensees, and the sub-licensees agreed not to sub-license the relevant Licensed Trademarks to any other parties.

We entered into these trademark sub-licensing agreements with certain connected persons in the past and all such agreements have expired or been subsequently terminated by us. As of the Latest Practicable Date, all of the trademark sub-licensees of Fashion Brand were Independent Third Parties. For the years ended December 31, 2015, 2016 and 2017, revenue generated from these trademark sub-licensing agreements amounted to RMB16.4 million, RMB19.0 million and RMB14.7 million, respectively, representing approximately 3.1%, 3.2% and 1.8% of our total revenue for the respective years.

## SUPPLY CHAIN, WAREHOUSING AND LOGISTICS MANAGEMENT

### **Production outsourcing**

We outsource the production of our products to various domestic OEM suppliers, which we believe can enable us to focus our resources on our core competencies in brand management, design and product development and sales and marketing management. We believe this strategy also enables us to avoid direct exposure to the risks and expenses of establishing and operating production facilities, while at the same time allows us to promptly adjust our product offerings in response to shifting market trends so as to maintain a highly competitive cost structure.

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We typically provide OEM suppliers with our product procurement plans three to five months prior to the expected product delivery dates. To ensure we do not procure excessive products from our OEM suppliers, we take into account the following factors when we prepare our product procurement plans for the upcoming seasons:

- the orders we received;
- the results of our market research and analyses, including customers demand and the sales performance of similar products;
- the inventory levels of the relevant product types; and
- our historical sales data.

We procure products from OEM suppliers in RMB. As we are not subject to any foreign currency exchange risk relating to our operations, we did not enter into any hedging arrangements during the Track Record Period and up to the Latest Practicable Date.

### **OEM suppliers**

Our headquarters are located in Ningbo. With our geographic advantages, we have developed and maintained close and stable relationships with many quality OEM suppliers. Our OEM suppliers consist of two types: (i) finished product suppliers, who process raw materials procured by themselves and provide us with the finished products; and (ii) processing suppliers, who process raw materials and fabrics procured by us and provide us with the processed products. For the years ended December 31, 2015, 2016 and 2017, purchase value from our OEM suppliers accounted for approximately 74.4%, 76.3% and 75.4% of our total cost of sales, respectively.

### ***Selection of OEM suppliers***

We maintained a stable relationship with our OEM suppliers during the Track Record Period. Most of our OEM suppliers are apparel and accessories manufacturers located in Zhejiang and Jiangsu Provinces. For the years ended December 31, 2015, 2016 and 2017, we had 144, 217 and 287 OEM suppliers in the PRC, respectively.

We have a careful and rigorous selection process for OEM suppliers, which requires them to satisfy certain evaluation and assessment criteria.

We evaluate prospective OEM suppliers based on a number of factors, including their technical strengths, product quality, quality control effectiveness, pricing, core management team, credit rating, size, reputation, production capacity and ability to meet our delivery timeline. We also conduct annual evaluations with our OEM suppliers and cease to procure from those who (i) commit fraud; (ii) deliver off-standard products for a continuous period; (iii) refuse to replace or refund defective products; (iv) fail to meet our requisite standards, such as production capacity, under our annual evaluation; and (v) perform any actions which significantly affect our business interests. We did not terminate any major OEM suppliers during the Track Record Period.

*Agreements with OEM Suppliers*

Prior to procuring products from our selected OEM suppliers, we usually enter into standardized annual framework supply agreements with these OEM suppliers and place orders with them during the contract period when necessary. We also enter into purchase agreements with OEM suppliers for ready-to-wear products designed and produced by the suppliers in accordance with our needs. We also enter into consignment agreements with certain SHANSHAN brand OEM suppliers. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers” in this section for further details. Set forth below are the principal terms of the agreements with other OEM suppliers:

- **Price:** OEM suppliers are required to provide us with a reasonable quotation for approval;
- **Quality standards:** OEM suppliers must provide us with fabrics inspection reports before mass production begins. We require OEM suppliers to provide us with a quality testing report issued by a recognized testing organization;
- **Payment:** we generally pay deposits to OEM suppliers upon the signing of the relevant purchase orders. Payment of a majority portion of the procurement prices is made after we have inspected and accepted the products. We retain a quality warranty deposit and release it upon expiry of a certain period after delivery of products if no quality defects are identified within such period;
- **Transportation:** OEM suppliers generally bear the costs and losses associated with product transportation;
- **IP rights protection:** OEM suppliers are not allowed to present the prototypes ordered by us to their other customers. In addition, OEM suppliers are not allowed to keep, leak or use our logos and other identifying articles on other unrelated items. We are entitled to impose a fine to the relevant OEM suppliers who infringed our intellectual property rights and we require such OEM suppliers to bear all associated losses;
- **Sub-contracting:** OEM suppliers are not allowed to engage third-parties or sub-contractors to produce the products ordered by us. Any breach of such term is regarded as nullifying the contract and we are entitled to impose a fine to the relevant OEM suppliers;
- **Default:** any breach, by either party to the contract, of its duties thereunder is regarded as a default that entitles the other party to terminate the contract. We shall have the right to fine an OEM supplier in case of its failure to deliver the products on schedule. If an OEM supplier fails to deliver the products within a specified period from the agreed delivery date, we shall have the right to terminate the contract and fine the supplier; and
- **Minimum purchase or price requirements:** there are no such requirements.

During the Track Record Period and up to the Latest Practicable Date, there were no material disputes between us and our OEM suppliers.

***Relationship with our OEM suppliers***

We have cultivated a stable and close working relationship with our OEM suppliers. A majority of our OEM suppliers have cooperated with us for more than three years. Our Directors believe that, since there is a large number of apparel manufacturers available in the PRC, alternative OEM suppliers can be engaged within a short period of time to replace any of our existing OEM suppliers, if required. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulty in outsourcing the production of our products to OEM suppliers.

**Raw material procurement**

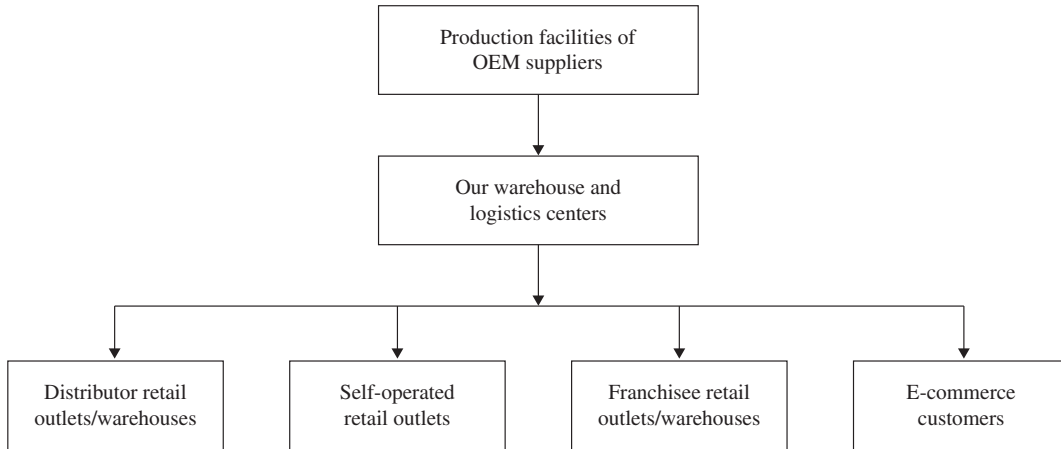
The principal raw materials for the production of our products include fabrics produced by cotton, wool or polyester fibers. We do not procure raw materials for our OEM suppliers who are our finished product suppliers and procure most of the raw materials for the production of suits and shirts for our OEM suppliers who are our processing suppliers. In addition, to safeguard our intellectual property rights, all auxiliary materials and trimmings that bear our logos are manufactured by our designated suppliers, and are provided to our OEM suppliers for production.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any business interruption due to shortage or delay in the supply of raw materials to our OEM suppliers. We source substantially all of our raw materials from suppliers in the PRC.

The raw material prices of our products fluctuate from time to time and may continue to fluctuate in the future. While we usually procure raw materials through short-term contracts at market prices and therefore do not have control over our raw material costs, we believe we can pass on any material increase in our raw material costs to our customers through appropriate pricing.

**Warehousing and logistics management**

The diagram below illustrates the warehousing and logistic processes of our products:



Typically, OEM suppliers generally bear the costs and losses associated with the delivery of finished products from the production facilities of OEM suppliers to our warehouse and logistics centers in Ningbo. Upon the arrival of finished products at our warehouse and logistics centers, our quality inspection team inspects and assesses the quality of the products, including sample testing, to ensure they are up to our quality requirements. If any quality defects are identified during these quality inspections, we return the products to the relevant OEM suppliers without compromise on any promotional discounts offered by our OEM suppliers in respect of such defective products. Once we are satisfied with the results of our quality inspections, we acknowledge receipt of the relevant products and store them at our warehouse and logistics centers by product categories.

We engage independent logistics service providers for delivering products by land transportation from our warehouse and logistics centers in Ningbo to self-operated retail outlets, the retail outlets or warehouses designated by our distributors and franchisees and e-commerce customers across the PRC. In general, our SHANSHAN branded franchisees and e-commerce customers bear the delivery and transportation costs and our FIRS branded distributors share the delivery and transportation costs equally with us. We typically enter into agreements with logistics service providers for product transportation annually. Under these agreements, the logistics service providers bear the risks and losses associated with product transportation as well as related insurance expenses, and are responsible for all losses associated with the delivery and transportation of the relevant products. The logistics service providers compensate us for all claims and losses arising from the conducts of their drivers and employees. We believe we are able to lower our transportation costs because we are able to centrally arrange for logistics services.

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### Our warehousing and logistics center

We had a warehouse and logistics center for each of FIRS, SHANSHAN, MARCO AZZALI and LUBIAM brands during the Track Record Period. The table below sets forth the details of these warehouse and logistics centers:

<b>Brand</b>	<b>Location</b>	<b>Approximate total gross floor area</b>
FIRS	Ningbo	8,880 sq.m.
SHANSHAN	Ningbo	5,536 sq.m.
MARCO AZZALI <sup>(1)</sup>	Ningbo	1,714 sq.m.
LUBIAM	Ningbo	1,714 sq.m.

*Note:*

- (1) We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Our brands and products — Our historical MARCO AZZALI brand” in this section for further details.

To support the rapid expansion of our retail network and e-commerce sales, and to enhance our inventory control capabilities, we intend to open a new warehouse and logistics center in the Yangtze River Delta region, which will be equipped with advanced information management system, including an inventory sharing and allocation system, to monitor and manage our inventory levels in a more effective and cost efficient manner. Please see “Business strategies — We plan to further enhance our information technology systems and our supply chain, logistics and inventory management capabilities” in this section for further details.

### Major suppliers

During the Track Record Period, all of our five largest suppliers were our OEM suppliers. For the years ended December 31, 2015, 2016 and 2017, purchases from our largest supplier accounted for approximately 6.5%, 6.8% and 5.7% of our total purchases, respectively, and purchases from our five largest suppliers in aggregate accounted for approximately 25.2%, 23.7% and 21.8% of our total purchases, respectively.

Shanshan Zhengsheng was one of our five largest suppliers for the years ended December 31, 2016 and 2017, and was owned as to 51% by Mr. Wu Mingchang, brother-in-law of Mr. Zheng, one of our Controlling Shareholders. The total purchases attributed to Shanshan Zhengsheng accounted for approximately 3.8%, 5.7% and 5.5% of our total purchases for the years ended December 31, 2015, 2016 and 2017, respectively. We have ceased to enter into any new supply agreement with Shanshan Zhengsheng since November 2016 in anticipation of the Listing. Other than the aforementioned relationship, to the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our top five largest suppliers were Independent Third Parties. Our Directors have confirmed that none of our Directors or their respective associates or any Shareholders (who to the knowledge of our Directors owns more than 5% of our listed Shares) had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

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During the Track Record Period and up to the Latest Practicable Date, none of our major suppliers were our customers or vice versa.

### QUALITY CONTROL

We are committed to delivering premium quality menswear products to our customers. As of December 31, 2017, we had a quality assurance team with 20 members and a quality inspection team with 15 members. Our quality assurance team is responsible for monitoring and controlling the production processes of our OEM suppliers, while our quality inspection team is responsible for inspecting and ensuring the quality of raw materials and finished products.

We have established rigorous quality control measures, which are built into the various stages of our product procurement processes according to the applicable national standards to avoid product quality issues. Set forth below are our key quality control measures:

- ***Procurement of raw materials:*** The raw materials used in our products are either procured by ourselves or by our OEM suppliers. In respect of the raw materials procured by our OEM suppliers, we require those OEM suppliers to present the relevant raw materials or provide a standardized quality inspection report to our quality inspection team for approval before procurement. In respect of the raw materials procured by ourselves, our quality inspection team typically requests samples from raw material suppliers for testing before procurement;
- ***Production processes of OEM suppliers:*** Our quality assurance team carries out inspections at all important stages of OEM supplier production processes to ensure that our specified craftsmanship and quality requirements, such as trimming and ironing, are consistently adhered to at each production step. In addition, our quality assurance team actively communicates with our OEM suppliers to explain our specified production procedures and quality requirements and address the problems arise in their production processes. We have also adopted a three-stage quality control inspection mechanism to ensure the standards of our product quality:
  - ***Preliminary stage examination:*** Our quality inspection team conducts spot checks of raw materials, semi-finished products and components to be used in OEM supplier production processes;
  - ***Interim stage examination:*** When OEM suppliers finish 30% of an order placed by us, our quality inspection team typically selects at least three finished products from each size and color category to examine its quality, craftsmanship and size; and
  - ***Final stage examination:*** When OEM suppliers finish 80% of an order placed by us, our quality inspection team randomly selects finished products from each size and color category to examine its quality, craftsmanship and size.



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In the event that we discover any quality defects during the production processes of OEM suppliers, we will require the OEM suppliers to rectify the quality defects; and

- ***Final quality inspection:*** Upon the arrival of finished products at our warehouse and logistics centers, our quality inspection team assesses the quality of each batch of finished products to ensure that the products comply with our specifications and do not have quality defects. Once we are satisfied with the results of our quality inspections, we acknowledge receipt of the relevant products and store them at our warehouse and logistics centers by product categories. We also engage The National Fibre Inspection Institute (寧波市纖維檢驗所) of National Supervision and Inspection Centre (Zhejiang) of Textile and Garments Quality (國家紡織服裝產品品質監督檢驗中心(浙江)) to perform annual random inspection that covers all types of our raw materials and finished products.

As a result of our rigorous quality control measures, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive any material fines, product recall orders or other penalties from the PRC government or other regulatory bodies; (ii) receive any material product return requests from end-customers and distributors; or (iii) receive any material complaints from end-customers.

### INFORMATION TECHNOLOGY SYSTEMS

An efficient and effective supply chain management system requires the support of a centralized and integrated management information system. We are committed to developing our information technology capabilities to support our business expansion and enhance our retail management. To this end, we have integrated our ERP and OA systems, which enable us to promptly retrieve and analyze operational and financial data, including procurement, sales, inventory, logistics and consumers, on a real-time basis. Our systems also enable us to provide information technological support to most of our self-operated retail outlets, distributor retail outlets and franchisee retail outlets as well as being able to search and analyze their operational and financial data and information on a daily basis. We believe the use of our information technology systems may facilitate our planning and management of product design, production outsourcing, budgeting, human resources, inventory control, retail management and financial reporting.

### RISK MANAGEMENT

Our management has established and implemented a risk management policy to address potential risks associated with our business operations, including strategic risks, operational risks, financial risks and legal compliance risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our general manager and our finance, accounting and internal control department are responsible for the oversight of the overall risk management as well as the assessment and update of our risk management policy on an annual basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

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### COMPETITION

We operate in a highly competitive and fragmented industry. We compete with a broad range of market players in the PRC menswear industry, which can be categorized into (i) the business formal menswear market; (ii) the business casual menswear market; (iii) the fashion casual menswear market; and (iv) the other menswear market. The key barriers to entry in the PRC menswear industry include, among others, brand recognition, product quality, design capability and sales and distribution network.

According to the CIC Report, the PRC business formal menswear market, which is the focus of our FIRS brand, is fragmented and relatively mature. The top ten players in the PRC business formal menswear market had less than 40% market shares in terms of retail revenue in 2017. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. As our FIRS brand is competing in a relatively mature market, the business and financial performance of our FIRS brand maintained a steady growth during the Track Record Period and generated revenue of RMB433.2 million, RMB461.5 million and RMB494.9 million for the years ended December 31, 2015, 2016 and 2017, respectively. Starting from September 2015, we have been strategically streamlining and optimizing our distributor retail network for the sale of our FIRS branded products in order to reallocate our resources for the development of e-commerce sales and the SHANSHAN Cooperative Arrangements. Accordingly, we do not expect to achieve significant growth in terms of the business and financial performance of our FIRS brand going forward.

According to the CIC Report, the PRC business casual menswear market, which is the focus of our SHANSHAN brand, developed rapidly primarily due to the increased per capita disposable income and the elevated living standard of Chinese people in the past years. The PRC business casual menswear market achieved a CAGR of 11.9% from RMB125.4 billion in 2013 to RMB196.5 billion in 2017, and is expected to achieve a CAGR of 9.7% from RMB217.0 billion in 2018 to RMB314.4 billion in 2022. Capitalizing on this strong demand for business casual menswear in the PRC, we recorded a significant increase in revenue from the sales of our SHANSHAN branded products from RMB1.6 million for the year ended December 31, 2015 to RMB53.8 million for the year ended December 31, 2016, and further increased to RMB234.9 million for the year ended December 31, 2017. To further build on this success, we intend to further expand our SHANSHAN branded retail outlets after the Listing to take advantage of the existing strong demand for business casual menswear. Accordingly, we believe our SHANSHAN brand will become increasingly important to our business and financial performance going forward.

According to the CIC Report, our FIRS and SHANSHAN brands both face competition from a number of international and domestic menswear brands, such as Youngor, Lilanz, Zara, H&M and Heilan Home. We believe our extensive sales and distribution network, our effective brand positioning, our strong product design and research and development capabilities and our experienced management team allow us to differentiate ourselves from our competitors and continue to compete effectively in the market. Please see “Risk Factors — Risks related to our

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business and the PRC menswear Industry — The PRC menswear industry is highly competitive and fragmented and is likely to become more intense in the future. Increased competition in the PRC menswear industry may result in a reduction in our market share and may materially and adversely affect our business financial condition and results of operations” and “Industry Overview” in this prospectus for further details on the risks associated with the competition we face.

### PROPERTIES

#### Owned properties

As of the Latest Practicable Date, we had not obtained any land use rights or properties ownership.

#### Leased properties

As of the Latest Practicable Date, we leased six properties from Shanshan and five properties from Independent Third Parties with an aggregate gross floor area of approximately 35,811.19 sq.m.. All of these leases are for a term of more than 12 months. All leased properties are used as warehouses, office buildings and self-operated outlets.

As of the Latest Practicable Date, out of the 11 leased properties, five of which with an aggregate gross floor area of approximately 33,180 sq.m., representing approximately 92.65% of the total gross floor area of our leased properties, have completed the filing and registration of the relevant lease agreements with the relevant PRC authorities. For the remaining six properties with an aggregate floor area of approximately 2,631.19 sq.m., we failed to procure the landlord to file and register the relevant lease agreements with the relevant PRC authorities as of the Latest Practicable Date. In accordance with the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), parties to the lease agreements shall register the leases with relevant housing authorities within 30 days after entering into of the relevant lease agreements. Pursuant to those measures, parties to a lease agreement are required to provide proof of building ownership for lease registration. Among the six non-registered leases, three of them are located within large shopping complexes. Please see “Legal proceedings and compliance — Non-compliance incidents” in this section for further details.

As confirmed by our PRC Legal Advisers, the ownership certificates of one out of the 11 leased properties has not been obtained by the relevant landlord. Such leased property had a total leased area of approximately 767 sq.m., representing approximately 2.14% of the total gross floor area of all properties occupied by us as of the Latest Practicable Date. Such property is used as office and exhibition rooms of Lubiam Apparel. Our Directors believe that the relevant leased property is under safe condition and the rental is within the market price range compared with similar properties in the vicinity. In the event that we are required to move out from such leased property, it is not difficult for us to identify and to relocate to alternative sites. The relocation can be completed in a timely manner at minimal expense. Accordingly, our Directors are of the view that the absence of building ownership certificates for the leased property of Lubiam Apparel would not have any material and adverse impact on our business operations.

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Please see “Risk Factors — Risks related to our business and the PRC menswear industry — Part of our leased properties in the PRC may be subject to legal irregularities” in this prospectus for further information in relation to the risk associated with such non-compliance.

As of December 31, 2017, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

### INTELLECTUAL PROPERTY

We rely on a combination of trademarks, trade secrets and other intellectual property laws as well as intellectual property protection and confidentiality clauses in agreements with OEM suppliers, distributors and others to protect our trademarks, trade secrets and other intellectual property rights. As of the Latest Practicable Date, (i) we had registered two trademarks in the PRC ; (ii) Shanshan had licensed us to use a total of 194 trademarks registered under its name and under the category of garments, accessories, luggages and bags, shoes and hats on a perpetual, exclusive and royalty-free basis, among which, 101 trademarks have been registered in the PRC and 93 trademarks have been registered overseas; and (iii) Shanshan Group had licensed us to use a total of 60 trademarks registered under its name and under the category of garments, accessories, luggages and bags, shoes and hats on a perpetual, exclusive and royalty-free basis. Pursuant to the relevant trademark licence agreements entered into by our Group with Shanshan and Shanshan Group, we are entitled to sub-license our right to use the licensed trademarks to any members of our Group and third parties without the need to obtain the consent of Shanshan and Shanshan Group. Please see “Trademark sub-licensing” in this section for further details.

In addition, Shanshan has registered trademarks that may be confusing to consumers, such as “衫衫”, “彬彬”, as precautionary measures. We received from Lubiam Moda per L’Uomo the licence to use one trademark on an exclusive basis in the PRC and the licence to use two trademarks on a non-exclusive basis in the PRC. We also received from Forall Confezioni the licence to use 11 trademarks on an exclusive basis in the PRC, Korea, Singapore, India, Thailand, Vietnam and United Arab Emirates. Meanwhile, we had 10 domain names. Please see “Statutory and General Information — B. Further information about our business — 2. Intellectual property rights of our Group” in Appendix VII to this prospectus for detailed information of our material intellectual property rights.

We also sell and market some of our products under the SHANSHAN brand name. As of the Latest Practicable Date, our Controlling Shareholders, Shanshan and Shanshan Group, had registered the relevant trademarks for the sales of our SHANSHAN branded menswear products in the PRC.

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As of the Latest Practicable Date, we were not involved in any material legal proceedings for infringement on intellectual property rights of any third party, and we were not aware of any pending or threatened material proceedings or claims relating to intellectual property rights against us.

### INSURANCE

We believe we have maintained adequate insurance coverage to safeguard against major risks and unexpected events. We have purchased property insurance covering our major fixed and liquid assets.

We do not maintain business interruption insurance, including general third party liability insurance, general product liability insurance or key-man life insurance. Our Directors believe that our Group's insurance policies are adequate and consistent with common industry practices in the PRC. During the Track Record Period and as of the Latest Practicable Date, we had not made any material claims on any insurance policy maintained by us.

### EMPLOYEES

As of December 31, 2015, 2016 and 2017, we had 514, 621 and 650 full-time employees, respectively. Most of our employees are located at our headquarters in Ningbo, the PRC. The table below sets forth a breakdown of our employees by function as of the Latest Practicable Date:

	<b>Numbers of employees</b>
Management and administration <sup>(1)</sup>	97
Finance, accounting and internal control	31
Business development, sales and marketing <sup>(2)</sup>	285
Procurement and production	33
Product Design, research and development	25
Quality assurance and inspection	31
Logistics and warehousing	62
<b>Total<sup>(3)</sup></b>	<b>564</b>

*Notes:*

- (1) Includes employees of our work uniforms department, trademark authorization department, overseas liaison department and the human resources department.
- (2) Includes employees of our retail outlets staff and e-commerce sales department.
- (3) The decrease of the number of our employees as of the Latest Practicable Date is due to the disposal of JIC Garments to an Independent Third Party in May 2018. Please see "History, Reorganization and Corporate Structure – Disposal of JIC Garments after the Reorganization" in this prospectus for details.

We believe our success depends heavily upon our employees' provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skills and quality of our employees, we place a strong emphasis on the training of our employees. We provide periodic training for our employees.

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## BUSINESS

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We maintain recruitment policy and provide compensation packages that match industry norms. We enter into separate employment contracts with our employees to cover matters such as wages, employee benefits, labor protection, safety and sanitary conditions in the workplace, and grounds for termination.

We contribute to social security insurance for our employees in accordance with relevant PRC laws and regulations. We completed registration for the housing provident fund in May 2016. We have started to make contributions to the housing provident fund for our employees since May 2016, and have completed the payment of such contributions for the previous three years. As advised by our PRC Legal Advisers, we and our subsidiaries have made contributions to the social security fund and the housing reserve fund in accordance with the proportion and base amounts approved by the competent authorities, and as confirmed by the relevant confirmation letter issued by the relevant authorities of Ningbo government, we have not been subject to any punishment for any matter relating to the social security fund during the Track Record Period.

As of the Latest Practicable Date, we had one labor union in No. 238 Yunlin Middle Road, Wangchun Industrial Park, Ningbo. We have not experienced any significant difficulty in recruiting employees, nor have we had any material disputes with our employees arising from staff compensation or other employment matters. We believe that we have maintained satisfactory work relationships with our employees.

### ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions, as well as water and waste discharge. We consider the protection of the environment to be important, and have implemented measures in our business operation to ensure that we are in compliance with all applicable requirements under the PRC environmental laws and regulations.

We outsourced the production of substantially all of our products to selected domestic OEM suppliers as of the Latest Practicable Date. We believe that our business would not generate major industrial pollution that would have material impact on the environment. During the Track Record Period, we did not incur any cost for compliance with applicable environmental laws and regulations.

According to a confirmation letter issued by the environmental protection department of Ningbo on May 5, 2016, from January 1, 2013 to May 5, 2016, Fashion Brand, JIC Garments and Lubiam Apparel were not involved in any environmental pollution accidents, nor were we subject to any significant administrative penalties for the violation of the laws, regulations and regulatory documents of environmental protection. Our operations are subject to regulation and periodic monitoring by local environmental authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

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## **BUSINESS**

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During the Track Record Period and up to the Latest Practicable Date, we did not receive any complaints from our consumers or any other parties concerning any environmental protection issues and we did not experience any material environmental incidents arising from our operations.

### **OCCUPATIONAL HEALTH AND SAFETY**

Our operations are subject to regulation and periodic monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations. We have established work safety policies and procedures to ensure that our operations are in compliance with the applicable work safety laws and regulations.

During the Track Record Period, neither we nor any of our subsidiaries had engaged in any production activity.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents in the course of our Group's operations that involved personal or property damages or health or safety related compensation.

### **LEGAL PROCEEDINGS AND COMPLIANCE**

As of the Latest Practicable Date, there was no other litigation, arbitration, administrative proceedings or claim of material importance pending or threatened by or against us or any of our Directors, which could have a material adverse effect on our financial position and results of operations. We may occasionally become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

## Non-compliance incidents

The following table sets forth a summary of our non-compliance incidents during the Track Record Period and up to the Latest Practicable Date:

Non-compliance incident	Responsible parties	Legal consequences and potential maximum and other financial liabilities	Reasons for non-compliance	Rectification actions taken, current status and internal control procedures
We have not registered lease agreements for six of our leased properties with an aggregate floor area of approximately 2,631.19 sq.m. with the relevant PRC government authorities as of the Latest Practicable Date.	Parties to the lease agreements	According to the provision of the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), parties to the lease agreements shall register the leases with the relevant housing authorities within 30 days after entering into of the relevant lease agreements. A fine ranging from RMB1,000 to RMB10,000 may be imposed on us for each non-registration. Accordingly, we may be subject to a total maximum penalty of RMB60,000 for such non-compliance.	The non-compliance incidents were unintentional and primarily due to (i) failure to provide the building ownership certificates by the landlord (please see “Properties — Leased properties” in this section for further details); (ii) the building ownership certificate has not yet been obtained; or (iii) lack of cooperation from the landlords which was beyond our control.	Registration of lease agreements requires cooperation from the landlords, including submission of the building ownership certificates and other documentations to the relevant PRC government authorities.  As of the Latest Practicable Date, (i) the landlord of one of the lease agreements was in the process of obtaining the building ownership certificate of the property and the lease agreement can be registered after the building ownership certificate is obtained; (ii) one of the lease agreements could not be registered due to the absence of the building ownership certificates (please see “Properties — Leased properties” in this section for further details); and (iii) the remaining four lease agreements could not be registered due to the lack of cooperation from the landlords.  During the Track Record Period and as of the Latest Practicable Date, we had not received any notice with respect to potential penalty or enforcement action from the relevant PRC government authorities in relation to our failure to register such lease agreements.  As advised by our PRC Legal Advisers, the non-registration does not affect the validity of the lease agreements under the PRC law.  As advised by our PRC Legal Advisers, the risk that the relevant PRC government authorities imposing penalties on us is remote if we complete the registration procedure within the prescribed time limit once ordered by the relevant PRC government authorities.  Our Controlling Shareholders have undertaken to indemnify us for all penalty and monetary damages we incur as a result of such non-compliance.



Non-compliance incident	Responsible parties	Legal consequences and potential maximum and other financial liabilities	Reasons for non-compliance	Rectification actions taken, current status and internal control procedures
<p>We did not open the housing provident fund account and did not make contribution to the housing provident funds for our employees.</p>	<p>Our Company</p>	<p>According to the Provisions of the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例), employers are legally obligated to open the housing provident fund accounts and pay housing provident funds on time and in full amount for their employees. Failure to open housing provident account for employees will result in a fine between RMB10,000 and RMB50,000. Failure to pay the housing provident fund will result in a court order that would compel us to settle the unpaid housing provident funds.</p>	<p>The non-compliance incident was unintentional and was mainly due to inadvertent oversight of the relevant PRC laws and regulations, the enforcement of which varies from city to city.</p> <p>Our staff who was formerly in charge of this matter did not fully understand the regulatory requirements in cities where we operated.</p>	<p>We have opened the housing provident fund account in May 2016, paid an amount of RMB883,615, being the unpaid amount of the housing provident fund as assessed by the relevant PRC government authority, on May 5, 2016 and started to make contributions to the relevant housing provident funds since May 2016. Accordingly, we have not made provisions for the relevant housing provident funds. As advised by our PRC Legal Advisers, since we have currently made contributions to the housing provident funds in accordance with the proportion and base amounts approved by the relevant PRC government authorities, and as of the Latest Practicable Date, we had not received any notice with respect to potential penalty or enforcement action from the relevant PRC government authority in relation to such non-compliance, the risk that the relevant PRC government authority imposing penalties on us is remote.</p> <p>We have obtained a compliance certificate from the relevant government authorities of Ningbo, which confirmed that our Group had not been penalized as a result of any breach of housing provident funds laws and regulations during the Track Record Period.</p> <p>We have enhanced our internal control procedures by designating the head of our human resources department to regularly check whether the housing provident fund contribution is made on time and in full to prevent future recurrence of such non-compliance.</p> <p>Our Controlling Shareholders have undertaken to indemnify us for all penalty and monetary damages we incur as a result of such non-compliance.</p>

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## BUSINESS

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### **Internal control**

In addition to ensuring our ongoing compliance with the relevant PRC laws and regulations: (i) we adopted relevant rules for connected transactions on November 8, 2016, pursuant to which all connected transactions, if any, should be put in place in different approval processes based on their respective categories. Upon Listing, we will adopt relevant rules for connected transactions in accordance with the Listing Rules; (ii) we plan to engage external domestic legal advisers to provide us with legal advice on an as needed basis; (iii) we plan to engage external Hong Kong legal advisers to provide relevant training on a regular basis for our internal control staff to improve their knowledge and understanding of relevant rules for connected transactions; and (iv) we have appointed Dongxing Securities (Hong Kong) Company Limited as our compliance adviser upon Listing to advise our Group on compliance matters relating to the Listing Rules.

On the basis of the preventive measures mentioned above, our Directors are of the view that we have adequate internal control procedures in place for purpose of Rule 3A.15(5) of the Listing Rules. Our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system as recommended by our internal control consultant to prevent future recurrence of non-compliance incidents. As such, the Sole Sponsor shares the view of our Directors that our enhanced internal control procedures are adequate and effective under paragraph b(v) in Appendix 19 to the Listing Rules.

We have reviewed the internal control procedures, and as of the Latest Practicable Date, we had implemented all of the recommendations put forward in the internal control report.

In addition, having considered the above non-compliance matters and our enhanced internal control procedures, our Sole Sponsor is not aware of any matters that would render our Director unsuitable to serve as a director of a listed company under Rules 3.08 and 3.09 of the Listing Rules, or ones that would render us unsuitable for the Listing under Rule 8.04 of the Listing Rules.

### **LICENCES AND REGULATORY APPROVALS**

Our Directors, as advised by our PRC Legal Advisers, have confirmed that during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant PRC laws and regulations in all material respects, and had obtained all requisite licences, approvals and permits from relevant regulatory authorities for our operations in the PRC, except as disclosed in “Legal Proceedings and Compliance — Non-compliance incidents” in this section.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Shanshan will own approximately 67.50% of the registered share capital of our Company. As Shanshan Group, Shanshan Holding (a company which is, through Qinggang Investment, controlled by Mr. Zheng and Ms. Zhou) and Ningbo Yonggang (a company which is controlled by Shanshan Holding) collectively hold approximately 39.88% in Shanshan, which will in turn hold approximately 67.50% interest in our Company upon the Listing, each of Shanshan Group, Shanshan Holding and Ningbo Yonggang will be regarded as part of a group of controlling shareholders under Rule 1.01 of the Listing Rules. Each of Mr. Zheng and Ms. Zhou is a shareholder who can ultimately exercise 30% or more of the voting right at general meetings of our Company through a common investment holding company, namely, Qinggang Investment. As such, each of Mr. Zheng, Ms. Zhou and Qinggang Investment will be regarded as a group of controlling shareholders of our Company under Rule 1.01 of the Listing Rules.

Each of Shanshan, Shanshan Group, Ningbo Yonggang, Shanshan Holding and Qinggang Investment is an investment holding company.

Shanshan is a joint stock company with limited liability established in the PRC on December 14, 1992 and listed on the Shanghai Stock Exchange in January 1996. As of the Latest Practicable Date, the registered capital of Shanshan was RMB1,122,764,986 and it was owned as to approximately 23.79% by Shanshan Group, approximately 16.09% by Shanshan Holding and approximately 0.04% by Mr. Zheng. The Parent Group is principally engaged in the manufacture and sale of the raw materials of lithium battery (i.e. anode and cathode materials and electrolyte), new energy vehicle business (i.e. manufacture and sale of power strain control system, operation and promotion of new energy vehicles), the provision of finance leasing, commercial factoring and advisory services and investment.

Apart from holding interest in Shanshan directly, Shanshan Group, through its subsidiaries, is principally engaged in property development and management, shopping mall operation, trading of non-ferrous metals and chemical products, asset management and investment. In addition to holding interest in Shanshan Group directly and indirectly, Shanshan Holding, through its subsidiaries, is principally engaged in asset management and investment. Other than holding interest in Shanshan Holding, Qinggang Investment, through its subsidiaries, is principally engaged in property development, business management and investment, import and export of goods, business consultancy, medical services and tourism consultancy.

Mr. Zheng, one of our Group's ultimate Controlling Shareholders, is also a shareholder and the founder of the Parent Group. While Mr. Zheng and Ms. Zhou are not involved in the day-to-day business operations of our Group, they participate in the business and decision making of our Group through exercising their rights as Controlling Shareholders. In the event of conflicts of interest, Mr. Zheng and Ms. Zhou will abstain from voting and will not, by themselves or through their associates, be present at the relevant shareholder meeting of our Company such that they would not be able to influence our Shareholders from making decisions on the matters in which they are, or may be, interested.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Apart from the business of our Group, our Controlling Shareholders and their respective close associates are operating other businesses such as property development and management, shopping mall operation, trading of non-ferrous metals and chemical products, asset management and investment, the manufacture and sale of the raw materials of lithium battery (i.e. anode and cathode materials and electrolyte), new energy vehicle business (i.e. manufacture and sale of power strain control system, operation and promotion of new energy vehicles), and provision of finance leasing, commercial factoring and advisory services (the “**Retained Businesses**”) through a number of companies controlled by them and the Retained Businesses will not form part of our Group after Listing. Our Controlling Shareholders do not engage in the design, marketing and sale of formal and casual business menswear and the Retained Businesses are not related to or competing with our business.

As of the Latest Practicable Date, none of our Controlling Shareholders, our Directors and their respective close associates is interested in any business which is, whether directly or indirectly, in competition with our business, which would require disclosure under Rule 8.10 of the Listing Rules. To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Non-Competition Agreement in favor of our Company to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

### **SPIN-OFF**

Pursuant to the Spin-off Circular, the offshore listing of the subsidiaries controlled by the domestic listed companies shall comply with the conditions set out in the Spin-off Circular which include (i) Shanshan had net profits attributable to shareholders for the three financial years ended December 31, 2016; (ii) Shanshan did not apply the proceeds of allotment and issue of its shares or funds raised by Shanshan during the three years ended December 31, 2016 to the business to be spun-off for offshore listing; (iii) the net profit of our Group, together with any other group of companies to be spun off, attributable to the owners of Shanshan was less than 50% of the consolidated net profit of Shanshan for the year ended December 31, 2016; (iv) the net assets value of our Group and any other group of companies to be spun off attributable to the owners of Shanshan was less than 30% of the consolidated net assets of Shanshan for the year ended December 31, 2016; (v) our Group has (a) no competition with Shanshan, (b) assets and financials which are independent of those of Shanshan, and (c) no overlapping management with Shanshan; (vi) the Parent Group’s directors, senior management and their respective employees hold no more than 10% of the equity interest in our Company before Listing; (vii) no funds or assets of Shanshan are occupied by any individual, legal person or other organization and affiliated person which has de facto control of Shanshan, and there were no major affiliated transactions which would prejudice the companies’ interests; and (viii) Shanshan did not have any material breach of laws and regulations during the three financial years ended December 31, 2016. As of the Latest Practicable Date, all of the above conditions had been satisfied. The Listing constitutes a spin-off of Shanshan. The Listing was approved by (i) Shanshan’s shareholders at an extraordinary general meeting on November 24, 2017; (ii) our Company’s shareholders at an extraordinary general meeting on November 24, 2017; and (iii) the CSRC on May 7, 2018. As advised by the PRC Legal Advisers, our Company has obtained all necessary approvals and authorization in the PRC in relation to the Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### DELINEATION OF BUSINESS

Our Directors are of the view that there is a clear delineation between the Retained Businesses and our business, as a result of which none of the Retained Businesses would compete, or is expected to compete, directly or indirectly, with our core business. None of the companies in which Mr. Zheng has any interest are engaged in any business relating to the design, marketing and sale of formal and casual business menswear that competes or may compete with us.

The Retained Businesses were not injected into our Group, and, as of the Latest Practicable Date, there was no intention to inject the Retained Businesses into our Group in the future, as our Directors are of the view that such businesses neither form part of our core business nor are in line with our strategy to strengthen our market position in the garment industry.

Our Directors believe that the Retained Businesses can be clearly differentiated from our business. The business of the Parent Group and our Group, by nature of the products manufactured or services provided by each of the Parent Group and our Group, are different businesses which are independently operated in different markets and are aimed at different types of end-customers. Given the different nature of our business and the Retained Businesses, our Directors do not expect there to be any overlap or competition of the Retained Businesses and our Group's business after Listing.

### NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has undertaken to us in the Non-Competition Agreement that it/he/she will not, and will procure its/his/her close associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business (other than our business) that directly or indirectly competes, or may compete, with our business or undertaking (the “**Restricted Activity**”), or hold shares or interest in any companies or business that compete directly or indirectly with our business from time to time except where our Controlling Shareholders and their respective close associates hold no more than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is in competition with any business engaged by any member of our Group and they do not control 10% or more of the composition of the board of directors of such company.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Further, each of our Controlling Shareholders has undertaken to procure that if any new business investment or other business opportunity related to the Restricted Activity (the “**Competing Business Opportunity**”) is identified by or made available to it/him/her or any of its/his/her close associates, it/he/she shall, and shall procure that its/his/her close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and in the following manner:

- refer the Competing Business Opportunity to our Company by giving written notice (“**Offer Notice**”) to our Company of such Competing Business Opportunity within 30 business days of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity;
- upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only of independent non-executive Directors which has no interest in the Competing Business Opportunity) (the “**Independent Board**”) as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity);
- the Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group’s strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisers and legal advisers to assist in the decision-making process in relation to such Competing Business Opportunity;
- the Independent Board shall, within 30 business days of receipt of the written notice referred above, inform our Controlling Shareholders in writing on behalf of our Company its decision whether to pursue or decline the Competing Business Opportunity;
- our Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if it/he/she has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 days’ period mentioned above; and
- if there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholders, it/he/she shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In order to promote good corporate governance practices and to improve transparency, the Non-Competition Agreement include the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Non-Competition Agreement by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he/she will provide and procure its/his/her close associates to provide on best endeavor basis, all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Non-Competition Agreement;
- we will disclose the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Non-Competition Agreement in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- we will disclose the decisions on matters reviewed by the independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) either through our annual report or by way of announcement to the public;
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Non-Competition Agreement in accordance with the principle of voluntary disclosure in the corporate governance report; and
- in the event that any of our Directors and/or their respective close associates have material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of the Non-Competition Agreement, it/he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

The Non-Competition Agreement will lapse automatically if our Controlling Shareholders and their close associates cease to hold, whether directly or indirectly, 30% of our Shares or our Shares cease to be listed on the Stock Exchange.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### DIRECTOR'S INTEREST IN DESIGN AND WOMEN'S APPAREL BUSINESS

Mr. Wu Xuekai (“**Mr. Wu**”), an independent non-executive Director, holds certain interests and assumes director role in certain companies which are principally engaged in the design and sale of women's apparel in the PRC. As of the Latest Practicable Date, Mr. Wu did not hold any Shares in our Company. At present, there are no business dealings between our Group and the companies owned by Mr. Wu. Given that our Group does not sell women's apparel and due to the difference between the target customers of the business of our Group, which are mainly targeted at male customers, and the companies owned by Mr. Wu, which are mainly targeted at female customers, our Directors consider that Mr. Wu's investment and role as director of such companies would not compete, or be likely to compete, either directly or indirectly, with our Group's business. Nevertheless, Mr. Wu will abstain from voting in cases where a conflict of interest arises between the businesses of our Group and the companies owned by Mr. Wu.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after completion of the Global Offering.

#### Management independence

Our Board currently consists of three executive Directors, three non-executive Directors and three independent non-executive Directors. Other than Mr. Zhuang Wei, Mr. Yang Feng and Ms. Hui Ying, none of our Directors holds any directorship or senior management position in the Parent Group.

Set out below is a table summarizing the positions held by our Directors, and their positions with the Parent Group:

<u>Name of Directors</u>	<u>Position with our Company</u>	<u>Directorship or senior management position with the Parent Group as of the Latest Practicable Date</u>
Mr. Zhuang Wei	Non-executive Director and chairman of our Board	<ul style="list-style-type: none"><li>• Chairman of the board and general manager of Shanshan</li><li>• Chairman and director of a number of subsidiaries of Shanshan, including but not limited to FY Financial (Shenzhen) Co., Ltd, a company whose shares are listed on GEM of the Stock Exchange</li></ul>



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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<u>Name of Directors</u>	<u>Position with our Company</u>	<u>Directorship or senior management position with the Parent Group as of the Latest Practicable Date</u>
Mr. Cao Yang	Executive Director, vice chairman of our Board	None
Mr. Luo Yefei	Executive Director and general manager	None
Ms. Yan Jingfen	Executive Director, chief financial officer and joint company secretary	None
Mr. Yang Feng	Non-executive Director	<ul style="list-style-type: none"> <li>• Director, deputy general manager and chief financial officer of Shanshan</li> <li>• Director of a number of subsidiaries of Shanshan</li> </ul>
Ms. Hui Ying	Non-executive Director	<ul style="list-style-type: none"> <li>• Supervisor, head of legal department and assistant to general manager of Shanshan</li> <li>• Director, supervisor and/or general manager of a number of subsidiaries of Shanshan</li> </ul>
Mr. Wang Yashan	Independent non-executive Director	None
Mr. Au Yeung Po Fung	Independent non-executive Director	None
Mr. Wu Xuekai	Independent non-executive Director	None

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Save as disclosed above, none of our Directors or members of our senior management holds any directorship or senior management position in the Parent Group. Each of Mr. Zhuang Wei, Mr. Yang Feng and Ms. Hui Ying is a non-executive Director with no executive function in our Group and is expected to maintain only an advisory role with us. Each of Mr. Zhuang Wei, Mr. Yang Feng and Ms. Hui Ying assumes an executive or management role in the Parent Group and he or she will not be involved in the day-to-day management or affairs and operations of our business.

In the event that Mr. Zhuang Wei, Mr. Yang Feng or Ms. Hui Ying is required to absent himself or herself from any board meeting on any matter which may give rise to a potential conflict of interest with our Controlling Shareholders, the remaining Directors will have sufficient expertise and experience to fully consider any such matter. Notwithstanding the directorships of Mr. Zhuang Wei, Mr. Yang Feng and Ms. Hui Ying in the Parent Group, we believe that our Directors and members of our senior management are able to perform their roles in our Company independently and that our Company is capable of managing our business independently from our Controlling Shareholders for the following reasons:

- (a) none of the Retained Businesses competes, or is likely to compete, with our core business and with the corporate governance measures in place to manage existing and potential conflicts of interest. Therefore, the dual roles assumed by Mr. Zhuang Wei in most cases will not affect the requisite degree of impartiality of our Directors in discharging their fiduciary duties owed to our Company;
- (b) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflicts of interest, such as consideration of resolutions in relation to transactions with our Controlling Shareholders, the relevant Directors who are connected with our Controlling Shareholders will abstain from voting and will not be counted towards the quorum of the relevant meeting. Hence the relevant Directors would be unable to influence the Board from making decisions on the matters in which they are, or may be, interested. We believe all of our Directors, including the three independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective Board and observe their fiduciary duties in an event of conflict of interests. Please see “Directors, Supervisors and Senior Management — Directors” in this prospectus for a summary of the relevant experience and qualifications of our Directors;
- (c) we have three independent non-executive Directors, and certain matters of our Group, including matters referred to in the Non-Competition Agreement, must always be referred to the independent non-executive Directors for review. This helps to enhance the independence of our management from that of our Controlling Shareholders. For further details, please see “Non-Competition Undertakings” in this section; and
- (d) save as disclosed herein, our daily operations will be managed by our senior management team, none of whom holds any senior managerial position or directorship position within the Parent Group.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### **Operational independence**

We are independent from our Controlling Shareholders as we do not share operational capabilities with our Controlling Shareholders, and we have independent access to suppliers and customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licences necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently from our Controlling Shareholders.

Although we entered into certain continuing connected transactions with members of the Parent Group which will continue after Listing, such transactions (other than the Exempted Trademarks Licence Agreement) have been entered into and will continue to be entered into on normal commercial terms and in the ordinary course of business of our Company. For the details of the connected transactions that will continue after Listing, please see “Connected Transactions” in this prospectus.

We have entered into Exempted Trademark Licence Agreements with each of Shanshan and Shanshan Group, details of which are set out in the section headed “Connected Transactions” in this prospectus. Pursuant to the Exempted Trademark Licence Agreements, Shanshan and Shanshan Group agreed to grant us, on perpetual and exclusive basis, a right to use and for us to sub-license any members of our Group and third parties to use various trademarks under the categories of garments, accessories, luggages and bags, shoes and hats on royalty-free basis. In view of the significant time and costs involved in transferring such trademarks, which is subject to the shareholders’ approval of Shanshan, which is a company listed on the Shanghai Stock Exchange, our Directors consider that the arrangement is beneficial to our Group as a whole and we are not reliant on our Controlling Shareholders.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

### **Financial independence**

We have established our own finance department with independent financial staff, who are responsible for financial management, accounting treatment, financial reporting, group credit and internal control of our Group. We can make financial decisions independently without interference from our Controlling Shareholders. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. We maintain bank accounts with banks independently and our Controlling Shareholders does not share any bank accounts with us. Our Directors are of the view that we have sufficient capital to operate our business independently, and we are capable of obtaining financing from third parties without relying on any guarantee or security provided by our Controlling Shareholders or other connected persons.

As of the Latest Practicable Date, none of the Controlling Shareholders and their respective close associates has provided any share pledge, security, guarantee and other financial assistance in favor of our Group.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Based on the foregoing, our Directors are of the view that we are financially independent from our Controlling Shareholders and their respective close associates including the Parent Group.

### CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

Our Controlling Shareholders and their respective close associates must not compete with us as provided in the Non-Competition Agreement. Each of our Controlling Shareholders has confirmed that it/he/she fully comprehends its/his/her obligation to act in our Shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparations for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the Board meetings on matters involving our Controlling Shareholders (including the Retained Businesses) and our Group and/or matters in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed to include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. For further details of our independent non-executive Directors, please see "Directors, Supervisors and Senior Management — Directors — Independent non-executive Directors" in this prospectus; and
- (d) we have appointed Dongxing Securities (Hong Kong) Company Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, our Directors, Supervisors, substantial shareholders and chief executive officer or those of our subsidiaries (other than the directors, supervisors, substantial shareholders and chief executive officer of our insignificant subsidiaries), any person who was our Director or a director of our subsidiaries within 12 months preceding the Listing Date and any of their respective associates will become a connected person of our Company upon Listing. Upon Listing, our transactions with such connected persons will constitute connected transactions under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transactions which will continue after the Listing will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

### CONTINUING CONNECTED TRANSACTIONS

#### **A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements**

##### ***1. Trademark licence agreements with Shanshan and Shanshan Group***

On May 20, 2016, our Company entered into a trademark licence agreement with each of Shanshan and Shanshan Group, respectively (together the “**Exempted Trademark Licence Agreements**”), pursuant to which each of Shanshan and Shanshan Group agreed to grant us, on a perpetual, exclusive and royalty free basis, a right to use trademarks registered under their respective names (the “**Licensed Trademarks**”) under the category of garments, accessories, luggages and bags, shoes and hats and for us to sub-license any members of our Group and third parties to use the Licensed Trademarks. For the details of the material Licensed Trademarks, please see “Statutory and General information — B. Further information about our business — 2. Intellectual property rights of our Group” in Appendix VII to this prospectus. For further details of sub-licensing the Licensed Trademarks by Fashion Brand to selected sub-licensees in the PRC, please see “Business – Trademark sub-licensing” in this prospectus.

The Exempted Trademark Licence Agreements are not unilaterally terminable by Shanshan or Shanshan Group. We have the sole discretion to decide whether to require Shanshan and Shanshan Group to renew and maintain the registration of the Licensed Trademarks upon expiry. We will seek approval from our Board committee which comprises three independent non-executive Directors when decision is made by us on whether to terminate the Exempted Trademark Licence Agreements. Any Director who has actual or potential interest in the transaction under the Exempted Trademark Licence Agreements or would potentially exert influence over the decision whether to terminate the Exempted Trademark Licence Agreements shall abstain from attending (unless their attendance is specifically requested by the Board committee) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such decision.

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## CONNECTED TRANSACTIONS

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Each of Shanshan and Shanshan Group also undertook under the relevant Exempted Trademark Licence Agreement that, among others, (i) it would take all appropriate measures to maintain the validity of the Licensed Trademarks granted by it (including renewing the trademark registration); (ii) it would not cancel the registration of such trademarks or transfer such trademarks to any third parties; (iii) it would not terminate the rights under such trademarks by any act or omission; and (iv) if our Group needs to apply for registration of trademarks relating to our business and needs its consent or assistance, it would unconditionally give such consent and facilitate the application process.

We have been using the Licensed Trademarks for our business and the related brand name of the products sold by us since August 2011. In order to maintain the consistency of our market and brand image, we will continue to use the Licensed Trademarks after Listing. Given that “杉杉” and “FIRS” are famous brands and the acquisition cost of which would be very substantial, any transfer of such trademarks would cause our Company to pay a substantial cost. Since our Group would be granted an irrevocable, perpetual and exclusive licence to use such trademarks on a royalty free basis, we could continue to use the Licensed Trademarks at no cost, and our Directors considered that the terms of the Exempted Trademark Licence Agreements are favorable to our Company and it is in the interest of our Company and our Shareholders as a whole to enter into the Exempted Trademark Licence Agreements.

Each of Shanshan and Shanshan Group is our Substantial Shareholder and hence, a connected person of our Company under the Listing Rules. Accordingly, the transactions under the Exempted Trademark Licence Agreements will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon Listing.

As the right to use the Licensed Trademarks is granted to our Company by Shanshan and Shanshan Group on a royalty-free basis, the transactions contemplated under the Exempted Trademark Licence Agreements constitute de minimis continuing connected transactions that will be exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### ***2. Trademark licence agreement with Lubiam Moda per L'Uomo***

On November 11, 2005, Lubiam Apparel entered into a trademark licence agreement with Lubiam Moda per L'Uomo (the “**Lubiam Trademark Licence Agreement**”), pursuant to which Lubiam Moda per L'Uomo agreed to grant Lubiam Apparel, on an exclusive basis, a right to use the “LUBIAM” trademark owned by it in connection with and for the manufacture and sale of “LUBIAM” branded garments and accessories by Lubiam Apparel in the territory of the PRC (excluding Taiwan, Hong Kong and Macau for the purpose of the Lubiam Trademark Licence Agreement). The term of the licence commenced on the date of the Lubiam Trademark Licence Agreement and shall end on the date on which the business licence of Lubiam Apparel becomes ineffective.

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## CONNECTED TRANSACTIONS

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The licence fees charged or to be charged by Lubiam Moda per L'Uomo under the Lubiam Trademark Licence Agreement are based on either (a) 7.2% of the aggregate of (x) the net sales of the retail outlets operated by Lubiam Apparel, and (y) the wholesale prices (excluding value-added tax) of the products sold by us to the franchised stores owned by the franchisees; or (b) US\$100,000 per annum for 2006 and 2007 and US\$150,000 per annum for 2008 and onwards, whichever is higher. The “net sales” referred to in (a)(x) above is the retail sales amounts of the products sold at the retail outlets after deducting rentals or commissions, management fees charged by the landlords, after-pricing discounts during product promotion period and value-added tax. Any taxes payable on the licence fees are borne by Lubiam Moda per L'Uomo. The licence fees are payable annually in arrears. Despite the provision referred to in item (y) above as contained in the Lubiam Trademark Licence Agreement, Lubiam Apparel has been operating its self-invested outlets since its establishment and has not adopted the franchise business model.

Pursuant to a supplemental agreement (the “**Supplemental Agreement**”) entered into between Lubiam Apparel and Lubiam Moda per L'Uomo on October 17, 2013, Lubiam Moda per L'Uomo agreed to grant Lubiam Apparel, on a non-exclusive basis, a right to use two trademarks owned by it, namely “LUIGI BIANCHI MANTOVA” and “L.B.M. 1911.” in the territory of the PRC (excluding Taiwan, Hong Kong and Macau for the purpose of the Supplemental Agreement) for a term of one year, which is subject to automatic renewal on an annual basis. Lubiam Moda per L'Uomo has the right to terminate the Supplemental Agreement at any time without notice to Lubiam Apparel. The Supplemental Agreement forms part of the Lubiam Trademark Licence Agreement and no additional licence fees are payable under the Supplemental Agreement. As of the Latest Practicable Date, Lubiam Apparel has not received any notice of termination from Lubiam Moda per L'Uomo.

Given (i) that LUBIAM brand is not our core brand and the sales derived from LUBIAM brand accounted for approximately 9.0%, 5.8% and 3.9% of the total sales of our Group for the years ended December 31, 2015, 2016 and 2017, respectively; (ii) our business strategy to focus our resources on our FIRS and SHANSHAN brands; and (iii) that we may gradually phase out the operations of LUBIAM brand in the future, we do not expect there to be any material impact on the business operations and financial performance of our Group in the event that Lubiam Moda per L'Uomo terminates the Lubiam Trademark Licence Agreement.

The licence fees paid by Lubiam Apparel to Lubiam Moda per L'Uomo for each of the years ended December 31, 2015, 2016 and 2017 were approximately US\$0.3 million, US\$0.2 million and US\$0.2 million, respectively.

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## CONNECTED TRANSACTIONS

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Our Directors estimate that the maximum amount of the licence fees payable by Lubiam Apparel under the Lubiam Trademark Licence Agreement will not exceed US\$250,000 for each of the years ending December 31, 2018, 2019 and 2020, respectively. Such estimate is based on (i) the projected demand of our products to be sold at the retail outlets operated by Lubiam Apparel; and (ii) historical transaction amounts for the years ended December 31, 2015, 2016 and 2017.

Lubiam Moda per L'Uomo is a substantial shareholder of Lubiam Apparel holding a 40% equity interest in Lubiam Apparel and hence, a connected person of our Company under the Listing Rules. Accordingly, the transaction contemplated under the Lubiam Trademark Licence Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

Since each of the applicable percentage ratios (other than the profits ratio) as defined in Rule 14.07 of the Listing Rules for the trademark licence is expected to be more than 0.1% but less than 5% on an annual basis and the maximum amount of the licence fees for each of the years ending December 31, 2018, 2019 and 2020 will be less than HK\$3 million, the transactions contemplated under the Lubiam Trademark Licence Agreement constitute de minimis continuing connected transactions that will be exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.



**3. Cooperative Agreements**

Our Company and Lubiam Apparel entered into the following cooperative agreements (together, the “**Cooperative Agreements**”) with Harbin Shanshan, Shanjing Commercial and Zhengzhou Shanshan, respectively:

<b>Date of Cooperative Agreements</b>	<b>Parties</b>	<b>Principal terms</b>
September 10, 2015	Lubiam Apparel and Harbin Shanshan	<ul style="list-style-type: none"> <li>• Lubiam Apparel shall sell LUBIAM branded products at a store located in Shanshan Outlet Plaza • Harbin (杉杉奥特莱斯广场 • 哈爾濱) and operated by Harbin Shanshan during the period from September 23, 2015 to August 31, 2018.</li> <li>• Harbin Shanshan shall be responsible for the overall layout, the marketing, promotion planning and management of the premises, and Lubiam Apparel shall bear costs for the procurement, transportation and warehousing of the LUBIAM branded products as well as the risk of loss of the LUBIAM branded products and risks associated with the quality of the LUBIAM branded products. Lubiam Apparel shall also be responsible for assigning staff to the store and bear their wages and welfare.</li> <li>• Harbin Shanshan is entitled to an incremental share of the sales revenue of the LUBIAM branded products, which equals to 6% of the sales revenue during the first year of the cooperation, 7% of the sales revenue during the second year of the cooperation and 8% of the sales revenue during the third year of the cooperation (the “<b>Revenue Sharing Fee I</b>”).</li> <li>• Harbin Shanshan will collect the sales revenue first and settle such amount after deducting the associated costs and the Revenue Sharing Fee I with Lubiam Apparel on a monthly basis, with each payment for a particular month being made between the 25th and 30th day of the following month. Lubiam Apparel shall retain title to the LUBIAM branded products until they are sold to the customers, and no payment is required to be made by Harbin Shanshan to Lubiam Apparel before the LUBIAM branded products are sold.</li> </ul>

## CONNECTED TRANSACTIONS

Date of Cooperative Agreements	Parties	Principal terms
June 25, 2017	Lubiam Apparel and Shanjing Commercial	<ul style="list-style-type: none"> <li>• Lubiam Apparel shall sell Lubiam branded products at a store located in Shanjing Outlet Plaza • Ningbo (杉井奥特莱斯广场 • 宁波) and operated by Shanjing Commercial during the period from August 1, 2017 to June 30, 2018.</li> <li>• Shanjing Commercial shall be responsible for the overall layout, the marketing, promotion planning and management of the premises, and Lubiam Apparel shall bear costs for the procurement, transportation and warehousing of the Lubiam branded products as well as the risk of loss of the Lubiam branded products and risks associated with the quality of the Lubiam branded products. Lubiam Apparel shall also be responsible for assigning staff to the store and bear their wages and welfare.</li> <li>• Shanjing Commercial is entitled to a share of the sales revenue of the Lubiam branded products that equals to 15% of the monthly sales revenue (the “<b>Revenue Sharing Fee II</b>”). The guaranteed annual sales revenue of the Lubiam branded products is RMB3.5 million. In the event that the monthly sales revenue of the Lubiam branded products is below one-twelfth of the guaranteed annual sales revenue (the “<b>Guaranteed Monthly Sales Revenue</b>”), the Guaranteed Monthly Sales Revenue will be used for calculating the Revenue Sharing Fee II.</li> <li>• Shanjing Commercial will collect the sales revenue first and settle such amount after deducting the associated costs and the Revenue Sharing Fee II with Lubiam Apparel on a monthly basis, with each payment for a particular month being made between the 25th and 30th day of the following month. Lubiam Apparel shall retain title to the Lubiam branded products until they are sold to the customers, and no payment is required to be made by Shanjing Commercial to Lubiam Apparel before the Lubiam branded products are sold.</li> </ul>

## CONNECTED TRANSACTIONS

Date of Cooperative Agreements	Parties	Principal terms
June 28, 2016	Lubiam Apparel and Zhengzhou Shanshan	<ul style="list-style-type: none"> <li>• Lubiam Apparel shall sell the Lubiam branded products at a store located in Shanshan Outlet Plaza • Zhengzhou (杉杉奥特莱斯广场 • 郑州) and operated by Zhengzhou Shanshan during the period from September 15, 2016 to September 14, 2019.</li> <li>• Zhengzhou Shanshan shall be responsible for the overall layout, the marketing, promotion planning and management of the premises, and Lubiam Apparel shall bear costs for the procurement, transportation and warehousing of the Lubiam branded products as well as the risk of loss of the Lubiam branded products and risks associated with the quality of the Lubiam branded products. Lubiam Apparel shall also be responsible for assigning staff to the store and bear their wages and welfare.</li> <li>• Zhengzhou Shanshan is entitled to incremental share of the sales revenue of the Lubiam branded products, which equals to 6% of the sales revenue during the first year of the cooperation, 7% of the sales revenue during the second year of the cooperation and 8% of the sales revenue during the third year of the cooperation (the “<b>Revenue Sharing Fee III</b>”).</li> <li>• Zhengzhou Shanshan will collect the sales revenue first and settle such amount after deducting the associated costs and the Revenue Sharing Fee III with Lubiam Apparel on a monthly basis, with each payment for a particular month being made between the 25th and 30th day of the following month. Lubiam Apparel shall retain title to the Lubiam branded products until they are sold to the customers, and no payment is required to be made by Zhengzhou Shanshan to Lubiam Apparel before the Lubiam branded products are sold.</li> </ul>

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## CONNECTED TRANSACTIONS

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The Revenue Sharing Fee I, Revenue Sharing Fee II and Revenue Sharing Fee III (together, the “**Revenue Sharing Fees**”) were determined with reference to the market recognition of the LUBIAM branded products, the location and operation history of the relevant outlets as well as the location of relevant retail outlets in the relevant premises.

During the years ended December 31, 2015, 2016 and 2017, Harbin Shanshan, Shanjing Commercial and Zhengzhou Shanshan received the Revenue Sharing Fees from Lubiam Apparel in the aggregated amount of RMB0.3 million, RMB0.4 million and RMB0.3 million, respectively.

Our Directors estimate that the maximum amount of the Revenue Sharing Fees under the Cooperative Agreements will not exceed RMB0.5 million, RMB0.5 million and RMB0.2 million for each of the years ending December 31, 2018, 2019 and 2020, respectively. Such estimate is based on (i) the projected demand of the products to be sold under the Cooperative Agreements; (ii) historical transaction amounts for the years ended December 31, 2015, 2016 and 2017; and (iii) the terms of the relevant cooperative agreements.

Harbin Shanshan, Shanjing Commercial and Zhengzhou Shanshan are owned as to 60%, 54% and 51%, respectively, by Shanshan Group, one of our Controlling Shareholders and hence, each of Harbin Shanshan, Shanjing Commercial and Zhengzhou Shanshan is a connected person of our Company under the Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the arrangements under the Cooperative Agreements benefit our Group as they enable us to leverage the third party’s resources to sell the LUBIAM branded products, which effectively controlling our costs and improving our gross profit.

Since each of the applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules for the Cooperative Agreements is expected to be less than 0.1% on an annual basis and the maximum amount of the Revenue Sharing Fees for each of the years ending December 31, 2018, 2019 and 2020 will be less than HK\$3 million, the transaction contemplated under the Cooperative Agreements constitutes a de minimis continuing connected transaction that will be exempted from reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## CONNECTED TRANSACTIONS

### B. Continuing connected transactions which are subject to the reporting, annual review, announcement requirements but exempt from the independent Shareholders' approval requirement

#### 4. Lease Agreements with Shanshan

We entered into the following lease agreements (together, the "Lease Agreements", and each, the "Lease Agreement") with Shanshan:

Date of lease agreement	Landlord	Tenant	Location of property	Area of property	Term	Maximum annual rent payable	Payment schedule	Use of property
November 17, 2016	Shanshan	Our Company	First floor and basement, No. 553-555 Beijing West Road, Shanghai, the PRC	763.69 sq.m.	Three years commencing on August 1, 2016 and ending on July 31, 2019	RMB300,000 (based on unit price of approximately RMB32.74 per sq.m. per month)	Pay on a quarterly basis	Office
November 17, 2016	Shanshan	Our Company	(i) Third floor of Building A (5,000 sq.m) and Building F1 (1,800 sq.m), No. 238 Yunlin Middle Road, Ningbo, the PRC (collectively, "Property 1");  (ii) Second floor (6,803 sq.m) of the North Wing, first floor (6,190 sq.m) and second floor (5,977 sq.m) of the South Wing of Building B, No. 238 Yunlin Central Road, Ningbo, the PRC (collectively, "Property 2");  (iii) First floor (5,536 sq.m) of the North Wing of Building B, No. 238 Yunlin Central Road, Ningbo, the PRC ("Property 3"); and  (iv) "Shanshan" brand operated stores (160 sq.m), 1st Floor, Bihuang, Huaqiaocheng, No. 814 Baizhang East Road, Ningbo, the PRC ("Property 4")	31,466 sq.m. in aggregate	Three years commencing on October 1, 2016 and ending on September 30, 2019	RMB5,261,064 in aggregate, comprising (i) RMB996,000 for Property 1 (based on unit prices of RMB13 per sq.m per month for office and RMB10 per sq.m per month for warehouse); (ii) RMB3,107,880 for Property 2 (based on unit prices of RMB15 per sq.m per month for the first floor and RMB13 per sq.m per month for the second floor of Property 2); (iii) RMB797,184 for Property 3 (based on a unit price of RMB12 per sq.m per month); and (iv) RMB360,000 for Property 4 (based on a unit price of RMB187.5 per sq.m per month)	Pay semi-annually	For Property 1: office and warehouse For Property 2: warehouse For Property 3: warehouse For Property 4: store

## CONNECTED TRANSACTIONS

Date of lease agreement	Landlord	Tenant	Location of property	Area of property	Term	Maximum annual rent payable	Payment schedule	Use of property
November 17, 2016	Shanshan	Lubiam Apparel	East End, Second floor, Zone A, Comprehensive Office Building, Shanshan New Energy Industry Base, No. 218 Yunlin Central Road, Wangchun Industrial Park, Ningbo, the PRC	767 sq.m.	Three years commencing on August 1, 2016 and ending on July 31, 2019	RMB138,060 (based on a unit price of RMB15 per sq.m.)	Pay semi-annually (per month)	Office and showroom

The annual rental of each Lease Agreement is determined with reference to the current market rent of similarly situated properties that are used for similar purposes. Cushman & Wakefield Limited, the independent property valuer to our Company, has reviewed the Lease Agreements and all of the rentals payable pursuant to the Lease Agreements and confirmed that the rentals payable by our Group to Shanshan reflect the prevailing market rates of comparable properties and are fair and reasonable.

Shanshan is our Substantial Shareholder and hence a connected person of our Company under the Listing Rules. Accordingly, the transactions contemplated under the Lease Agreements will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon Listing.

The total rentals paid to Shanshan by our Group in respect of the Lease Agreements for each of the years ended December 31, 2015 and 2016 and 2017 were approximately RMB2.3 million, RMB3.0 million and RMB4.2 million, respectively.

The aggregate of the maximum annual rent payable by us under all of the Lease Agreements described above is RMB5,699,124, which shall constitute the maximum amount of rent payable by us to Shanshan under the Lease Agreements for each of the years ending December 31, 2018 and 2019.

Since each of applicable percentage ratios (other than the profits ratio) as defined under Rule 14.07 of the Listing Rules for the Lease Agreements is expected to be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Lease Agreements are subject to the reporting, annual review and announcement requirements but will be exempted from the independent Shareholders' approval requirement under Rule 14A.76(2) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### WAIVERS

The transactions described in paragraphs 1 to 3 above constitute exempt continuing connected transactions under Chapter 14A of the Listing Rules. The transactions described in paragraph 4 above constitute non-exempted continuing connected transactions under the Listing Rules. In respect of the transactions described in paragraph 4, the applicable percentage ratios (other than the profits ratio) calculated with reference to the proposed annual caps for each of the years shown above are more than 0.1% but less than 5% on an annual basis. As such, the continuing connected transactions in paragraph 4 above would be subject to the reporting, annual review and announcement requirements but exempt from the independent Shareholders' approval requirement under the Listing Rules. In respect of the transactions described in paragraphs 1 to 3, the applicable percentage ratios (other than the profits ratio) calculated with reference to the proposed annual caps for each of the years shown above are less than 0.1% on an annual basis. As such, the continuing connected transactions in paragraphs 1 to 3 would be exempt from reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement requirement of the Listing Rules in respect of the continuing connected transactions as disclosed in paragraph 4 subject to (i) the above non-exempted continuing connected transactions will be carried out in compliance with the Listing Rules and we shall comply with the relevant requirements for continuing connected transactions in accordance with Chapter 14A of the Listing Rules, and (ii) the aggregate value of such non-exempted continuing connected transactions for each of the years ending December 31, 2018 and 2019 not exceeding the relevant annual cap amounts set forth above.

### DIRECTORS' VIEW

The duration of each of the Exempted Trademark Licence Agreements and the Lubiam Trademark Licence Agreement is for a term of more than three years. Our Directors are of the view that it is normal business practice for trademark licensing agreements to be of a similar duration to that of the Exempted Trademark Licence Agreements and the Lubiam Trademark License Agreement. Considering that the duration of a trademark agreement of this nature is (i) within the normal business practice for agreements of this type to be of such duration, and (ii) such term is sufficiently long to provide better protection to our Group and promote stability and continuity in our operations, our Directors are of the view that it is normal business practice for the Exempted Trademark Licence Agreements and the Lubiam Trademark Licence Agreement to have a longer duration which exceeds three years. Our Directors, including the independent non-executive Directors, are of the view that all the continuing connected transactions above are in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors, including the independent non-executive Directors, are also of the view that the annual caps of the non-exempted continuing connected transactions above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### SOLE SPONSOR'S VIEW

In respect of the continuing connected transactions as disclosed in paragraphs 1 and 2 above, the Sole Sponsor, having considered (i) the significance of the trademarks licensed under the Exempted Trademark Licence Agreements to our Group's business and financial position, (ii) the strategic importance for our Group to exclusively use the trademarks under the Exempted Trademark Licence Agreements in our core business and the related brand name of the products sold by our Group, (iii) our Group's decision not to acquire the Licensed Trademarks due to the significant time and costs involved in transferring the Licensed Trademarks, which is subject to shareholders' approval of Shanshan, which is a company listed on the Shanghai Stock Exchange, and (iv) the long term stability that is expected to be brought to our business by the Exempted Trademark Licence Agreement and the Lubiam Trademark Licence Agreement, the Sole Sponsor is not aware of any matter which indicates that the longer term provided for under the Exempted Trademark Licence Agreements and the Lubiam Licence Agreement is unreasonable and is of the view that it is the normal business practice for agreements of this type to be of such duration.

In addition, the Sole Sponsor is of the view that the continuing connected transactions as disclosed in paragraph 4 above have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole and the annual caps are fair and reasonable and in the interests of our Company and the Shareholders as a whole.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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The tables below show certain information in respect of the members of our Board, Supervisors and senior management<sup>(1)</sup>:

### DIRECTORS

Name	Age	Date of appointment as Director	Date of joining our Group	Existing positions in our Company, roles and responsibilities
<i>Executive Directors</i>				
Mr. Cao Yang (曹陽)	46	June 30, 2014	June 30, 2014	Executive Director, vice chairman of the Board  Responsible for strategic planning of our Group
Mr. Luo Yefei (駱葉飛)	43	May 18, 2016	June 1, 2013	Executive Director and general manager  Responsible for the overall development planning and business operations of our Group
Ms. Yan Jingfen (嚴靜芬)	44	May 18, 2016	August 2, 2010	Executive Director, chief financial officer, joint company secretary and authorized representative  Responsible for financial management, company secretarial matters and the compliance matters of our Group

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Name	Age	Date of appointment as Director	Date of joining our Group	Existing positions in our Company, roles and responsibilities
<i>Non-executive Directors</i>				
Mr. Zhuang Wei (莊巍)	51	August 23, 2011	August 23, 2011	Non-executive Director and chairman of our Board  Responsible for the overall corporate strategies and management directions of our Group
Mr. Yang Feng (楊峰)	34	January 2, 2018	January 2, 2018	Non-executive Director  Responsible for providing guidance and advice to our Group from finance and accounting perspectives
Ms. Hui Ying (惠穎)	37	January 2, 2018	January 2, 2018	Non-executive Director  Responsible for providing guidance and advice to our Group from legal perspectives
<i>Independent non-executive Directors</i>				
Mr. Au Yeung Po Fung (歐陽寶豐)	50	May 28, 2018	May 28, 2018	Independent non-executive Director  Responsible for providing independent advice and judgment to our Board

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of appointment as Director	Date of joining our Group	Existing positions in our Company, roles and responsibilities
Mr. Wang Yashan (王亞山)	56	May 28, 2018	May 28, 2018	Independent non-executive Director  Responsible for providing independent advice and judgment to our Board
Mr. Wu Xuekai (武學凱)	47	May 28, 2018	May 28, 2018	Independent non-executive Director  Responsible for providing independent advice and judgment to our Board

### SUPERVISORS

Name	Age	Date of appointment as Supervisor	Date of joining our Group	Existing positions
Ms. Zhou Danna (周丹娜)	36	May 18, 2016	July 15, 2013	Chairman of our Supervisory Committee and an employee representative Supervisor
Ms. Wang Cheng (王鉞)	29	August 4, 2016	January 11, 2016	Supervisor elected as a representative of a Shareholder
Ms. Yang Yi (楊依)	27	May 18, 2016	October 8, 2011	Supervisor elected as a representative of a Shareholder

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Date of appointment as senior management</u>	<u>Date of joining our Group</u>	<u>Existing positions in our Company, roles and responsibilities</u>
Mr. Wang Jun (王軍)	53	November 1, 2011	June 21, 2009	Executive deputy general manager  Responsible for production and procurement of our Group
Mr. Yang Yong (楊勇)	49	November 1, 2011	June 21, 2009	Deputy general manager and design director  Responsible for research and development as well as design of our Group
Mr. Zheng Shijie (鄭世傑)	47	June 1, 2013	June 1, 2013	Deputy general manager and planning director  Responsible for brand building of our Group

*Note:*

1. None of our Directors, Supervisors and senior management is personally related to any other Directors, Supervisors and senior management.

### BOARD OF DIRECTORS

Our Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. According to our Articles of Association, all our Directors shall be elected by the general meeting for a term of three years, and are eligible for re-election upon expiry of their terms. The powers and duties of our Board include, but not limited to convening Shareholders' general meetings, reporting our Board's work at the Shareholders' meetings, implementing the resolutions passed at general meetings, determining our business and investment plans, formulating our annual financial budgets and final reports, formulating proposals for profit distributions and for the increase or reduction of our registered capital as well as exercising other powers, functions and duties as conferred by our Articles of Association.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Cao Yang (曹陽)**, aged 46, was appointed as our Director, chairman of the board of directors of Shanshan Garment Brand, the predecessor of our Company on June 30, 2014. He was re-appointed as the vice chairman of our Company in May 2016 and has been responsible for strategic planning of our Group. Mr. Cao has extensive experience in strategic planning, brand management, public communication and corporate culture communication. He has over 12 years of experience in business management. From June 2010 to December 2014, Mr. Cao has served as the planning director of Shanshan Holding and responsible for strategic planning and brand management, public communication and corporate culture communication. From June 2009 to December 2013, he was with Shanshan Group, where he acted as an assistant to the president and the vice president and responsible for brand management and public communication. From May 2005 to January 2009, Mr. Cao served as the deputy head of the general management department and the head of the planning department of Shanshan Holding, a company primarily engaged in industrial investment, investment management and research, development and sales of garments, where he was responsible for brand management, public communication and corporate culture communication. In October 2004, Mr. Cao joined Shanshan Group, a company primarily engaged in property management, trading of non-ferrous metals and chemical products, asset management and investment consultancy as the head of the planning department and was responsible for brand management, public communication and corporate culture communication. Mr. Cao obtained his graduation certificate in journalism from Nanjing Normal University (南京師範大學) in the PRC in December 2012 by self-study.

**Mr. Luo Yefei (駱葉飛)**, aged 43, was appointed as our Director on May 18, 2016. Mr. Luo is also our general manager and responsible for the overall development planning and business operations of our Group. He is also a director of Fashion Brand. He has over 14 years of experience in the apparel industry. Mr. Luo joined our Group on June 1, 2013 as the general manager of Shanshan Garment Brand, the predecessor of our Company. Prior to joining our Group, Mr. Luo was the general manager and the controlling shareholder of Shaanxi Maoye, a company primarily engaged in the production and sales of garments, where he was responsible for the production operation management from September 2009 to June 2013. From September 2002 to September 2009, Mr. Luo served as the deputy general manager of Shaanxi Tuoda Commercial Trading Company Limited (陝西拓達商貿有限公司), a company primarily engaged in the sales and production of garments, where he was responsible for the sales and marketing. Mr. Luo obtained a certificate for the CEO EMBA program from Xi'an Jiaotong University (西安交通大學) in the PRC and Zhejiang University (浙江大學) in the PRC in July 2009 and June 2015, respectively. Mr. Luo also obtained a college diploma (專科文憑) in business management through online learning from University of Science and Technology Beijing (北京科技大學) in the PRC in July 2017.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Yan Jingfen (嚴靜芬)**, previously known as Yan Xuefang (嚴雪舫), aged 44, was appointed as our Director on May 18, 2016 and the member of Remuneration Committee on May 28, 2018. Ms. Yan is also our chief financial officer and joint company secretary and a director of Fashion Brand and responsible for financial management, company secretarial matters and the compliance matters of our Group. Ms. Yan has over 10 years of experience in financial management. Ms. Yan joined our Group on August 2, 2010. Since June 2013, she has been serving as the chief financial officer of Shanshan Garment Brand, the predecessor of our Company, and of our Company. From August 2010 to June 2013, Ms. Yan served successively as the head of the financial department and the chief financial director of Fashion Brand. From September 2009 to August 2010, she was the head of the financial department of Shanshan Bolai, a company primarily engaged in import and export business, where she was responsible for auditing and budgeting of this company. From July 2007 to September 2009, Ms. Yan served as the head of the financial department in Ningbo Shanshan Yongjiang Real Estate Company Limited (寧波杉杉甬江置業有限公司), a property developer, where she was responsible for financial budgeting and preparing financial statements. Ms. Yan obtained her bachelor's degree in financial management from the Ningbo Dahongying University (寧波大紅鷹學院) in the PRC in June 2014. Ms. Yan was qualified as an intermediate accountant (中級會計) by Ningbo Personnel Bureau (寧波市人事局) in May 2009.

### Non-executive Directors

**Mr. Zhuang Wei (莊巍)**, aged 51, was appointed as our Director and the chairman of Nomination Committee on August 23, 2011 and May 28, 2018 respectively. He is responsible for the overall corporate strategies and management directions of our Group. Mr. Zhuang is the chairman of our Board and joined us as a director of Shanshan Garment Brand on August 23, 2011. He has over 24 years of experience in business management. Since September 2012, he has served as a chairman and a general manager of Shanshan. Besides, he also serves as the chairman and director of a number of subsidiaries of Shanshan. Since September 2012, Mr. Zhuang has been a director and the chairman of FY Financial (Shenzhen) Co., Ltd., a company which is owned as to approximately 41.60% by Shanshan and whose overseas foreign listed shares are listed on GEM of the Stock Exchange (stock code: 08452). From March 2009 to September 2012, Mr. Zhuang served as the chairman of Shanshan. From April 2008 to March 2009, Mr. Zhuang served as a director and general manager of Shanshan. From March 2007 to March 2008, Mr. Zhuang served as the general manager of Ningbo Shanshan Venture Capital Co., Ltd. (寧波杉杉創業投資有限公司), an investment company, where he was responsible for the general management of this company. From July 1993 to March 2007, Mr. Zhuang was responsible for investment management in a PRC conglomerate and general management in two other companies. Since October 2013, he has been serving as a vice president of China National Garment Association (中國服裝協會). Mr. Zhuang obtained his doctor's degree in political economics from Peking University (北京大學) in the PRC in July 2000.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Yang Feng (楊峰)**, aged 34, was appointed as our Director on January 2, 2018. He is responsible for providing guidance and advice to our Group from finance and accounting perspectives. Since May 2017, Mr. Yang has been serving as the director, deputy general manager and chief financial officer of Shanshan and responsible for overseeing financial, accounting and internal control matters. From September 2010 to February 2017, he served successively as the intermediate business manager of the operation department (營業部) and the deputy head of division one for the corporate business (公司業務一處) of the Ningbo Branch of The Export-Import Bank of China (中國進出口銀行寧波分行), and he was responsible for accounting and financial management and loan business development. Mr. Yang obtained his bachelor's degree in finance from Nanjing University of Science and Technology (南京理工大學) in the PRC in June 2006 and his master's degree in management from Zhejiang University in the PRC in June 2008. He was qualified as an intermediate economist in finance (中級經濟師(金融)) by Ningbo Personnel Bureau (寧波市人事局) in January 2011 and an intermediate accountant (中級會計師) by Ningbo Human Resources and Social Security Bureau (寧波市人力資源和社會保障局) in January 2015.

**Ms. Hui Ying (惠穎)**, aged 37, was appointed as our Director on January 2, 2018. She is responsible for providing guidance and advice to our Group from legal perspectives. From June 2016 to March 2018, Ms. Hui served as a non-executive director of FY Financial (Shenzhen) Co., Ltd. (富銀融資租賃(深圳)股份有限公司), a company which is principally engaged in financial services business with a focus on providing equipment-based finance leasing, commercial factory and advisory services to its customers in the PRC, and is owned as to approximately 41.60% by Shanshan and whose overseas foreign listed shares are listed on GEM of the Stock Exchange (stock code: 08452). She has served as the head of legal department, supervisor, and assistant to general manager of Shanshan since November 2010, May 2014 and January 2015, respectively. She is mainly responsible for daily legal work and investment projects for Shanshan and a number of its subsidiaries. Moreover, she also serves as the director and/or general manager of a number of subsidiaries of Shanshan. From December 2007 to September 2010, she was a legal consultant in Herbert Smith, where she focused on foreign direct investment and mergers and acquisitions. From March 2005 to September 2007, Ms. Hui was a legal assistant in Global Law Office (環球律師事務所), where she focused on initial public offering, foreign direct investment and mergers & acquisitions. Ms. Hui obtained her lawyer's practicing certificate issued by the Ministry of Justice of the PRC in February 2008. She obtained her bachelor's degree in law and master's degree in commercial and corporate laws from Ningbo University (寧波大學) in the PRC and University College of London in the United Kingdom in June 2003 and November 2004, respectively.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Mr. Au Yeung Po Fung** (歐陽寶豐), aged 50, was appointed as our independent non-executive Director and chairman of Audit Committee on May 28, 2018. He is responsible for providing independent advice and judgment to our Board. Mr. Au Yeung has extensive experience in the PRC real estate industry and other industries, and is currently the chief financial officer of a company focusing on property project development and agricultural infrastructure establishments. He serves or had served various senior management positions, the details of which are set out as follows:

<u>Period of services</u>	<u>Name of company</u>	<u>Principal business</u>	<u>Position(s)</u>	<u>Responsibilities</u>
July 2017 to present	GR Properties Limited (國銳地產有限公司) (stock code: 108), listed on the Main Board of the Stock Exchange	Property development and management	Independent non-executive director	Providing independent advice and judgment to the company
July 2016 to present	China LNG Group Limited (中國天然氣集團有限公司) (stock code: 931), listed on the Main Board of the Stock Exchange	Natural gas-related businesses, property investment, money lending and the trading of securities	Independent non-executive director	Providing independent advice and judgment to the company



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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<u>Period of services</u>	<u>Name of company</u>	<u>Principal business</u>	<u>Position(s)</u>	<u>Responsibilities</u>
August 2017 to January 2018	Sansheng Holdings (Group) Co. Ltd. (三盛控股(集團)有限公司) (stock code: 2183) (formerly known as Lifestyle Properties Development Company Limited (利福地產發展有限公司)), listed on the Main Board of the Stock Exchange	Property development and investment	Chief financial officer	Compliance with Listing Rules, investor relations and financial reporting
August 2017 to January 2018	Fujian Sansheng Property Development Company Limited (福建三盛房地產開發有限公司)	Property development and investment	Vice-president	Financial management

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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<u>Period of services</u>	<u>Name of company</u>	<u>Principal business</u>	<u>Position(s)</u>	<u>Responsibilities</u>
July 2016 to September 2017	South China Holdings Company Limited (stock code: 413) and South China Assets Holdings Limited (stock code: 8155), listed on the Main Board and GEM of the Stock Exchange, respectively	Property development and investment	Chief financial officer of the PRC property division of the company	Assisting the group chief financial officer in the overall financial management
May 2016 to September 2016	Kiu Hung International Holdings Limited (僑雄國際控股有限公司) (stock code: 381), listed on the Main Board of the Stock Exchange	Toys, resources and leisure-related businesses	Independent non-executive director	Providing independent advice and judgment to the company
February 2014 to August 2014	Fosun International Ltd (復星國際有限公司) (stock code: 656), listed on the Main Board of the Stock Exchange)	Financial property, steel and healthcare	Vice president and chief financial officer of the property division of the company	Overall financial management

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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<u>Period of services</u>	<u>Name of company</u>	<u>Principal business</u>	<u>Position(s)</u>	<u>Responsibilities</u>
October 2011 to December 2013	Sun Hung Kai Properties Ltd (新鴻基地產發展有限公司) (stock code: 16), listed on the Main Board of the Stock Exchange	Property development and investment	Chief financial officer – Mainland operations in the PRC department of the company	Overseeing the finance, tax, budgeting and investment functions
November 2007 to October 2011	Powerlong Real Estate Holdings Limited (寶龍地產控股有限公司) (stock code: 1238), listed on the Main Board of the Stock Exchange	Property development and investment	Vice president, chief financial officer, company secretary and authorized representative	Overall financial management and company secretarial matters
January 2001 to January 2005	Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司) (stock code: 388), listed on the Main Board of the Stock Exchange	Stock market and futures market operator and strategic planning	Senior manager of the clearing division	Operation of the clearing procedures of the derivatives market and strategic planning

Mr. Au Yeung was admitted as a fellow member of the Institute of Chartered Accountants in England and Wales in July 2015, a chartered financial analyst of the CFA Institute in September 2006, a fellow of the Hong Kong Institute of Certified Public Accountants in May 2003, and a fellow member of the Association of Chartered Certified Accountants in November 2000. He obtained his bachelor of art degree in business studies from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1990.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Au Yeung was a director of Uniford Asia Limited (統發亞洲有限公司), a limited liability company incorporated in Hong Kong and dissolved by striking off by the Registrar of Companies in Hong Kong as a defunct company pursuant to section 291 of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong, as in force before March 3, 2014) on May 18, 2001. Mr. Au Yeung has confirmed that, to the best of his information knowledge and belief, the company was solvent at the time of being struck off and as of the Latest Practicable Date, no claims has been made against him and he was not aware of any threatened and potential claims made against him and there are no outstanding claims and/or liabilities as a result of the dissolution of such company. Mr. Au Yeung further confirms that there is no fraudulent act or misfeasance on his part leading to the striking off of such company.

**Mr. Wang Yashan (王亞山)**, aged 56, was appointed as our independent non-executive Director, chairman of Remuneration Committee, member of Audit Committee and member of Nomination Committee on May 28, 2018. He is responsible for providing independent advice and judgment to our Board. Mr. Wang was the legal representative of Beijing Zhonghuang Guoxin Management Consulting Company Limited (北京中璜國信管理諮詢有限責任公司), a company primarily engaged in providing corporate management consulting services from August 2010 to May 2016. He was also an independent director of Zhongke Yinghua High-tech Company Limited (中科英華高技術有限公司) (now known as Nuode Investment Company Limited (諾德投資股份有限公司)), a company listed on the Shanghai Stock Exchange (stock code: 600110), from June 2009 to July 2015. Mr. Wang obtained his lawyer's qualification certificate issued by the Ministry of Justice of the PRC in April 1989. He obtained his bachelor's degree in law from Peking University in the PRC in July 1984.

**Mr. Wu Xuekai (武學凱)**, aged 47, was appointed as our independent non-executive Director, member of Audit Committee, member of Remuneration Committee and member of Nomination Committee on May 28, 2018. He is responsible for providing independent advice and judgment to our Board. Mr. Wu has over 22 years of experience in apparel industry. Mr. Wu has been serving as the chief creative director of Biaoding Apparel Co., Ltd. (上海標頂服飾有限公司), a company primarily engaged in providing designing services, where he has been responsible for product design since June 2002. Mr. Wu was also the design director of Shanshan Group, where he was responsible for the product design and the management of the design department from January 1999 to April 2003. From October 1996 to January 1999, Mr. Wu was a deputy general manager of the design center of Shanshan, where he was responsible for the design of products. From January 1995 to September 1996, Mr. Wu was a workshop manager of one of Shanshan's factories, where he was responsible for daily operation of this workshop. He has also been an independent director of Hunan Huasheng Company Limited (湖南華升股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600156), where he has been supervising and providing independent advice to the board of directors of that company since January 2014. Mr. Wu was qualified as a senior craftsmanship designer (高級工藝美術師) in July 2010 by Shanghai Human Resources and Social Security Bureau (上海市人力資源和社會保障局). Mr. Wu obtained his graduation certificate in fashion design from Tianjin Polytechnic University (天津工業大學) (formerly known as Tianjin Textile Engineering Institute (天津紡織工學院)) in the PRC in July 1994.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### SUPERVISORY COMMITTEE

As reflected in our Articles of Association, the Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our Supervisory Committee is responsible for monitoring our financial matters and overseeing the actions of our Board and our management personnel. Our Supervisory Committee consists of three Supervisors. Two of the Supervisors are elected by our Shareholders in the Shareholders' meeting as the representative of the Shareholders. The other Supervisor is elected by the employees. Supervisors serve for a term of three years, after which they may be re-elected. An elected Supervisor cannot concurrently hold the position of Director or other senior executive. The principal functions and powers conferred on our Supervisory Committee include attending Board meetings as observers, examining our financial affairs and information, inspecting the balance sheets, profit and loss accounts, business reports, dividend distribution proposals and other financial information proposed at Shareholders' general meetings by our Directors from time to time and overseeing the actions of our Board and other senior management and ensuring they are properly carrying out their duties. Adoption of any resolution proposed at a meeting of the Supervisory Committee requires the approval of two-thirds of our Supervisors.

**Ms. Zhou Danna (周丹娜)**, aged 36, was appointed as the chairman of our Supervisory Committee on May 18, 2016. She joined our Group on July 15, 2013. She has over 11 years of experience in the apparel industry. Since July 2013, she was employed by our predecessor, Shanshan Garment Brand as an assistant to the head of the general management department, and now by us, as the manager of administration office, where she is responsible for administrative matters. From July 2013 to September 2014, she successively served as an assistant to the head of the general management department and the deputy department head in Fashion Brand, where she was responsible for assisting the head of general management department in administrative matters. From March 2006 to July 2013, Ms. Zhou successively served as the secretary to the general manager, administration assistant and the head of the department in Modun Garments, a company primarily engaged in the sales of garments, where she was responsible for assisting the general manager in daily administrative matters. Ms. Zhou obtained her bachelor's degree in art design from Tianjin Polytechnic University (天津工業大學) in the PRC in July 2006.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Wang Cheng (王鍼)**, aged 29, was appointed as our Supervisor on August 4, 2016. She has over five years of experience in financial management. Ms. Wang joined our Group as an assistant to financial manager of Shanshan Garment Brand on January 11, 2016 and has since been responsible for assisting with the financial management. Prior to joining our Group, she was an audit assistant in Ningbo Jizhi Technology Company Limited (寧波激智科技股份有限公司), a company primarily engaged in the research, development and production of optical film, where she was responsible for auditing from September 2014 to December 2015. From August 2013 to April 2014, Ms. Wang was an accounting clerk in financial management department (計劃財務部) of Shanshan, where she was responsible for financial auditing. From October 2011 to May 2013, Ms. Wang was an assistant auditor in Nantong Xinjianghai United CPAS (南通新江海聯合會計師事務所), where she was responsible for auditing annual reports, project auditing and liquidation management. Ms. Wang was qualified as an accountant by Nantong Chongchuan Finance Bureau (南通市崇川區財務局) in January 2013. Ms. Wang obtained her bachelor's degree in accounting from the college of Humanities and Sciences of Northeast Normal University (東北師範大學人文學院) in the PRC in June 2011.

**Ms. Yang Yi (楊依)**, aged 27, was appointed as our Supervisor on May 18, 2016. She has over five years of experience in managing internal control operations. She joined our Group on October 8, 2011, and has since then been serving as the deputy head of the department of internal control of Shanshan Garment Brand, the predecessor of our Company, and now our Company, and has been responsible for establishing and maintaining the internal control system of our Group as well as planning and establishing the management system of our Group. She obtained her bachelor's degree in digital media technology from Zhejiang Normal University (浙江師範大學) in the PRC in June 2012.

### SENIOR MANAGEMENT

**Mr. Wang Jun (王軍)**, aged 53, has been the executive deputy general manager of our Group since November 2011 and is responsible for production and procurement of our Group. He has more than 32 years of experience in the apparel industry. Mr. Wang joined our Group on June 21, 2009 and has since then been the deputy general manager of Fashion Brand. From May 2005 to August 2011, Mr. Wang was with Ningbo Shanshan Garments Co., Ltd. (寧波杉杉服裝有限公司), a company primarily engaged in the sale of garments, where he successively served as the assistant to the general manager and deputy general manager. During that period, he was responsible for production and supply matters as well as assisting the general manager in corporate management. From June 2003 to May 2005, he served as the head of the production department of Shanshan, where he was responsible for the general management of the factories. From July 2000 to May 2003, he was with Ningbo Shanshan Garments Co., Ltd., where he successively served as among others an assistant to the general manager and deputy general manager and was responsible for the production and procurement of this company. In July 1983, Mr. Wang joined the predecessor of Shanshan, where he started as a worker and was promoted as the deputy department head of Shanshan before he left in December 1998 and was responsible for the production and operation matters. Mr. Wang obtained a graduation certificate of electrical automation from the employee university of Shanghai Chemical Fiber Industrial Company (上海市化學纖維工業公司職工大學) in July 1988. Mr. Wang was qualified as an assistant engineer by Ningbo Personnel Bureau (寧波市人事局) in September 1994.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Yang Yong (楊勇)**, aged 49, has been a deputy general manager and design director of our Group since November 2011. He is responsible for research and development and design of our Group. He has more than 24 years of experience in apparel industry. Mr. Yang joined our Group on June 21, 2009 as the deputy general manager and chief designer of Fashion Brand. Prior to joining us, Mr. Yang had worked for more than 16 years, from June 1989 to May 2006, in Beijing Shunmei Garment Company Limited (北京順美服裝有限公司), a company primarily engaged in the production and sale of menswear, where he successively served as, among others, a manager and the product director of that company. Mr. Yang completed the diploma program of executive business administration from Zhejiang University (浙江大學) in the PRC in June 2015.

**Mr. Zheng Shijie (鄭世傑)**, aged 47, has been our deputy general manager and planning director since June 2013 and is responsible for the brand building of our Group. Mr. Zheng joined our Group as the planning director of Fashion Brand in June 2013. He has over 20 years of experience in apparel industry. From June 2012 to June 2013, Mr. Zheng was an assistant to the general manager of Shaanxi Maoye, where he was responsible for assisting the general manager in the day-to-day operations of Shaanxi Maoye. From January 2009 to June 2012, Mr. Zheng was the general manager of the business division of Romon Group Co., Ltd. (羅蒙集團股份有限公司), a company primarily engaged in the design, production and sale of garments, where he was responsible for the operation of Xili Meishi (喜麗美獅) brand. From January 1996 to October 2002, he was the manager of the business division of womenswear in Peace Bird Group Co., Ltd. (太平鳥集團有限公司), a company primarily engaged in the production and sale of garments, where he was responsible for womenswear establishment and development. Mr. Zheng completed the diploma program of executive business administration offered by Zhejiang University (浙江大學) in the PRC in June 2015.

Save as disclosed above in this section, none of our Directors or Supervisors is involved in the events mentioned in Rule 13.51(2) of the Listing Rules, and none of our Directors, Supervisors and senior management members acted as a director of any companies listed on the Stock Exchange or other stock exchanges for the last three years.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### JOINT COMPANY SECRETARIES

**Mr. Kwok Siu Man** (郭兆文) was appointed a joint company secretary of our Company on November 10, 2017. He is presently an executive director and head, corporate secretarial of Boardroom Corporate Services (HK) Limited (“**Boardroom**”) and a director of Boardroom Share Registrars (HK) Limited. He has over 30 years’ legal, corporate secretarial and management experience and he is currently the company secretary or a joint company secretary of 23 other companies listed on the Stock Exchange. Mr. Kwok has been an independent non-executive director of Tak Lee Machinery Holdings Limited (德利機械控股有限公司) (stock code: 8142), a company listed on GEM of the Stock Exchange, since June 2017. He was an independent non-executive director of Grand Ocean Advanced Resources Company Limited (弘海高新資源有限公司) (stock code: 65), a company listed on the Main Board of the Stock Exchange, from February 2015 to February 2016. Mr. Kwok is a fellow member of each of The Institute of Chartered Secretaries and Administrators and The Institute of Financial Accountants in England, the Institute of Public Accountants in Australia, The Hong Kong Institute of Chartered Secretaries (“**HKICS**”), The Association of Hong Kong Accountants and The Hong Kong Institute of Directors and a member of the Hong Kong Securities and Investment Institute. He also possesses professional qualifications in arbitration, taxation, financial planning and human resources management. He has passed the Common Professional Examinations in England and Wales and obtained a professional diploma in company secretaryship and administration and a bachelor’s degree of arts from the Hong Kong Polytechnic University (formerly the Hong Kong Polytechnic) and a post-graduate diploma in laws from the Manchester Metropolitan University in England. In addition, he was a council member and a chief examiner of the international qualifying examinations of the HKICS.

Mr. Kwok was nominated by Boardroom to act as one of the named joint company secretaries of our Company pursuant to an engagement letter entered into between our Company and Boardroom, with a view to providing support to Ms. Yan Jingfen, one of our joint company secretaries. He will be supported by other staff of Boardroom in providing the corporate secretarial services to our Company. In light of Mr. Kwok’s experiences and his supporting role to Ms. Yan Jingfen, and considering that Mr. Kwok himself will be supported by other staff of Boardroom in providing the corporate secretarial services to our Company, we are of the view that Mr. Kwok has sufficient time and capacity to fulfill his duties as a joint company secretary of our Company.

**Ms. Yan Jingfen** (嚴靜芬) was appointed as a joint company secretary of our Company on November 8, 2016. For further information regarding Ms. Yan Jingfen, please see “Directors — Board of Directors — Executive Directors” in this section.



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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **BOARD COMMITTEES**

#### **Audit Committee**

We established the Audit Committee on May 28, 2018. The terms of reference are in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, being Mr. Au Yeung Po Fung (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Wang Yashan and Mr. Wu Xuekai, all of them are independent non-executive Directors. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

#### **Remuneration Committee**

We established the Remuneration Committee on May 28, 2018. The terms of reference are in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, being Mr. Wang Yashan, Ms. Yan Jingfen and Mr. Wu Xuekai, two of whom are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Wang Yashan. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to our Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to our Board on the remuneration packages of our Directors and senior management; and (iii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments were linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

#### **Nomination Committee**

We established the Nomination Committee on May 28, 2018. The terms of reference are in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, being Mr. Zhuang Wei, Mr. Wang Yashan and Mr. Wu Xuekai. Two of the members are our independent non-executive Directors. The Nomination Committee is chaired by Mr. Zhuang Wei. The primary function of the Nomination Committee is to make recommendations to our Board on the appointment of members of our Board.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **COMPENSATION OF EMPLOYEES**

For the years ended December 31, 2015, 2016 and 2017, we incurred employee costs (including Directors remuneration) of approximately RMB58.4 million, RMB68.1 million and RMB86.4 million, respectively, representing approximately 11.1%, 11.5% and 10.8% of our revenue during those periods.

As required by PRC regulations as well as compulsory rules of the PRC local governments, we participate in various social welfare schemes including pension, medical, maternity, work-related injury insurances, unemployment insurance and housing provident fund contributions. We are required under PRC laws to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirement, up to a minimum amount specified by the relevant local governments from time to time. The total amount of contributions we made for such social welfare schemes in accordance with the relevant PRC laws for the years ended December 31, 2015, 2016 and 2017 was approximately RMB6.6 million, RMB9.2 million and RMB11.5 million, respectively.

### **COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our executive Directors, Supervisors and senior management, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and other short-term benefits.

Our Directors' and Supervisors' remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

For the years ended December 31, 2015, 2016 and 2017, the aggregate amount of salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) granted by us to each of the directors and supervisors of our Company during the Track Record Period were approximately RMB0.4 million, RMB2.0 million and RMB2.0 million, respectively.

For the years ended December 31, 2015, 2016 and 2017, the aggregate amount of salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) granted by us to each of the senior management of our Company during the Track Record Period were approximately RMB2.9 million, RMB3.3 million and RMB3.3 million, respectively.

The aggregate amount of remuneration including salaries and other short-term benefits in kind which was paid to our five highest paid individuals including Directors and Supervisors for the years ended December 31, 2015, 2016 and 2017 was approximately RMB2.3 million, RMB3.0 million and RMB2.8 million, respectively.

No remuneration was paid by our Group to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the years ended December 31, 2015, 2016 and 2017. None of our Directors waived any remuneration during the same years.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors and Supervisors for the year ending December 31, 2018 is estimated to be no more than RMB2.2 million.

### **COMPLIANCE ADVISER**

We have appointed Dongxing Securities (Hong Kong) Company Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) in relation to the publication of any regulatory announcement, circular or financial report;
- (b) in relation to a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately prior to and following the completion of the Global Offering (taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the following persons have interests or short positions in our Shares or underlying Shares which fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Global Offering <sup>(1)</sup>		Shares held in the relevant class of Shares immediately following the completion of the Global Offering <sup>(1)</sup>		Shares held in the total share capital of our Company immediately following the completion of the Global Offering <sup>(1)</sup>	
		Number	Percentage (approx.)	Number	Percentage (approx.)	Number	Percentage (approx.)
Shanshan <sup>(2)</sup>	Beneficial owner	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Shanshan Group <sup>(3)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Ningbo Yonggang <sup>(4)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Shanshan Holding <sup>(5)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Qinggang Investment <sup>(6)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Mr. Zheng <sup>(7)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	
Ms. Zhou <sup>(7)</sup>	Interest of a controlled corporation	90,000,000	90%	90,000,000	90%	90,000,000	67.5%
		Domestic Shares (L)		Domestic Shares (L)		Domestic Shares (L)	

## SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Global Offering <sup>(1)</sup>		Shares held in the relevant class of Shares immediately following the completion of the Global Offering <sup>(1)</sup>		Shares held in the total share capital of our Company immediately following the completion of the Global Offering <sup>(1)</sup>	
		Number	Percentage (approx.)	Number	Percentage (approx.)	Number	Percentage (approx.)
Shaanxi Maoye <sup>(8)</sup>	Beneficial owner	10,000,000	10%	10,000,000	10%	10,000,000	7.5%
		Domestic		Domestic		Domestic	
		Shares (L)		Shares (L)		Shares (L)	
Mr. Luo <sup>(8)</sup>	Interest of a controlled corporation	10,000,000	10%	10,000,000	10%	10,000,000	7.5%
		Domestic		Domestic		Domestic	
		Shares (L)		Shares (L)		Shares (L)	
Ms. Zhou YM <sup>(9)</sup>	Interest of spouse	10,000,000	10%	10,000,000	10%	10,000,000	7.5%
		Domestic		Domestic		Domestic	
		Shares (L)		Shares (L)		Shares (L)	

*Notes:*

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Shanshan is a joint stock company with limited liability established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 600884) which is owned as to approximately 23.79% by Shanshan Group, approximately 16.09% by Shanshan Holding, approximately 0.04% by Mr. Zheng and approximately 60.08% by other public shareholders.
- (3) Shanshan Group is interested in approximately 23.79% of the registered share capital of, and (together with Shanshan Holding) controls the majority of the board of directors of Shanshan. By virtue of the SFO, Shanshan Group is deemed to be interested in the Domestic Shares held by Shanshan.
- (4) Ningbo Yonggang is interested in approximately 12.96% of the registered capital of Shanshan Group, which (together with Shanshan Holding) controls the majority of the board of directors of Shanshan. By virtue of the SFO, Ningbo Yonggang is deemed to be interested in the Domestic Shares held by Shanshan.
- (5) Shanshan Holding is directly interested in approximately 16.09% of the registered share capital of Shanshan and indirectly interested in approximately 23.79% of the registered share capital of Shanshan through (i) Ningbo Yonggang (a corporation of which Shanshan Holding is interested in approximately 96.93% of its registered capital), and (ii) Shanshan Group (a corporation of which Shanshan Holding is directly interested in approximately 67.14% and indirectly interested in approximately 12.96% through Ningbo Yonggang). By virtue of the SFO, Shanshan Holding is deemed to be interested in the Domestic Shares held by Shanshan.
- (6) Qinggang Investment is interested in approximately 61.81% of the registered capital of Shanshan Holding. By virtue of the SFO, Qinggang Investment is deemed to be interested in the Domestic Shares held by Shanshan.
- (7) Qinggang Investment is owned as to 51% by Mr. Zheng and 49% by Ms. Zhou. By virtue of the SFO, both Mr. Zheng and Ms. Zhou are deemed to be interested in the Domestic Shares held by Shanshan.

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## SUBSTANTIAL SHAREHOLDERS

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- (8) Shaanxi Maoye is owned as to 80% by Mr. Luo and 20% by Ms. Zhou YM. By virtue of the SFO, Mr. Luo is deemed to be interested in the Domestic Shares held by Shaanxi Maoye.
- (9) Ms. Zhou YM is the spouse of Mr. Luo. By virtue of the SFO, Ms. Zhou YM is deemed to be interested in the Domestic Shares held by Mr. Luo.

If the Over-allotment Option is fully exercised, Shanshan, Shanshan Group, Ningbo Yonggang, Shanshan Holding, Qinggang Investment, Mr. Zheng, Ms. Zhou, Shaanxi Maoye, Mr. Luo and Ms. Zhou YM will be interested in approximately 65.0%, 65.0%, 65.0%, 65.0%, 65.0%, 65.0%, 65.0%, 7.2%, 7.2% and 7.2% of the total issued share capital of our Company.

Except as disclosed in this prospectus, our Directors are not aware of any person will, immediately prior to and following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), have interests or short positions in any Shares or underlying Shares, which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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As of the date of this prospectus, the registered share capital of our Company is RMB100 million, divided into 100,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the completion of the Global Offering will be as follows:

<b>Number of Shares</b>	<b>Description of Shares</b>	<b>Approximate percentage to total share capital</b>
100,000,000	Domestic Shares <sup>(1)</sup>	75%
<u>33,400,000</u>	H Shares	<u>25%</u>
<u><u>133,400,000</u></u>		<u><u>100%</u></u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the completion of the Global Offering will be as follows:

<b>Number of Shares</b>	<b>Description of Shares</b>	<b>Approximate percentage to total share capital</b>
100,000,000	Domestic Shares <sup>(1)</sup>	72.2%
<u>38,410,000</u>	H Shares	<u>27.8%</u>
<u><u>138,410,000</u></u>		<u><u>100%</u></u>

*Note:*

- (1) These Domestic Shares are held by existing Shareholders and may be converted into H Shares. Please see “Conversion of our Domestic Shares into H Shares” in this section.

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## SHARE CAPITAL

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### **PUBLIC FLOAT REQUIREMENTS**

Rule 8.08 of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued shares and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Global Offering becomes unconditional and is completed.

### **OUR SHARES**

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect or other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can be subscribed for by and traded between legal or natural persons of the PRC or qualified foreign institutional investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

Our promoters hold 100,000,000 existing Domestic Shares as promoter shares (as defined in the PRC Company Law). The PRC Company Law provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing. Accordingly, Shares issued by our Company prior to the Listing Date shall not be transferred for a period of one year from the Listing Date.



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## SHARE CAPITAL

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Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix VI to this prospectus, our Domestic Shares and our H Shares will rank equally with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC laws may impose from time to time. Save for the Global Offering, we do not propose carrying out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

### CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

#### Conversion of Domestic Shares

We have two classes of ordinary shares, Domestic Shares and H Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by existing Shareholders. Therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC Legal Advisers, Shu Jin Law Firm, has advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional Shares after our Listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our Listing in Hong Kong. No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed transfer.

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## SHARE CAPITAL

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As confirmed by our PRC Legal Advisers, the Articles of Association are consistent with the relevant PRC laws and regulations on the conversion of Domestic Shares.

### **Mechanism and procedures for conversion**

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Shares register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Register will be conditional on (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (ii) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

Please see “Risk Factors — Risks related to the Global Offering — Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC, or re-registration of Shares held on our Domestic Share register and/or the unlisted foreign share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings” in this prospectus for details.

### **TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE**

The Company Law provides that in relation to the public offering of a company, the shares issued prior to the public offering shall not be transferred within a period of one year from the date on which the publicly offered shares are listed on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

Please see “Underwriting — Underwriting arrangements and expenses — Undertakings to the Stock Exchange pursuant to the Listing Rules — Undertakings by the Controlling Shareholders” in this prospectus for details of the lock-up undertaking given by the Controlling Shareholders to the Stock Exchange. Please see “Underwriting — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus for details of the lock-up undertaking given by the Controlling Shareholders under the Hong Kong Underwriting Agreement.

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## SHARE CAPITAL

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### **INCREASE IN SHARE CAPITAL**

As advised by our PRC Legal Advisers, pursuant to the Articles of Association and subject to the requirements of relevant PRC laws and regulations, our Company, upon Listing of its H Shares, is eligible to enlarge its share capital by issuing either new H Shares or new Domestic Shares on condition that such proposed issuance shall be approved by a special resolution of Shareholders in general meeting and by holders of Shares of that class of Shareholders whose interest is affected in a separate meeting conducted in accordance with the provisions of the Articles of Association and that such issuance complies with the Listing Rules and other relevant laws and regulations of Hong Kong. To adopt a special resolution of Shareholders in general meeting, more than the two thirds votes represented by the Shareholders (including proxies) present at the general meeting must be exercised in favor of the resolution. Resolutions of a class of Shareholders shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the class Shareholders' meeting.

### **REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE**

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days after listing of its overseas-listed-foreign-invested shares and provide a written report to the CSRC regarding the centralized registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

For details of circumstances under which our Shareholders' general meeting and class Shareholders' meeting are required, please see "Variation of rights of existing Shares or Class of Shares", "Ordinary and Special Resolutions — Majority Required" and "Voting Rights (Generally, on a Poll and Right to Demand a Poll)" under "Appendix VI — Summary of Articles of Association" to this prospectus.

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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2015, 2016 and 2017 together with the accompanying notes included in the Accountants' Report set forth in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS.*

*The following discussion and analysis contain forward-looking statements that reflect our current views on future events and our financial performance. We make these statements based on our assumptions in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. However, actual outcomes and developments are exposed to a number of risks and uncertainties and may not meet our forecasts or expectations. Please see "Risk Factors" and "Forward-looking Statements" in this prospectus for discussions of those risks and uncertainties.*

### OVERVIEW

During the Track Record Period, our business primarily involved the design, marketing and sale of formal and casual business menswear in the PRC under four brands, namely, FIRS, SHANSHAN, MARCO AZZALI and LUBIAM, each having distinct product features and brand positioning that are tailored to the preferences of consumers in particular age and income groups. Our products are primarily targeted at male consumers who seek quality menswear products. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see "Business — Our brands and products — Our historical MARCO AZZALI brand" in this prospectus for further details.

We design, market and sell products primarily under our FIRS brand, which is our core and signature brand. According to the CIC Report, our FIRS brand was the fifth largest business formal menswear brand in the PRC in terms of retail revenue in 2017. For the years ended December 31, 2015, 2016 and 2017, revenue generated from the sales of our FIRS branded products amounted to RMB433.2 million, RMB461.5 million and RMB494.9 million, respectively, representing approximately 82.3%, 77.9% and 62.0% of our total revenue for the respective years.

During the Track Record Period, all of our revenue was derived in the PRC. For the years ended December 31, 2015, 2016 and 2017, our revenue amounted to RMB526.1 million, RMB592.1 million and RMB797.9 million, respectively, and our net profit attributable to the owners of our Company amounted to RMB52.8 million, RMB35.2 million and RMB45.0 million, respectively.

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## FINANCIAL INFORMATION

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### **BASIS OF PRESENTATION**

Shanshan Garment Brand, the predecessor of our Company, was established in the PRC as a limited liability company on August 23, 2011. On May 18, 2016, Shanshan Garment Brand was converted into a joint stock company with limited liability and renamed as Shanshan Brand Management Co., Ltd. (杉衫品牌運營股份有限公司). Following the completion of the Reorganization, our Company became the holding company of the companies now comprising our Group. The financial information in the Accountants' Report set out in Appendix I to this prospectus has been prepared as a continuation of the financial statements of the companies now comprising our Group.

Our consolidated financial information has been prepared in accordance with the HKFRS and applicable disclosure requirements of the Listing Rules and the Companies Ordinance. Our consolidated financial information is presented in Renminbi, which is our functional and presentation currency.

Details regarding the basis of the presentation and preparation of our consolidated financial information are set out in notes 2 and 3 to the Accountants' Report in Appendix I to this prospectus.

### **KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our results of operations and financial conditions have been and will continue to be affected by various factors, including the factors set forth below.

#### **Brand recognition and successful marketing of our products**

Brand recognition is a key factor in consumers' purchasing decisions. We believe that our brand recognition has contributed significantly to the success of our business, and, therefore, maintaining and enhancing our brand-recognition is critical to our ability to differentiate our brands and products and to compete effectively in the PRC menswear industry. Our brand portfolio currently comprises three brands, namely FIRS, SHANSHAN and LUBIAM. We believe our strong brands and product quality have enabled us to build a high degree of brand loyalty among our customers.

We continuously invest in advertising and promotion to enhance customer loyalty, brand reputation and market recognition. We advertise our brands and products through a wide variety of channels including (i) television; (ii) websites; (iii) light-box advertisements in certain airport and high-speed train stations; and (iv) advertisements on high-speed trains. Please see "Business — Marketing and promotion" in this prospectus for further details. For the years ended December 31, 2015, 2016 and 2017, our advertising and promotional expenses amounted to RMB18.5 million, RMB24.6 million and RMB24.5 million, respectively. We plan to allocate more resources to increase our brand promotion and marketing efforts, and we believe this will augment our market position in the PRC menswear industry and increase our brand profile.

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### **Size, composition and performance of our sales and distribution network in the PRC**

We sell our products across the PRC primarily through (i) our distributors; (ii) direct sales; and (iii) our franchisees. We believe the growth of our revenue and profit depends on the size, composition and performance of our sales and distribution network. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet. Please see “Business — Sales and distribution” in this prospectus for further details. In addition, our financial performance and results of operations are also affected by the composition of our sales and distribution retail network, as the uniform wholesale prices at which we sell our products to distributors are generally lower than the uniform retail prices at which we sell to end-customers through self-operated retail outlets, e-commerce platforms and franchisee retail outlets.

Since September 2015, we have strategically reallocated our resources for the development of (i) e-commerce sales to further capitalize on the significant growth potential brought by e-commerce sales; and (ii) SHANSHAN Cooperative Arrangements as we believe these arrangements can reduce our inventory risks and improve our profitability. We also plan to optimize and expand our sales and distribution network in the PRC and to further develop our e-commerce sales. We believe our financial performance and results of operations will continue to be influenced by the size, composition and performance of our sales and distribution network. Please see “Business — Distributorship model — Movement of distributors”; and “Business — Business strategies” in this prospectus for further details.

### **Operational costs and efficiency**

Fluctuations in our operational costs, including cost of sales and store and e-commerce expenses, could have impact our financial performance and results of operations.

### ***Cost of sales***

During the Track Record Period, our cost of sales mainly consisted of OEM costs and raw material costs. Our OEM costs primarily represented the costs we paid to (i) finished product suppliers, who processed raw materials procured by themselves and provided us with the finished products; and (ii) processing suppliers, who processed raw materials and fabrics procured by us and provided us with the processed products. For the years ended December 31, 2015, 2016 and 2017, OEM costs represented approximately 74.4%, 76.3% and 75.5% of our total cost of sales, respectively.

Our cost of sales is affected by a number of factors such as increases in raw material costs and OEM costs. Where the OEM suppliers are responsible for the procurement of raw materials, fluctuations in raw material costs may affect the final amounts we pay to our OEM suppliers. Where we are responsible for the procurement of raw materials for our OEM suppliers, we bear the risk of any fluctuations in raw material costs. We believe our financial performance and results of operations will continue to be influenced by our ability to pass any

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increases in our raw material costs and OEM costs to our customers and our ability to identify and manage qualified OEM suppliers who meet our standards at commercially acceptable terms. Please see “Risk Factors — Risks related to our business and the PRC menswear industry – We rely heavily on our selected OEM suppliers for the production of our products and any shortage or delay in supply by our OEM suppliers or instability of their product quality could materially and adversely affect our business” in this prospectus for further details.

### *Store and e-commerce expenses*

Store and e-commerce expenses consisted primarily of the (i) revenue sharing fees we paid to our franchisees in respect of the sales conducted in our SHANSHAN branded franchisee retail outlets; (ii) rental payments we paid to the relevant landlords or shopping malls for self-operated retail outlets; and (iii) commissions and fees we paid to third-party e-commerce platforms for our e-commerce sales.

Alongside our efforts to develop market presence through our SHANSHAN branded franchisee retail outlets and through the third-party e-commerce platforms, the increase in revenue from these channels would, in turn, increase the revenue sharing fees we pay to our franchisees and commissions and fees we pay to third-party e-commerce platforms.

Besides, our self-operated retail outlets are situated at sites carefully assessed and selected by our business development, sales and marketing team. As of December 31, 2017, we had 136 self-operated retail outlets. Our rental payments contain both fixed and/or contingent rentals and terms ranging from one to 12 years. With our intention to expand our retail network by increasing the number of self-operated retail outlets, we expect the fluctuations in market rents will affect our financial condition and results of operations.

Please see “Discussions and analyses of results of operations” in this section for further discussion regarding the changes in our selling and distribution expenses during the Track Record Period.

### **Competition**

The PRC menswear industry is highly competitive and fragmented and is likely to become more so in the future. Our ability to differentiate ourselves from our competitors could potentially affect our sales performance, pricing and marketing strategies. In addition, the rapid development of e-commerce has significantly changed the shopping patterns of consumers in recent years, resulting in increased competition in the PRC menswear industry. Please see “Industry Overview” in this prospectus for further details. We plan to continue optimizing and expanding our sales and distribution network in the PRC, and further develop our e-commerce sales in response to the increased competition in the PRC menswear industry. We believe the intensifying competition in the PRC menswear industry will continue to affect our financial performance and results of operations in the future.

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### **Seasonality**

Our financial performance and results of operations are subject to seasonal fluctuations. Since the average selling price of our “autumn/winter” collections is typically higher than for our “spring/summer” collections, we typically generate higher revenue in autumn/winter as compared to spring/summer. In addition, we typically generate higher sales before and during holidays and festive seasons such as Chinese New Year, the Chinese National Day, Christmas and the New Year. Further, our business is vulnerable to unexpected weather change. For example, the sales performance and inventory levels of our winter menswear products may be adversely affected if there is a warm winter. We expect our financial performance and results of operations to continue to fluctuate due to seasonality.

### **Pricing policy**

Our revenue and profitability are directly affected by the pricing of our products, which is in turn determined by factors including (i) general economic conditions and consumer spending habits in the PRC; (ii) our product positioning; (iii) cost of sales; and (iv) the pricing strategies of our competitors. We sell products at uniform wholesale prices to our first-tier distributors and at uniform retail prices to end-customers through self-operated retail outlets, e-commerce platforms and franchisee retail outlets. We also provide suggested retail prices to first-tier and second-tier distributors for the sale of our products. Our ability to continue to price our products at optimum levels is crucial to our financial performance. Any material change in our pricing strategy may have a material impact on our financial condition and results of operations. Please see “Business — Sales and distribution — Pricing strategy” in this prospectus for details.

### **Economic conditions and consumer spending in the PRC**

We conduct our business in the PRC. Economic conditions in the PRC, and, in particular, the level of per capita disposable income of urban households, have a direct impact on the level of demand for our products. The PRC has experienced rapid economic growth, rising levels of per capita disposable income and improving living standards over the past three decades, which significantly spur the demand for and spending on menswear products. According to the CIC Report, the economy of the PRC has entered into a “new normal” stage, featured with a slightly slower but a more sustainable and quality growth. The government is also committed to optimizing the economic structure and improving capital to output ratio to achieve a more efficient economic growth. The changes in the overall economic conditions in the PRC may affect consumer spending, which in turn may materially and adversely affect our financial condition and results of operations. Please see “Industry Overview — Overview of China’s economy” in this prospectus for further details.



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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial information was prepared based on certain accounting policies and estimates. The methods, estimates and judgments we use in applying our accounting policies may have a significant impact on our results of operations. Some of the accounting policies we use require us to make judgments and estimates on matters that are inherently uncertain. The following paragraphs discuss the accounting policies applied in preparing our financial information that we believe are important to the presentation of our financial results. We also have other critical accounting policies. Please see note 5 in Appendix I to this prospectus for further details.

Our Directors have confirmed that we did not experience any material deviations between our accounting estimates and actual results. During the Track Record Period, we consistently adopted these accounting policies and estimates, and we currently do not expect any significant changes to these policies and estimates in the foreseeable future.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts received or receivable for products sold, net of discounts, returns and VAT. We recognize revenue when it can be reliably measured, when it is probable that future economic benefits will flow to us, and when specific criteria have been met for each of our activities.

For sales made at (i) our self-operated retail outlets; (ii) MARCO AZZALI and LUBIAM branded franchisee retail outlets; and (iii) third party e-commerce platforms, we usually recognize revenue when our products have been sold to end-customers.

For sales made at SHANSHAN branded franchisee retail outlets under the SHANSHAN Cooperative Arrangements where the ownership of the consignment products remains with our OEM suppliers until the relevant products are sold, we recognize the entire proceeds from the sales of the relevant consignment products having been sold to end-customers at SHANSHAN branded franchisee retail outlets as our revenue.

For sales made to our first-tier distributors and work uniform customers, we generally recognize revenue when our products have been delivered to and accepted by our first-tier distributors and work uniform customers. For inventories sold at discounts, we record the discounted amounts received or receivable for products sold as our revenue.

We recognize trademark sub-licensing income on a straight line basis over the terms of the relevant agreements. Interest income is recognized on time-proportion basis using effective interest method.

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### **Non-current assets held for sale and disposal group**

We identified an appropriate buyer, Mr. Wang Qin (王沁), who is an employee of JIC Garments and an Independent Third Party, in October 2017 to acquire our MARCO AZZALI operations. On March 26, 2018, Fashion Brand, Forall Confezioni and Shanshan HK entered into an equity transfer agreement with Mr. Wang Qin (王沁) for the disposal of their respective 55%, 35% and 10% equity interests in JIC Garments at EUR0.85, EUR1.0 and EUR0.15, respectively. The disposals were properly and legally completed and settled in May 2018. As a result of the above disposals, we have re-classified the assets and liabilities in respect of our MARCO AZZALI brand operations as held for sale in our consolidated statement of financial position. Please see “History, Reorganization and Corporate Structure — Disposal of JIC Garments after the Reorganization” and “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for details.

Our non-current assets and disposal group are classified as held for sale if the carrying amounts of such assets will be recovered principally through a sale transaction rather than through continuing use. This condition is considered as met when (i) the assets and disposal groups are available for immediate sale; (ii) management is committed to a plan to sell; (iii) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn; (iv) an active program to locate a buyer has been initiated; (v) the assets and disposal groups are being marketed at a reasonable price in relation to their fair values; and (vi) a sale is expected to be completed with 12 months from the date of classification.

Our non-current assets and disposal group classified as held for sale are measured at the lower of the carrying amount immediately prior to being classified as held for sale in accordance with our accounting policy and the fair value less cost to sale. No depreciation is recognized following the classification as held for sale.

### **Inventories**

Our inventories consist of finished goods, raw materials and work-in-progress. Inventories are initially recognized at cost and subsequently stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method, and comprises all costs of purchase, costs of conversion and other costs. Net realizable 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. The estimated selling price is based on the current market condition and our historical experience of selling products of similar nature.

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Our management, based on their assessments on the saleability, aging, style, color and size of the relevant inventory products and the overall market environment, assesses the potential decline of selling prices of inventories with reference to their ages in formulating the inventory provisioning policy. We make provisions by writing down our inventories to the net realizable value if the inventories become out-of-season and their net realizable values are lower than the costs of the inventories. We generally determine the level of write-downs of inventories with reference to the aging conditions of our inventories. In general, our MARCO AZZALI and LUBIAM branded products are fully written down when aging for over four years. The following table sets forth the general percentages of original cost of finished goods of our FIRS and SHANSHAN branded products to be written down by their aging periods.

	<b>Percentages of the original cost to be written down</b>
Over 2 years up to 3 years	30%
Over 3 years up to 4 years	50%
Over 4 years	100%

The following table sets forth the percentages of original cost of our raw materials to be written down by their aging periods.

	<b>Percentages of the original cost to be written down</b>
Over 1 year up to 2 years	30%
Over 2 years up to 3 years	50%
Over 3 years	100%

In subsequent periods, if the inventories previously written down were able to be sold at discount, we record the discounted amounts received or receivable from the sale of these inventories as our revenue.

### **Financial assets**

We classify our financial assets at initial recognition, depending on the purpose for which the asset is acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus direct transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. A regular way purchase or sale is a purchase or sales of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

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### Financial liabilities at amortized cost

Our financial liabilities at amortized cost include trade and bills payables, other payables and accruals, interest-bearing bank borrowings, amounts due to non-consolidated subsidiaries, immediate holding company, an associate, fellow subsidiaries and non-controlling shareholders of subsidiaries. These liabilities are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss. Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

### RESULTS OF OPERATIONS

The following table sets forth a summary of our results of operations for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	526,082	592,083	797,888
Cost of sales	(273,678)	(303,974)	(366,628)
Gross profit	252,404	288,109	431,260
Other revenue	1,785	1,178	5,258
Other gains and losses	(10,664)	2,743	(10,385)
Selling and distribution expenses	(129,420)	(179,115)	(308,065)
Administrative expenses	(52,257)	(51,621)	(47,543)
Finance costs	(327)	(7,398)	(14,100)
Share of results of associates	5,616	6,962	8,271
Listing expenses	–	(12,895)	(8,889)
Profit before income tax	67,137	47,963	55,807
Income tax expense	(14,234)	(14,149)	(18,846)
<b>Profit and total comprehensive income for the year</b>	<b>52,903</b>	<b>33,814</b>	<b>36,961</b>
<b>Profit and total comprehensive income for the year attributable to:</b>			
Owners of our Company	52,830	35,244	44,970
Non-controlling interests	73	(1,430)	(8,009)
	<b>52,903</b>	<b>33,814</b>	<b>36,961</b>

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### DESCRIPTION OF SELECTED ITEMS IN OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

#### Revenue

We generate revenue primarily from (i) sales to distributors; (ii) direct sales; and (iii) franchisee sales. Revenue represents the amounts received or receivable for products sold, net of discounts, returns and VAT. During the Track Record Period, all of our revenue was derived in the PRC. For the years ended December 31, 2015, 2016 and 2017, our revenue amounted to RMB526.1 million, RMB592.1 million and RMB797.9 million, respectively. Please see “Business — Sales and distribution” in this prospectus for further details.

#### Revenue by sales channels

Our sales and distribution network has a wide geographical reach across the PRC. As of December 31, 2017, we had 1,052 retail outlets operated by our distributors, ourselves and our franchisees, spanning all the provinces, autonomous regions and central government-administered municipalities in the PRC, except for Hainan and Tibet. We also offer certain products under our FIRS and SHANSHAN brands to customers via certain third-party PRC e-commerce platforms, including “Tmall”, “JD.com” and “VIP.com”. The table below sets forth a breakdown of our revenue by sales channels for the years indicated.

	For the year ended December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Sales to distributors<sup>(1)</sup></b>	303,402	57.7	266,145	45.0	200,973	25.2
<b>Direct sales<sup>(2)</sup></b>						
E-commerce platforms	89,093	16.9	126,517	21.4	158,950	19.9
Self-operated retail outlets	44,545	8.5	71,700	12.1	135,122	16.9
<b>Franchisee sales</b>						
– SHANSHAN Cooperative Arrangements <sup>(3)</sup>						
• Product procured from our OEM suppliers	1,553	0.3	34,043	5.7	116,821	14.6
• Product consigned by our OEM suppliers <sup>(4)</sup>	nil	nil	13,994	2.4	92,163	11.6
	1,553	0.3	48,037	8.1	208,984	26.2
– LUBIAM Franchising Arrangements <sup>(5)</sup>	26,554	5.0	13,929	2.4	9,195	1.2
– Historical MARCO AZZALI franchising arrangements <sup>(6)</sup>	8,315	1.6	6,500	1.0	5,040	0.7
<b>Work uniforms<sup>(7)</sup></b>	36,225	6.9	40,269	6.8	64,907	8.1
<b>Trademark sub-licensing income<sup>(8)</sup></b>	16,395	3.1	18,986	3.2	14,717	1.8
<b>Total</b>	<b>526,082</b>	<b>100.0</b>	<b>592,083</b>	<b>100.0</b>	<b>797,888</b>	<b>100.0</b>

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*Notes:*

- (1) We sell our FIRS branded products on a wholesale basis to our first-tier distributors, who then sell the products to end-customers through retail outlets operated by themselves or resell the products to second-tier distributors, who in turn sell the products to end-customers through retail outlets that they operate. Please see “Business — Distributorship model” in this prospectus for further details.
- (2) We sell our products directly to end-customers through third party e-commerce platforms and self-operated retail outlets. Please see “Business — Direct sales” in this prospectus for further details.
- (3) We sell our SHANSHAN branded products procured from or consigned by our OEM suppliers to end-customers through the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details.
- (4) Since June 2016, we have been actively looking for OEM suppliers for entering into consignment agreements with us. Please see “Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers — (ii) Consignment agreements” in this section for further details.
- (5) We sell our LUBIAM branded products to end-customers through the LUBIAM Franchising Arrangements. Please see “Business — Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details.
- (6) We sold MARCO AZZALI branded products during the Track Record Period through franchisee retail outlets operated in a manner similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.
- (7) We participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. Please see “Business — Work uniforms” in this prospectus for further details.
- (8) We sub-licensed certain trademarks owned by Shanshan and Shanshan Group to selected sub-licensees in the PRC for the production of certain products which are not our business focus. Please see “Business — Trademark sub-licensing” and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholder’s approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

We generated our revenue primarily from sales to distributors during the year ended December 31, 2015. Starting from September 2015, we strategically streamline and optimize our distributor retail network and reallocate our resources for the development of e-commerce sales and the SHANSHAN Cooperative Arrangements. As a result of this strategy, the revenue derived from the sales to our distributors decreased by approximately 12.3% from RMB303.4 million for the year ended December 31, 2015 to RMB266.1 million for the year ended December 31, 2016, and further decreased by approximately 24.5% to RMB201.0 million for the year ended December 31, 2017. On the other hand, revenue derived from the e-commerce sales of our FIRS and SHANSHAN branded products increased by approximately 42.0% from RMB89.1 million for the year ended December 31, 2015 to RMB126.5 million for the year ended December 31, 2016, and further increased by approximately 25.7% to RMB159.0 million for the year ended December 31, 2017. Likewise, we recorded a significant increase in the revenue derived from the sales of our SHANSHAN branded products through the SHANSHAN Cooperative Arrangements from RMB1.6 million for the year ended December 31, 2015 to RMB48.0 million for the year ended December 31, 2016, and further increased by

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approximately 335.4% to RMB209.0 million for the year ended December 31, 2017. Please see “Business — Distributorship model — Movement of distributors” in this prospectus for the background of our strategy to streamline and optimize our distributor retail network.

### *Revenue by brands*

The following table sets forth a breakdown of our revenue by brands for the years indicated.

	For the year ended December 31,					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
FIRS <sup>(1)</sup>	433,172	82.3	461,523	77.9	494,948	62.0
SHANSHAN <sup>(2)</sup>	1,553	0.3	53,845	9.1	234,890	29.4
MARCO AZZALI <sup>(3)</sup>	27,804	5.3	23,145	3.9	22,575	2.8
LUBIAM <sup>(4)</sup>	47,158	9.0	34,584	5.8	30,758	3.9
Others <sup>(5)</sup>	16,395	3.1	18,986	3.3	14,717	1.9
<b>Total</b>	<b>526,082</b>	<b>100.0</b>	<b>592,083</b>	<b>100.0</b>	<b>797,888</b>	<b>100.0</b>

*Notes:*

- (1) We sell our FIRS branded products through self-operated retail outlets, our extensive distribution network and third party e-commerce platforms. In addition, we participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. Please see “Business — Direct sales”, “Business — Distributorship model” and “Business — Work uniforms” in this prospectus for further details.
- (2) We sell our SHANSHAN branded products through self-operated retail outlets, the SHANSHAN Cooperative Arrangements between us, our OEM suppliers and our franchisees and third party e-commerce platforms. Please see “Business — Direct sales” and “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details.
- (3) We sold our MARCO AZZALI branded products through self-operated retail outlets and franchisee retail outlets operated in a manner similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.
- (4) We sell our LUBIAM branded products through self-operated retail outlets and the LUBIAM Franchising Arrangements. Please see “Business — Direct sales — Self-operated retail outlets” and “Business — Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details.
- (5) We also generated revenue from trademark sub-licensing and our closed Lubiam Apparel plant during the Track Record Period. Please see “Business — Trademark sub-licensing” and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholder’s approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

During the Track Record Period, over 60% of our revenue was generated from the sale of our FIRS branded products. We launched SHANSHAN brand in September 2015 and has developed the brand rapidly since then. Please see “Business — Our brands and products” in this prospectus for further details.

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### Cost of sales

We recognize cost of sales when revenue from the sale of the corresponding products is recognized. During the Track Record Period, our cost of sales primarily comprised OEM costs and raw material costs. The following table sets forth a breakdown of our cost of sales for the years indicated.

	For the year ended December 31,					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
OEM costs	203,778	74.4	231,781	76.3	276,493	75.5
Raw material costs	59,888	21.9	62,608	20.6	79,206	21.6
Staff costs	2,142	0.8	3,390	1.1	3,439	0.9
Overheads	7,870	2.9	6,195	2.0	7,490	2.0
<b>Total</b>	<b>273,678</b>	<b>100.0</b>	<b>303,974</b>	<b>100.0</b>	<b>366,628</b>	<b>100.0</b>

During the Track Record Period, our OEM costs represented the costs we paid to (i) finished product suppliers, who processed raw materials procured by themselves and provided us with the finished products; and (ii) processing suppliers, who processed raw materials and fabrics procured by us and provided us with the processed products. For the years ended December 31, 2015, 2016 and 2017, OEM costs accounted for approximately 74.4%, 76.3% and 75.5% of our total cost of sales, respectively.

The principal raw materials for the production of our products include fabrics produced by cotton, wool or polyester fibers. For the years ended December 31, 2015, 2016 and 2017, raw material costs accounted for approximately 21.9%, 20.6% and 21.6% of our total cost of sales, respectively.

The following table sets forth a sensitivity analysis on the impact of changes in our OEM costs and raw material costs on our gross profit and net profit for the years indicated:

	For the year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in the gross profit if OEM costs and raw material costs decrease/increase by 10%	±26,367	±29,439	±35,570
Change in the net profit if OEM costs and raw material costs decrease/increase by 10% <sup>(1)</sup>	±19,775	±22,079	±26,677

*Note:*

(1) This is calculated based on an EIT rate of 25%.



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### Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channels for the years indicated.

	For the year ended December 31,					
	2015		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Sales to distributors<sup>(1)</sup></b>	135,505	44.7	106,875	40.2	99,359	49.4
<b>Direct sales<sup>(2)</sup></b>						
E-commerce platforms	37,775	42.4	58,856	46.5	72,211	45.4
Self-operated retail outlets	21,677	48.7	42,222	58.9	85,388	63.2
<b>Franchisee sales</b>						
– SHANSHAN Cooperative Arrangements <sup>(3)</sup>						
• Product procured from our OEM suppliers	974	62.7	22,320	65.6	74,302	63.6
• Product consigned by our OEM suppliers <sup>(4)</sup>	nil	nil	7,841	56.0	53,422	58.0
	974	62.7	30,161	62.8	127,724	61.1
– LUBIAM Franchising Arrangements <sup>(5)</sup>	22,640	85.3	11,209	80.5	7,081	77.0
– Historical MARCO AZZALI franchising arrangements <sup>(6)</sup>	4,548	54.7	3,294	50.7	2,987	59.3
<b>Work uniforms<sup>(7)</sup></b>	13,819	38.1	16,565	41.1	21,850	33.7
<b>Trademark sub-licensing income<sup>(8)</sup></b>	15,466	94.3	18,927	99.7	14,660	99.6
<b>Total</b>	<u>252,404</u>	48.0	<u>288,109</u>	48.7	<u>431,260</u>	54.1

*Notes:*

- (1) We sell our FIRS branded products on a wholesale basis to our first-tier distributors, who then sell the products to end-customers through retail outlets operated by themselves or resell the products to second-tier distributors, who in turn sell the products to end-customers through retail outlets that they operate. Please see “Business — Distributorship model” in this prospectus for further details.
- (2) We sell our products directly to end-customers through third party e-commerce platforms and self-operated retail outlets. Please see “Business — Direct sales” in this prospectus for further details.
- (3) We sell our SHANSHAN branded products procured from or consigned by our OEM suppliers to end-customers through the SHANSHAN Cooperative Arrangements between our OEM suppliers, our Group and our franchisees. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details.
- (4) Since June 2016, we have been actively looking for OEM suppliers for entering into consignment agreements with us. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and OEM suppliers — (ii) Consignment agreements” in this prospectus for further details.

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- (5) We sell our LUBIAM branded products to end-customers through the LUBIAM Franchising Arrangements. Please see “Business — Franchisee sales — LUBIAM Franchising Arrangements” in this prospectus for further details.
- (6) We sold MARCO AZZALI branded products during the Track Record Period through franchisee retail outlets operated in a manner similar to that of the LUBIAM Franchising Arrangements. We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.
- (7) We participate in tenders organized by large scale enterprises in the PRC and sell our FIRS branded work uniform products to such enterprises when we win the bid in the tenders. Please see “Business — Work uniforms” in this prospectus for further details.
- (8) We sub-licensed certain trademarks owned by Shanshan and Shanshan Group to selected sub-licensees in the PRC for the production of certain products which are not our business focus. Please see “Business — Trademark sub-licensing” and “Connected Transactions — Continuing connected transactions — A. Continuing connected transactions which are fully exempted from the reporting, annual review, announcement and independent Shareholder’s approval requirements — 1. Trademark licence agreements with Shanshan and Shanshan Group” in this prospectus for further details.

The following table sets forth a breakdown of our gross profit and gross profit margin by brands for the years indicated.

	For the year ended December 31,					
	2015		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
FIRS	188,733	43.6	202,128	43.8	241,471	48.8
SHANSHAN	973	62.7	33,670	62.5	143,485	61.1
MARCO AZZALI <sup>(1)</sup>	12,942	46.5	11,001	47.5	11,874	52.6
LUBIAM	34,289	72.7	22,384	64.7	19,770	64.3
Others <sup>(2)</sup>	15,467	94.3	18,926	99.7	14,660	99.6
<b>Total</b>	252,404	48.0	288,109	48.7	431,260	54.1

*Notes:*

- (1) We disposed of MARCO AZZALI brand operations to an Independent Third Party in May 2018 in view of its deteriorating financial performance. Please see “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus for further details.
- (2) We also generated profit from trademark sub-licensing. Please see “Business — Trademark sub-licensing” in this prospectus for further details.

Please see “Discussions and analyses of results of operations” in this section for further discussion regarding the changes in our gross profits and gross profit margins during the Track Record Period.

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### Other revenue

During the Track Record Period, our other revenue consisted primarily of (i) interest income derived from our bank deposits; and (ii) sundry income derived primarily from the sale of raw materials and the provision of one-off supporting services to our SHANSHAN franchisees on assisting them in establishing their franchisee retail outlets. For the years ended December 31, 2015, 2016 and 2017, our other revenue amounted to RMB1.8 million, RMB1.2 million and RMB5.3 million, respectively.

### Other gains and losses

The following table sets forth a breakdown of our other gains and losses for the years indicated.

	For the year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale	–	–	(7,021)
Impairment loss on trade receivables, net	(8,750)	(422)	(1,030)
Write down of inventories, net	(2,300)	(322)	(3,795)
Government grant	798	943	254
Reversal of impairment loss/ (impairment loss) on other receivables, net	117	93	(157)
Loss on disposal/written off of property, plant and equipment	(48)	(4)	– <sup>(1)</sup>
Exchange losses, net	(541)	(55)	(68)
Donation	–	(863)	–
Others	60	3,373	1,432
<b>Total</b>	<b>(10,664)</b>	<b>2,743</b>	<b>(10,385)</b>

*Note:*

- (1) Our loss on disposal/written off of property, plant and equipment for the year ended December 31, 2017 was RMB128, which is rounded to nil under the presentation of thousand dollars.

During the Track Record Period, our other gains and losses consisted primarily of (i) loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale; (ii) impairment loss on trade receivables, net; and (iii) write down of inventories, net.

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## FINANCIAL INFORMATION

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Others under the above other gains and losses recorded by our Group for the year ended December 31, 2015 mainly represented (i) the one-off other gain of RMB2.0 million in relation to the waiving of the MARCO AZZALI royalty fee payable by JIC Garments up to May 2015 as a result of the trademark licence agreement entered into by JIC Garments and Forall Confezioni in May 2015 pursuant to which Forall Confezioni granted JIC Garments a licence to sell MARCO AZZALI branded products in the PRC, Taiwan, Hong Kong, Macau, Korea and the Middle East on perpetual basis, see “Description of selected items in our consolidated statements of comprehensive income — Administrative expenses — Trademark payments” in this section for details; and (ii) the one-off subsidies we received from certain shopping malls for subsidizing the establishment costs of our MARCO AZZALI and LUBIAM branded retail outlets so as to induce the establishment of our MARCO AZZALI and LUBIAM branded retail outlets in the relevant shopping malls (the “**One-off Subsidies**”) partially offset by the recognition of a provision relating to the damages of RMB3.2 million payable by Fashion Brand to Lubiam Moda per L’Uomo pursuant to a final award dated March 9, 2018, see “Recent development and no material adverse change” in this section for further details.

Others under the above other gains and losses recorded by our Group for the year ended December 31, 2016 mainly represented (i) the contractual damages we received from certain suppliers due to their delay in product delivery pursuant to the relevant agreements we entered into with them (“**Contractual Damages**”); and (ii) the One-off Subsidies.

Others under the above other gains and losses recorded by our Group for the year ended December 31, 2017 mainly represented the Contractual Damages.

### ***Loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale***

We identified an appropriate buyer, Mr. Wang Qin (王沁), who is an employee of JIC Garments and an Independent Third Party, in October 2017 to acquire our MARCO AZZALI operations. On March 26, 2018, Fashion Brand, Forall Confezioni and Shanshan HK entered into an equity transfer agreement with Mr. Wang Qin (王沁) for the disposal of their respective 55%, 35% and 10% equity interests in JIC Garments at EUR0.85, EUR1.0 and EUR0.15, respectively. The disposals were properly and legally completed and settled in May 2018. As a result of the above disposals, we have re-classified the assets and liabilities in respect of the MARCO AZZALI brand operations as held for sale in our consolidated statement of financial position. On the re-classification, the disposal group was written down to its fair value less cost to sale amounted to RMB8.0. As such, a loss of RMB7.0 million, which represented the difference between the carrying value of our MARCO AZZALI brand operations as of the date of the re-classification and the fair value less cost to sell, was recognized in our other gains and losses during the year ended December 31, 2017. For further details on the re-classification, please see note 29 in Appendix I to this prospectus.

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### *Impairment loss on trade receivables, net*

We generally offer a credit period from 30 to 240 days in respect of our sales to customers. We review our trade receivables on a regular basis and make provisions for impairment losses on the unrecoverable portion of our trade receivables. We monitor our trade and other receivables based on the recoverability of the receivables at the end of each period. For the years ended December 31, 2015, 2016 and 2017, we recorded net impairment losses on trade receivables of RMB8.8 million, RMB0.4 million and RMB1.0 million, respectively.

### *Write down of inventories, net*

We monitor the estimated net realizable value of our inventories. Our management writes down our inventories based their assessments on the saleability, aging, style, color and size of the relevant inventory products and the overall market environment. For the years ended December 31, 2015, 2016 and 2017, we recorded a write down of inventory of RMB2.3 million, RMB0.3 million and RMB3.8 million, respectively. Please see “Critical accounting policies and estimates — Inventories” in this section for further details relating to our policies on inventory write down.

### **Selling and distribution expenses**

The following table sets forth a breakdown of our selling and distribution expenses for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Store and e-commerce expenses	48,679	83,973	175,899
Staff costs	27,772	34,568	53,934
Advertising and promotional expenses	18,509	24,620	24,452
Renovation costs and depreciation	9,982	13,533	23,334
Transportation costs	8,103	7,957	9,530
Traveling expenses	3,383	4,216	8,176
Procurement conference expenses	3,159	2,253	1,900
Others <sup>(1)</sup>	9,833	7,995	10,840
<b>Total</b>	<b>129,420</b>	<b>179,115</b>	<b>308,065</b>

*Note:*

- (1) Other selling and distribution expenses mainly include office expenses, consulting fees and consumables, etc.

During the Track Record Period, our selling and distribution expenses consisted primarily of (i) store and e-commerce expenses; (ii) staff costs; (iii) advertising and promotional expenses; (iv) renovation costs and depreciation; (v) transportation costs; and (vi) traveling expenses.

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### *Store and e-commerce expenses*

Our store and e-commerce expenses primarily include (i) revenue sharing fees we paid to our SHANSHAN franchisees in respect of sales in our SHANSHAN branded franchisee retail outlets, details of which have been set forth in “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus; (ii) rental payment we paid to the relevant landlords or shopping malls for self-operated retail outlets; and (iii) commissions and fees we paid to third-party e-commerce platforms for our e-commerce sales. For the years ended December 31, 2015, 2016 and 2017, our store and e-commerce expenses amounted to RMB48.7 million, RMB84.0 million and RMB175.9 million, respectively.

### *Staff costs*

Our staff costs attributable to selling and distribution expenses primarily include the salaries payable to our business development, sales and marketing team members. For the years ended December 31, 2015, 2016 and 2017, our staff costs attributable to selling and distribution expenses amounted to RMB27.8 million, RMB34.6 million and RMB53.9 million, respectively.

### *Advertising and promotional expenses*

Our advertising and promotional expenses primarily include the expenses we incurred for advertising our brands and products during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017, our advertising and promotional expenses amounted to RMB18.5 million, RMB24.6 million and RMB24.5 million, respectively. Please see “Business — Marketing and promotion” in this prospectus for details.

### *Renovation costs and depreciation*

Our renovation costs and depreciation primarily include (i) expenses we incurred for upgrading, decorating and renovating our retail outlets in order to enhance the shopping experience of our customers; and (ii) depreciation arising from the furniture, fixtures and equipment of our retail outlets. For the years ended December 31, 2015, 2016 and 2017, our renovation costs and depreciation amounted to RMB10.0 million, RMB13.5 million and RMB23.3 million, respectively.

### *Transportation costs*

Our transportation costs primarily represent amounts incurred for delivering our products by land transportation from our warehouse and logistics centers in Ningbo to self-operated retail outlets, the retail outlets or warehouses designated by our distributors and franchisees and e-commerce customers across the PRC. For the years ended December 31, 2015, 2016 and 2017, our transportation expenses amounted to RMB8.1 million, RMB8.0 million and RMB9.5 million, respectively.

### *Traveling expenses*

Our traveling expenses attributable to selling and distribution expenses primarily include the traveling expenses incurred by our business development, sales and marketing team members. For the years ended December 31, 2015, 2016 and 2017, our traveling expenses amounted to RMB3.4 million, RMB4.2 million and RMB8.2 million, respectively.

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### Administrative expenses

The following table sets forth a breakdown of our administrative expenses for the years indicated.

	For the year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	29,388	30,430	29,765
Traveling expenses	5,123	4,606	4,580
Trademark payments	1,692	1,256	1,070
Agency service expenses	2,570	3,734	3,896
Vehicle and freight charges	1,420	2,500	764
Rental expenses	3,837	2,388	2,583
Depreciation and amortization	2,845	1,832	1,753
Office, communication and utilities expenses	1,898	1,777	1,290
Renovation costs	800	547	199
Others <sup>(1)</sup>	2,684	2,551	1,643
<b>Total</b>	<b>52,257</b>	<b>51,621</b>	<b>47,543</b>

*Note:*

- (1) We also incurred other administrative expenses including design costs, property insurance fees and taxes.

During the Track Record Period, our administrative expenses consisted primarily of (i) staff costs attributable to administrative expenses; (ii) traveling expenses; and (iii) trademark payments. For the years ended December 31, 2015, 2016 and 2017, our administrative expenses amounted to RMB52.3 million, RMB51.6 million and RMB47.5 million, respectively.

### *Staff costs*

Our staff costs attributable to administrative expenses primarily include the salaries payable to our administrative staff including members in our management and administration team and our finance, accounting and internal control team. For the years ended December 31, 2015, 2016 and 2017, our staff costs attributable to administrative expenses remained relatively stable and amounted to RMB29.4 million, RMB30.4 million and RMB29.8 million, respectively.

### *Traveling expenses*

Our traveling expenses attributable to administrative expenses primarily include the traveling expenses incurred by our administrative staff in the ordinary course of our business. For the years ended December 31, 2015, 2016 and 2017, our traveling expenses amounted to RMB5.1 million, RMB4.6 million and RMB4.6 million, respectively.

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### *Trademark payments*

Our trademark payments primarily represent the royalty fees incurred for the use of MARCO AZZALI and LUBIAM brands. For the years ended December 31, 2015, 2016 and 2017, our trademark payments amounted to RMB1.7 million, RMB1.3 million and RMB1.1 million, respectively. The decrease in our trademark payments was mainly due to the trademark licence agreement entered into by JIC Garments and Forall Confezioni in May 2015 pursuant to which Forall Confezioni granted JIC Garments a licence to sell MARCO AZZALI branded products in the PRC, Taiwan, Hong Kong, Macau, Korea and the Middle East on perpetual basis for an aggregate royalty fee of USD1.9 million, which is payable by installments in accordance with the terms and conditions set out in the licence agreement.

### **Finance costs**

Our finance costs primarily represent (i) interest expenses in respect of a loan extended by a then subsidiary of our Company before the completion of the Reorganization; (ii) interest expenses in respect of an amount due to a non-controlling shareholder of a subsidiary; and (iii) interest expenses on bank borrowings. For the years ended December 31, 2015, 2016 and 2017, our finance costs amounted to RMB0.3 million, RMB7.4 million and RMB14.1 million, respectively. The increase in finance costs during the Track Record Period was mainly due to the drawdown of certain unsecured interest-bearing bank borrowings during the respective years.

### **Income tax expense**

All of our Group's revenue during the Track Record Period was derived in the PRC and our Group was subject to EIT in the PRC. The provision for EIT was calculated at 25.0% of the relevant estimated assessable profits for the Track Record Period.

## **DISCUSSIONS AND ANALYSES OF RESULTS OF OPERATIONS**

### **The year ended December 31, 2017 compared to the year ended December 31, 2016**

#### *Revenue*

Our revenue increased by approximately 34.8% from RMB592.1 million for the year ended December 31, 2016 to RMB797.9 million for the year ended December 31, 2017. This increase was primarily due to the combined effects of:

- (i) an increase in revenue generated from our SHANSHAN branded franchisee retail outlets by approximately 335.4% from RMB48.0 million for the year ended December 31, 2016 to RMB209.0 million for the year ended December 31, 2017, mainly due to the continuous rapid expansion of our SHANSHAN branded franchisee retail network since September 2015;



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- (ii) an increase in revenue generated from self-operated retail outlets by approximately 88.4% from RMB71.7 million for the year ended December 31, 2016 to RMB135.1 million for the year ended December 31, 2017, mainly due to (a) the opening of a number of self-operated retail outlets; and (b) the conversion of several distributor retail outlets into self-operated retail outlets as a result of the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail network; and
- (iii) an increase in revenue generated from e-commerce sales by approximately 25.7% from RMB126.5 million for the year ended December 31, 2016 to RMB159.0 million for the year ended December 31, 2017, mainly due to the strategy adopted by us since September 2015 to focus our resources on, among other things, the development of e-commerce sales to capitalize on the significant growth potential brought by e-commerce sales.

The above increases were partially offset by a decrease in our sales to distributors by approximately 24.5% from RMB266.1 million for the year ended December 31, 2016 to RMB201.0 million for the year ended December 31, 2017, as a result of the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail outlets which had led to a decrease in sales to first-tier distributor retail outlets.

### *Cost of sales*

Our cost of sales increased by approximately 20.6% from RMB304.0 million for the year ended December 31, 2016 to RMB366.6 million for the year ended December 31, 2017. This increase was in line with the increase in revenue during the same year.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately 49.7% from RMB288.1 million for the year ended December 31, 2016 to RMB431.3 million for the year ended December 31, 2017.

Our gross profit margin increased from 48.7% for the year ended December 31, 2016 to 54.1% for the year ended December 31, 2017. This increase was primarily attributable to the significant increase in proportion of revenue derived from the sales of our SHANSHAN branded products to our total revenue from 9.1% for the year ended December 31, 2016 to 29.4% for the year ended December 31, 2017, which we were able to sell at a higher gross profit margin than FIRS branded products, our another core and signature brand.

### *Other revenue*

Our other revenue increased from RMB1.2 million for the year ended December 31, 2016 to RMB5.3 million for the year ended December 31, 2017. This increase was primarily attributable to the (i) one off service income derived from the provision of supporting services to our SHANSHAN franchisees for assisting them in establishing their franchisee retail outlets recognized during the year ended December 31, 2017; and (ii) increase in income derived from the sales of raw materials.

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### *Other gains and losses*

We recorded other gains of RMB2.7 million for the year ended December 31, 2016 and other losses of RMB10.4 million for the year ended December 31, 2017. This change was primarily due to (i) the recognition of loss on reclassification of property, plant and equipment and intangible assets as held for sale amounted to RMB7.0 million during the year ended December 31, 2017; (ii) a recovery of write down of our FIRS branded inventories during the year ended December 31, 2016 as a result of the clearance of aged FIRS branded inventories during the year; and (iii) an increase in write down of our FIRS, MARCO AZZALI and LUBIAM branded inventories during the year ended December 31, 2017 based on the assessments of our management with reference to our inventory policy during the year.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately 72.0% from RMB179.1 million for the year ended December 31, 2016 to RMB308.1 million for the year ended December 31, 2017. This increase was attributable to the combined effect of:

- (i) an increase in our store and e-commerce expenses from RMB84.0 million for the year ended December 31, 2016 to RMB175.9 million for the year ended December 31, 2017, due to (a) a significant increase in our revenue sharing fee we paid to our SHANSHAN franchisees; (b) a significant increase in rental payment we paid to the relevant landlords or shopping malls due to the increase in number of self-operated retail outlets; and (c) the increase in commission and fees we paid to third party e-commerce platforms as a result of the increase in our e-commerce sales during the year ended December 31, 2017;
- (ii) an increase in our staff costs attributable to our selling and distribution expenses from RMB34.6 million for the year ended December 31, 2016 to RMB53.9 million for the year ended December 31, 2017, mainly due to (a) an increase in number of business development, sales and marketing team members as a result of the increase in number of self-operated retail outlets; and (b) an increase in logistics and warehousing team members to cope with our expanded retail sales network; and
- (iii) an increase in our renovation costs and depreciation from RMB13.5 million for the year ended December 31, 2016 to RMB23.3 million for the year ended December 31, 2017, mainly due to the increase in number of our retail outlets and the purchase of furniture, fixtures and equipment for our retail outlets for the year ended December 31, 2017.

### *Administrative expenses*

Our administrative expenses decreased by approximately 7.9% from RMB51.6 million for the year ended December 31, 2016 to RMB47.5 million for the year ended December 31, 2017. This decrease was primarily attributable to the decrease in vehicle and freight charges incurred by us during the year ended December 31, 2017 as we ceased to engage a logistic service provider who charged us on a fixed rate basis, and engaged logistic service providers who charge us on an as incurred basis.

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### *Finance costs*

Our finance costs increased from RMB7.4 million for the year ended December 31, 2016 to RMB14.1 million for the year ended December 31, 2017. This increase was primarily due to an increase in interest expenses as a result of an increase in interest bearing bank borrowings for the year ended December 31, 2017.

### *Income tax expense*

As a result of an increase in our profit before income tax by approximately 16.3% from RMB48.0 million for the year ended December 31, 2016 to RMB55.8 million for the year ended December 31, 2017, our income tax expense increased by approximately 33.3% from RMB14.1 million for the year ended December 31, 2016 to RMB18.8 million for the year ended December 31, 2017.

Our effective income tax rate increased from 29.4% for the year ended December 31, 2016 to 33.7% for the year ended December 31, 2017. Such increase was primarily attributable to (i) the non-tax deductible loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale incurred during December 31, 2017; and (ii) an increase in tax losses arising from our MARCO AZZALI and LUBIAM brand operations not recognized, for the year ended December 31, 2017.

### *Profit for the year*

As a result of the foregoing, our net profit increased by approximately 9.5% from RMB33.8 million for the year ended December 31, 2016 to RMB37.0 million for the year ended December 31, 2017.

## **The year ended December 31, 2016 compared to the year ended December 31, 2015**

### *Revenue*

Our revenue increased by approximately 12.5% from RMB526.1 million for the year ended December 31, 2015 to RMB592.1 million for the year ended December 31, 2016. This increase was primarily attributable to the combined effects of:

- (i) a significant increase in revenue generated from our SHANSHAN branded franchisee retail outlets by approximately 30 times from RMB1.6 million for the year ended December 31, 2015 to RMB48.0 million for the year ended December 31, 2016, mainly due to the rapid expansion of our SHANSHAN branded franchisee retail network since September 2015;
- (ii) an increase in revenue generated from e-commerce sales by approximately 42.0% from RMB89.1 million for the year ended December 31, 2015 to RMB126.5 million for the year ended December 31, 2016, mainly due to the strategy adopted by us since September 2015 to focus our resources on, among other things, the development of e-commerce sales to capitalize on the significant growth potential brought by e-commerce sales; and

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- (iii) an increase in revenue generated from self-operated retail outlets by approximately 61.1% from RMB44.5 million for the year ended December 31, 2015 to RMB71.7 million for the year ended December 31, 2016, mainly due to the conversion of several distributor retail outlets into self-operated retail outlets as a result of the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail network.

The above increases were partially offset by a decrease in our sales to distributors by approximately 12.3% from RMB303.4 million for the year ended December 31, 2015 to RMB266.1 million for the year ended December 31, 2016. This decrease was primarily due to the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail outlets, which had led to:

- (i) a decrease in first-tier distributor retail outlets from 775 as of December 31, 2015 to 493 as of December 31, 2016, and a decrease in second-tier distributor retail outlets from 203 as of December 31, 2015 to 158 as of December 31, 2016; and
- (ii) a decrease in purchases made by distributors, resulting from the transfer of unsold inventories of RMB5.8 million from closed distributor retail outlets to the distributor retail outlets which are still in operation.

### *Cost of sales*

Our cost of sales increased by approximately 11.1% from RMB273.7 million for the year ended December 31, 2015 to RMB304.0 million for the year ended December 31, 2016. This increase was generally in line with the increase in our revenue during the same year.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately 14.1% from RMB252.4 million for the year ended December 31, 2015 to RMB288.1 million for the year ended December 31, 2016.

Our gross profit margin remained relatively stable at 48.0% and 48.7% for the years ended December 31, 2015 and 2016, respectively.

### *Other revenue*

Our other revenue decreased by approximately 33.3% from RMB1.8 million for the year ended December 31, 2015 to RMB1.2 million for the year ended December 31, 2016. This decrease was primarily due to (i) a decrease in interest income derived from our bank deposits; and (ii) a decrease in income derived from the sales of raw materials.

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### *Other gains and losses*

We recorded other losses of RMB10.7 million for the year ended December 31, 2015 and other gains of RMB2.7 million for the year ended December 31, 2016. This change was primarily due to (i) the recognition of a provision relating to the damages of RMB3.2 million for the year ended December 31, 2015, to be payable by Fashion Brand to Lubiam Moda per L'Uomo pursuant to a final award dated March 9, 2018, see “Recent development and no material adverse change” in this section for further details; (ii) a significant decrease in impairment loss on trade receivables from RMB8.7 million for the year ended December 31, 2015 to RMB0.4 million for the year ended December 31, 2016; and (iii) a significant decrease in write down of inventories from RMB2.3 million for the year ended December 31, 2015 to RMB0.3 million for the year ended December 31, 2016.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately 38.4% from RMB129.4 million for the year ended December 31, 2015 to RMB179.1 million for the year ended December 31, 2016. This increase was primarily attributable to the combined effect of:

- (i) an increase in our store and e-commerce expenses from RMB48.7 million for the year ended December 31, 2015 to RMB84.0 million for the year ended December 31, 2016, due to (a) a significant increase in our revenue sharing fee we paid to our SHANSHAN franchisees as a result of the rapid expansion of our SHANSHAN branded franchisee retail outlets; (b) a significant increase in rental payment we paid to the relevant landlords or shopping malls due to the increase in number of self-operated retail outlets; and (c) the increase in commission and fees we paid to third party e-commerce platforms as a result of the increase in our e-commerce sales during the year ended December 31, 2016;
- (ii) an increase in our staff costs attributable to our selling and distribution expenses from RMB27.8 million for the year ended December 31, 2015 to RMB34.6 million for the year ended December 31, 2016, due to (a) an increase in number of business development, sales and marketing team members as a result of the increase in number of self-operated retail outlets; and (b) an increase in logistics and warehousing team members to cope with our expanded retail sales network; and
- (iii) an increase in our renovation costs and depreciation from RMB10.0 million for the year ended December 31, 2015 to RMB13.5 million for year ended December 31, 2016 due to the increase in number our retail outlets and the purchase of furniture, fixtures and equipment for our retail outlets for the year ended December 31, 2016.

The overall increase in selling and distribution expenses was generally in line with the increase in revenue.

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### *Administrative expenses*

Our administrative expenses remained relatively stable at RMB52.3 million and RMB51.6 million for the years ended December 31, 2015 and 2016, respectively.

### *Finance costs*

Our finance costs increased significantly from RMB0.3 million for the year ended December 31, 2015 to RMB7.4 million for the year ended December 31, 2016. This increase was primarily due to an increase in interest expenses incurred from bank borrowings of RMB325.0 million drawn down in 2016.

### *Income tax expense*

Our income tax expense remained relatively stable and amounted to RMB14.2 million and RMB14.1 million for the years ended December 31, 2015 and 2016, respectively. Our effective income tax rate increased from 20.2% for the year ended December 31, 2015 to 29.4% for the years ended December 31, 2016. Such increase was primarily attributable to the listing expenses incurred for the year ended December 31, 2016, which is non-deductible in nature for tax purposes.

### *Profit for the year*

As a result of the foregoing, our net profit decreased by approximately 36.1% from RMB52.9 million for the year ended December 31, 2015 to RMB33.8 million for the year ended December 31, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

Historically, we funded our operations primarily with net cash generated from our operating activities and borrowings from our immediate holding company and banks. We intend to fund our operations through cash generated from operating activities, bank borrowings and the proceeds from the Global Offering. We do not currently expect that there will be any material change in our use of cash in the future. Our cash and cash equivalents amounted to RMB102.1 million as of December 31, 2017, most of which were denominated in Renminbi. Our cash and cash equivalents consisted primarily of cash on hand and bank deposits.

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## FINANCIAL INFORMATION

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### Analysis of cash flows

The following table sets forth a summary of our consolidated statements of cash flow for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	21,391	9,637	14,062
Net cash generated from/(used in) investing activities	2,547	(20,370)	(34,375)
Net cash (used in)/generated from financing activities	(52,992)	30,899	25,899
<b>Net (decrease)/increase in cash and cash equivalents</b>	(29,054)	20,166	5,586
Cash and cash equivalents at the beginning of the year	105,998	76,944	97,110
<b>Cash and cash equivalents at the end of the year</b>	76,944	97,110	102,696

### *Cash flow relating to our operating activities*

Our cash generated from operating activities mainly consisted of cash received from the sales of our products and the trademark sub-licensing income. Our cash used in operating activities mainly comprised payments for the purchases of products and raw materials, staff costs, advertising and promotional expenses and other operating expenses.

Our net cash generated from operating activities amounted to RMB14.1 million for the year ended December 31, 2017, consisting of cash generated from operations of RMB22.2 million and income taxes paid of RMB8.2 million. Our operating cash inflow before movements in working capital was RMB89.4 million for the year ended December 31, 2017. The adjustment for working capital primarily reflected (i) an increase in inventories of RMB120.5 million resulting from increased procurement to facilitate the growth of SHANSHAN brand business and to support our sales through e-commerce platforms; and (ii) an increase in prepayments and other receivables of RMB52.0 million resulting from (a) the increase in refundable earnest money paid to the OEM suppliers of SHANSHAN under the SHANSHAN Cooperative Arrangements; (b) prepayment of listing expenses; and (c) prepayment for the fitting out of retail outlets, which were partially offset by (i) a decrease in trade and bills receivables of RMB33.0 million due to a decrease in sales to distributors as a result of the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail network; and (ii) an increase in other payables and accruals of RMB73.2 million due to an increase in guaranteed deposits from our SHANSHAN franchisees.

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Our net cash generated from operating activities was RMB9.6 million for the year ended December 31, 2016, consisting of cash generated from operations of RMB22.0 million and income taxes paid of RMB12.3 million. Our operating cash inflow before movements in working capital was RMB54.4 million for the year ended December 31, 2016. The adjustment for working capital primarily reflected (i) an increase in inventories of RMB70.0 million resulting from increased procurement to facilitate the growth of SHANSHAN brand business and to support our sales through e-commerce platforms; and (ii) an increase in prepayments and other receivables of RMB25.9 million resulting from (a) the increase in refundable earnest money we paid to the OEM suppliers of SHANSHAN under the SHANSHAN Cooperative Arrangements; (b) capitalization of listing expenses; and (c) prepayment for the fitting out of retail outlets, which were partially offset by (i) an increase in trade payables of RMB46.7 million as a result of increased procurement; and (ii) an increase in other payables and accruals of RMB23.3 million due to an increase in guaranteed deposits from our SHANSHAN franchisees.

Our net cash generated from operating activities was RMB21.4 million for the year ended December 31, 2015, consisting of cash generated from operations of RMB46.9 million and income taxes paid of RMB25.6 million. Our operating cash inflow before movements in working capital was RMB76.8 million for the year ended December 31, 2015. The adjustment for working capital primarily reflected (i) an increase in trade and bills receivables of RMB51.8 million, resulting from an increase in credit support to our customers; and (ii) an increase in other receivables, resulting from purchasers who have entered into equity transfer agreements with us to acquire the non-core businesses of our Company under the Reorganization, which were partially offset by an increase in trade payables of RMB26.2 million, as we fully utilized the credit terms provided by our suppliers.

### *Cash flow relating to our investing activities*

Our cash inflow from investing activities mainly consisted of decrease in amount due from fellow subsidiaries, proceeds from disposal of plant and equipment, dividends received from associates and interests received on our bank deposits. Our cash outflow from investing activities consisted primarily of payments made on purchases of plant and equipment and decrease in amounts due to non-controlling shareholders of subsidiaries.

Our net cash used in investing activities for the year ended December 31, 2017 was RMB34.4 million, primarily attributable to the purchase of furniture, fixtures and equipment for our retail outlets of RMB37.1 million.

Our net cash used in investing activities for the year ended December 31, 2016 was RMB20.4 million, primarily attributable to (i) the purchase of plant and equipment of RMB18.0 million mainly due to the purchase of furniture, fixtures and equipment for our retail outlets; (ii) payments made for the purchase of intangible assets including software systems of RMB1.0 million; (iii) a decrease in amount due to a fellow subsidiary RMB2.8 million; and (iv) a decrease in amounts due to non-controlling shareholders of subsidiaries of RMB3.8 million, which were partially offset by a decrease in amounts due from fellow subsidiaries of RMB3.0 million and dividends received from associates of RMB1.6 million.



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Our net cash generated from investing activities was RMB2.5 million for the year ended December 31, 2015, mainly attributable to (i) an increase in amounts due to a fellow subsidiaries of RMB2.8 million; (ii) proceeds from the disposal of certain plant and equipment of RMB1.6 million; (iii) dividends received from associates of RMB1.2 million; and (iv) interests received in cash of RMB1.0 million, which was partially offset by the increase in amounts due from fellow subsidiaries of RMB3.0 million and payments made on purchase of plant and equipment of RMB1.1 million.

### *Cash flow relating to our financing activities*

Our cash inflow from financing activities primarily consisted of proceeds from borrowings, increase in amounts due to our immediate holding company, capital injection from non-controlling shareholders and proceeds from bank borrowings. Our cash outflow from financing activities primarily consisted of decrease in amounts due to our immediate holding company, repayment of borrowings, deemed distribution to immediate holding company and payments of dividends.

For the year ended December 31, 2017, cash flow generated from financing activities was RMB25.9 million, primarily attributable to the proceeds from new bank borrowings of RMB406.0 million, which was partially offset by the repayment of bank borrowings of RMB366.0 million.

For the year ended December 31, 2016, cash flow generated from financing activities was RMB30.9 million, primarily attributable to the proceeds from bank borrowing of RMB325.0 million, which was partially offset by (i) a decrease in amounts due to our immediate holding company of RMB208.3 million; and (ii) the repayment of borrowings of RMB80.0 million. The above mentioned bank borrowings of RMB325.0 million were mainly used to repay our immediate holding company.

For the year ended December 31, 2015, our cash flow used in financing activities was RMB53.0 million, primarily attributable to dividend payments of RMB50.6 million.

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### DESCRIPTION OF SELECTED ITEMS IN OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Assets and liabilities

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	3,323	17,707	39,270
Intangible assets	11,127	11,539	2,605
Interests in associates	54,577	59,925	66,370
Deferred tax assets	14,869	12,843	12,679
Other receivables	1,997	–	–
<b>Total non-current assets</b>	<b>85,893</b>	<b>102,014</b>	<b>120,924</b>
<b>Current assets</b>			
Inventories	164,522	234,172	336,424
Trade and bills receivables	207,422	198,859	163,328
Prepayments and other receivables	26,246	44,559	92,971
Amount due from immediate holding company	–	1,098	14,917
Amounts due from fellow subsidiaries	8,097	5,082	1,502
Tax recoverable	–	67	–
Pledged deposits	–	9,200	13,800
Cash and cash equivalents	76,944	97,110	102,073
Assets of a disposal group classified as held for sale	–	–	21,899
<b>Total current assets</b>	<b>483,231</b>	<b>590,147</b>	<b>746,914</b>
<b>Current liabilities</b>			
Trade and bills payables	127,129	174,425	184,153
Other payables and accruals	89,232	112,523	177,830
Interest-bearing bank borrowings	–	245,000	285,000
Amount due to immediate holding company	355,264	–	–
Amount due to an associate	4,582	1,834	4,217
Amounts due to fellow subsidiaries	2,845	–	–
Amounts due to non-controlling shareholders of subsidiaries	8,568	5,741	3,200
Income tax payables	6,039	2,314	10,291
Liabilities of a disposal group classified as held for sale	–	–	19,747
<b>Total current liabilities</b>	<b>593,659</b>	<b>541,836</b>	<b>684,438</b>
<b>Net current (liabilities)/assets</b>	<b>(110,428)</b>	<b>48,311</b>	<b>62,476</b>
<b>Total assets less current liabilities</b>	<b>(24,535)</b>	<b>150,325</b>	<b>183,400</b>
<b>Non-current liabilities</b>			
Amount due to a non-controlling shareholder of a subsidiary	8,936	6,353	–
<b>Net (liabilities)/assets</b>	<b>(33,471)</b>	<b>143,972</b>	<b>183,400</b>

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### **Property, plant and equipment**

As of December 31, 2015, 2016 and 2017, our property, plant and equipment amounted to RMB3.3 million, RMB17.7 million and RMB39.3 million, respectively. The increases in our property, plant and equipment as of December 31, 2016 and 2017 were mainly due to the purchase of furniture, fixtures and equipment for our retail outlets. During the years ended December 31, 2016 and 2017, we opened (i) additional 30 and 17 self-operated retail outlets, respectively; and (ii) additional 106 and 161 SHANSHAN branded franchisee's retail outlets, respectively. Pursuant to the franchising agreements that we entered into with our SHANSHAN franchisees under the SHANSHAN Cooperative Arrangements, we are responsible for providing certain furniture and product display to our franchisees at our own costs. For further details of our franchising arrangements, please see "Business — Franchisee sales — SHANSHAN Cooperative Arrangements — Relationship between our Group and our franchisees" in this prospectus. In addition, we acquired more fixtures and furniture for newly opened and existing self-operated retail outlets during the year ended December 31, 2017. As a result, our property, plant and equipment increased from RMB17.7 million as of December 31, 2016 to RMB39.3 million as of December 31, 2017.

### **Intangible assets**

As of December 31, 2015, 2016 and 2017, our intangible assets amounted to RMB11.1 million, RMB11.5 million and RMB2.6 million, respectively. The intangible assets primarily related to a licence granted by Forall Confezioni to JIC Garments for the sale of MARCO AZZALI branded products in the PRC, Taiwan, Hong Kong, Macau, Korea and the Middle East on a perpetual basis. The decrease for the year ended December 31, 2017 was primarily attributable to the reclassification of the aforementioned MARCO AZZALI licence as held for sale as we identified an appropriate buyer for the MARCO AZZALI brand operations in October 2017. Please see note 29 in Appendix I to this prospectus for details.

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### Net current assets

The following table sets forth a summary of our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>			
<b>Current assets</b>				
Inventories	164,522	234,172	336,424	349,672
Trade and bills receivables	207,422	198,859	163,328	155,475
Prepayments and other receivables	26,246	44,559	92,971	136,908
Amount due from immediate holding company	–	1,098	14,917	10,615
Amounts due from fellow subsidiaries	8,097	5,082	1,502	1,310
Tax recoverable	–	67	–	1,317
Pledged deposits	–	9,200	13,800	27,700
Cash and cash equivalents	76,944	97,110	102,073	82,403
Assets of a disposal group classified as held for sale	–	–	21,899	–
<b>Total current assets</b>	<b>483,231</b>	<b>590,147</b>	<b>746,914</b>	<b>765,400</b>
<b>Current liabilities</b>				
Trade and bills payables	127,129	174,425	184,153	200,317
Other payables and accruals	89,232	112,523	177,830	197,611
Interest-bearing bank borrowings	–	245,000	285,000	285,000
Amount due to immediate holding company	355,264	–	–	–
Amount due to an associate	4,582	1,834	4,217	941
Amounts due to fellow subsidiaries	2,845	–	–	–
Amounts due to non-controlling shareholders of subsidiaries	8,568	5,741	3,200	3,200
Income tax payables	6,039	2,314	10,291	–
Liabilities of a disposal group classified as held for sale	–	–	19,747	–
<b>Total current liabilities</b>	<b>593,659</b>	<b>541,836</b>	<b>684,438</b>	<b>687,069</b>
<b>Net current (liabilities)/assets</b>	<b>(110,428)</b>	<b>48,311</b>	<b>62,476</b>	<b>78,331</b>

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### *Net current liabilities as of December 31, 2015*

During the Track Record Period, Shanshan invested in the Non-core Subsidiaries through Fashion Brand. The considerations for the investments in the equity interests held by Fashion Brand on these Non-core Subsidiaries and other capital contribution were provided by Shanshan. The operations of the non-core businesses were independently managed with the support of different operation teams. As the Non-core Subsidiaries have not been acquired by our Company in the Reorganization and do not comprise our Group, they are not consolidated into our consolidated financial statements.

In the preparation of our consolidated financial statements, the relevant capital contributions to the Non-core Subsidiaries were deemed as a distribution to Shanshan in the period which these relevant capital contributions were made. When the subsidiaries were disposed of, transferred or deregistered, the proceeds received by our Group were treated as a capital contribution from Shanshan.

The capital contribution to the Non-core Subsidiaries resulted in a decrease in our Group's total assets, together with a corresponding decrease in our Group's equity represented by an increase in the merger reserve as a deduction of our equity. The funds we received from Shanshan to be invested in the Non-core Subsidiaries were recorded under our Group's current liabilities to Shanshan. Accordingly, the above transactions resulted in the net liabilities of our Group in the consolidated statements of financial position as of December 31, 2015.

As part of our Reorganization in May 2016, all of the then remaining Non-core Subsidiaries were disposed of, transferred or deregistered at a total consideration of RMB127.2 million, which were settled in cash of RMB26.4 million and by a waiver of the amount of RMB100.8 million due to Shanshan. The consideration was treated as a capital contribution from Shanshan resulting in an increase in our total assets accompanied by a decrease in our merger reserve (being an addition of our equity). The receipt of the abovementioned proceeds, together with an increase in our other current assets, resulted in the change of our financial position from net liabilities as of December 31, 2015 to net assets as of December 31, 2016.

Our net current assets amounted to RMB48.3 million as of December 31, 2016 as compared to net current liabilities of RMB110.4 million as of December 31, 2015, primarily due to the disposal, transfer or deregistration of all Non-core Subsidiaries in 2016 at a total consideration of RMB127.2 million and the corresponding negative merger reserve was reversed.

### *Changes in net current (liabilities)/assets*

Our net current assets increased by approximately 29.4% from RMB48.3 million as of December 31, 2016 to RMB62.5 million as of December 31, 2017. This increase was primarily attributable to (i) the increase in our inventories from RMB234.2 million as of December 31, 2016 to RMB336.4 million as of December 31, 2017; (ii) the increase in prepayments and other receivables from RMB44.6 million as of December 31, 2016 to RMB93.0 million as of December 31, 2017; (iii) the increase in amount due from immediate holding company from

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RMB1.1 million as of December 31, 2016 to RMB14.9 million as of December 31, 2017; partially offset by (i) the decrease in trade and bills receivables from RMB198.9 million as of December 31, 2016 to RMB163.3 million as of December 31, 2017; (ii) the increase in other payables and accruals from RMB112.5 million as of December 31, 2016 to RMB177.8 million as of December 31, 2017 and (iii) the increase in bank borrowings from RMB245.0 million as of December 31, 2016 to RMB285.0 million as of December 31, 2017.

Our net current assets increased by approximately 25.3% from RMB62.5 million as of December 31, 2017 to RMB78.3 million as of April 30, 2018. This change was primarily attributable to (i) the increase in inventories from RMB336.4 million as of December 31, 2017 to RMB349.7 million as of April 30, 2018; and (ii) the increase in prepayments and other receivables from RMB93.0 million as of December 31, 2017 to RMB136.9 million as of April 30, 2018; partially offset by (i) the decrease in trade and bills receivables from RMB163.3 million as of December 31, 2017 to RMB155.5 million as of April 30, 2018; and (ii) the increase in trade and bills payables from RMB184.2 million as of December 31, 2017 to RMB200.3 million as of April 30, 2018.

### Inventories

Inventories consist of finished goods, raw materials and work-in-progress. The following table sets forth a breakdown of our inventories as of the dates indicated.

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	145,575	211,407	310,192
Raw materials	13,116	12,482	8,098
Work-in-progress	5,831	10,283	18,134
	164,522	234,172	336,424

Our inventory consisted primarily of finished goods. The finished goods in our inventories increased from RMB145.6 million as of December 31, 2015 to RMB211.4 million as of December 31, 2016, and further increased to RMB310.2 million as of December 31, 2017. These increases were primarily due to (i) the increase in the procurement of SHANSHAN branded products from OEM suppliers to support the growth of our SHANSHAN brand self-operated retail outlets from one as of December 31, 2015 to nine and 19 as of December 31, 2016 and 2017, respectively, and SHANSHAN franchisee retail outlets from seven as of December 31, 2015 to 113 and 274 as of December 31, 2016 and 2017, respectively; and (ii) the increase in the procurement of FIRS and SHANSHAN branded products from OEM suppliers to support the growth of our sales through e-commerce platforms.

Our raw materials primarily consisted of fabrics produced by cotton, wool and polyester fiber, and our work-in-progress primarily consisted of materials delivered to OEM suppliers for processing.

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The table below sets forth the aging analysis of our inventory as of the dates indicated.

<b>As of December 31, 2017</b>					
	<b>Up to 1 year</b>	<b>Over 1 year up to 2 years</b>	<b>Over 2 years up to 3 years</b>	<b>Over 3 years up to 4 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	214,046	75,691	14,645	5,810	310,192
Raw materials	5,638	738	1,722	–	8,098
Work-in-progress	18,134	–	–	–	18,134
	<u>237,818</u>	<u>76,429</u>	<u>16,367</u>	<u>5,810</u>	<u>336,424</u>
<b>As of December 31, 2016</b>					
	<b>Up to 1 year</b>	<b>Over 1 year up to 2 years</b>	<b>Over 2 years up to 3 years</b>	<b>Over 3 years up to 4 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	163,654	31,039	12,816	3,898	211,407
Raw materials	8,376	3,173	933	–	12,482
Work-in-progress	10,283	–	–	–	10,283
	<u>182,313</u>	<u>34,212</u>	<u>13,749</u>	<u>3,898</u>	<u>234,172</u>
<b>As of December 31, 2015</b>					
	<b>Up to 1 year</b>	<b>Over 1 year up to 2 years</b>	<b>Over 2 years up to 3 years</b>	<b>Over 3 years up to 4 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	73,282	44,304	18,479	9,510	145,575
Raw materials	10,686	1,623	807	–	13,116
Work-in-progress	5,831	–	–	–	5,831
	<u>89,799</u>	<u>45,927</u>	<u>19,286</u>	<u>9,510</u>	<u>164,522</u>

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Subject to the assessments by our management, we generally write down 30% of the original cost of finished goods in our inventory when their inventory aging is over two years, 50% when their inventory aging is over three years, and 100% when their inventory aging is over four years. As of December 31, 2015, 2016 and 2017, finished goods aged over two years accounted for 19.2%, 7.9% and 6.6% of our total finished good inventory, respectively.

For the years ended December 31, 2015, 2016 and 2017, the write down of our inventories amounted to RMB2.3 million, RMB0.3 million and RMB3.8 million, respectively.

The following table sets forth our inventory turnover days for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Average inventory turnover days <sup>(1)</sup>	231	240	284

*Note:*

- (1) Calculated by dividing the average inventories at the beginning and ending of the year by cost of sales for the year and then multiplied by 365 days (for the years ended December 31, 2015 and 2017) or 366 days (for the year ended December 31, 2016).

Our inventory turnover days increased from 231 days for the year ended December 31, 2015 to 240 days for the year ended December 31, 2016, and further increased to 284 days for the year ended December 31, 2017. These increases were primarily due to the accumulation of (i) SHANSHAN branded products from OEM suppliers under purchasing agreements in order to support the expansion of our SHANSHAN branded retail outlets and meet the strong demand for our SHANSHAN branded products; (ii) our e-commerce products in order to capitalize on the significant growth potential brought by e-commerce sales; and (iii) FIRS branded products for sales at self-operated retail outlets in order to support the expansion of self-operated retail outlets. Since June 2016, we have been actively looking for OEM suppliers to consign SHANSHAN branded products to us for sale. Under such consignment, the ownership of consignment products is retained by our OEM suppliers. We believe the consignment arrangements with OEM suppliers significantly reduce our inventory risks and enhance our operational flexibility as they enable us to adjust and tailor our product portfolio proactively, and respond to constantly changing customer preferences and market trends promptly and efficiently. Furthermore, our Directors believe consignment promotes a healthy financial model and optimizes our cash flow when compiling our SHANSHAN branded product portfolio. Please see “Business — Franchisee sales — SHANSHAN Cooperative Arrangements” in this prospectus for further details.

We have put in place a number of measures to manage our inventory levels. Please see “Business — Inventory control” in this prospectus for further details.

As of April 30, 2018, RMB91.2 million (or approximately 27.1%) of our inventory as of December 31, 2017 was subsequently used.



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### Trade and bills receivables

Our trade and bills receivables mainly represented receivables from sales of our products to our distributors and our work uniform customers. The following tables set forth a breakdown of our trade and bills receivables as of the dates indicated and the corresponding trade and bills receivables turnover days for the years indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	236,913	228,136	206,877
Bills receivables	25,895	26,531	11,809
Less: provision for impairment	(55,386)	(55,808)	(55,358)
<b>Trade and bills receivables, net</b>	<b>207,422</b>	<b>198,859</b>	<b>163,328</b>
	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Average trade and bills receivables turnover days <sup>(1)</sup>	131	126	83

*Note:*

- (1) Calculated by dividing the average trade and bills receivables at the beginning and ending of the year by revenue for the year and then multiplied by 365 days (for the years ended December 31, 2015 and 2017) or 366 days (for the year ended December 31, 2016).

Our trade and bills receivables decreased by approximately 17.9% from RMB198.9 million as of December 31, 2016 to RMB163.3 million as of December 31, 2017. This decrease was primarily due to the decrease in sales to distributors as a result of the strategy adopted by us since September 2015 on streamlining and optimizing our distributor retail network.

Our trade and bills receivables remained relatively stable at RMB207.4 million and RMB198.9 million as of December 31, 2015 and 2016, respectively.

Our trade and bills receivables, trade and bills receivables turnover days and the credit period offered to our customers generally increased during the Track Record Period, as we increased the credit support to certain distributors, which have good credit rating and are located in key markets for development, so as to facilitate their business growth in those markets and to maintain their market share. Such distributors were selected on the basis of their market share, sales revenue and rebate, degree of compliance with the distributorship agreement, risk resistance capacity, operating duration and location. As such, our cash generated from operating activities was negatively affected.

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The maximum credit period offered to these distributors was 240 days during the Track Record Period. The number of distributors who were granted more favorable credit limit by us was 41, 43 and 34 for the years ended December 31, 2015, 2016 and 2017, respectively. The credit limits we offered ranged from (i) RMB1.0 million to RMB22.0 million for the year ended December 31, 2015; (ii) RMB1.0 million to RMB30.0 million for the year ended December 31, 2016; and (iii) RMB0.5 million to RMB25.0 million for the year ended December 31, 2017. The distributors who were granted more favorable credit limit represented approximately 37.8%, 29.7% and 15.7% of our total revenue for the years ended December 31, 2015, 2016 and 2017, respectively. They also represented 73.0%, 55.1% and 75.5% of our Group's total trade and bills receivables for the years ended December 31, 2015, 2016 and 2017, respectively.

We generally offer a credit period from 30 to 240 days to our customers. The following table sets forth the aging of our trade and bills receivables as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables aging for			
3 months or less	106,268	104,606	96,869
Over 3 months up to 6 months	71,034	51,511	39,223
Over 6 months up to 1 year	22,057	42,335	25,123
Over 1 year	8,063	407	2,113
<b>Total trade and bills receivables</b>	<b>207,422</b>	<b>198,859</b>	<b>163,328</b>

As of April 30, 2018, RMB122.7 million (or approximately 75.1%) of our trade and bills receivables as of December 31, 2017 were subsequently settled. As we generally offer a credit period from 30 to 240 days to our customers, we consider the above subsequent settlement rate of our trade and bills receivables as reasonable as some of these receivables up to December 31, 2017 were not yet due for payment as of April 30, 2018. We consider all the trade and bills receivables as of December 31, 2017 to be recoverable and no impairment provision is required to be made as such receivables were due from customers with good settlement histories and no default on settlement had been noted. In the event of any default or delay in payment by our customers in the future, resulting in an increase in our receivable turnover days, we may experience untimely and significant cash flow shortcomings, and our cash position, liquidity, financial condition and results of operations may be materially and adversely affected. Please see “Risk Factors — Risks related to our business and the PRC menswear industry — We are subject to credit risks relating to our trade and bills receivables” in this prospectus for further details of the relevant risks.

Our receivables that were past due but not impaired related to a number of customers with good track records. Based on past experience, we believe that no impairment recognition is necessary in respect of these balances as there has not been a significant change in the creditworthiness of these customers and the balances are still considered fully recoverable. We have not held any collateral for these balances or other increased level of credit risk ratings.

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### Prepayments and other receivables

Our prepayments and other receivables mainly consisted of refundable earnest money we paid to OEM suppliers under the SHANSHAN Cooperative Arrangements, prepayment of listing expenses and prepayment for fitting out of our retail outlets. The following table sets forth a breakdown of our prepayments and other receivables as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	8,921	18,263	67,607
Other receivables	20,042	26,923	26,028
Less: provision for impairment	(721)	(627)	(664)
	28,242	44,559	92,971
Less: other receivables repayable after 1 year	(1,996)	–	–
<b>Total prepayments and other receivables</b>	<b>26,246</b>	<b>44,559</b>	<b>92,971</b>

The table below sets forth a breakdown of our prepayments as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment to suppliers <sup>(1)</sup>	4,380	4,592	30,449
Deferred listing expenses	–	4,026	6,386
Prepayment for the fitting out of retail outlets	3,093	2,974	2,459
Rental deposits and prepaid rent	605	1,122	6,057
Prepayment for our advertisement and promotion activities	802	1,629	18,662
Others <sup>(2)</sup>	41	3,920	3,594
	8,921	18,263	67,607

*Notes:*

- (1) Prepayment to suppliers consisted of (i) refundable earnest money we paid to OEM suppliers under the SHANSHAN Cooperative Arrangements; and (ii) prepayment to both SHANSHAN suppliers and other non-SHANSHAN suppliers for the supply of raw materials and other work-in-progress.
- (2) Other prepayments consisted mainly of consultancy fee, software fee and insurance.

Our prepayments and other receivables increased by approximately 70.2% from RMB26.2 million as of December 31, 2015 to RMB44.6 million as of December 31, 2016, and further increased to RMB93.0 million as of December 31, 2017. These increases were primarily due

## FINANCIAL INFORMATION

to (i) the increase in refundable earnest money we paid to OEM suppliers under the SHANSHAN Cooperative Arrangements from RMB13.7 million for the year ended December 31, 2016 to RMB65.4 million for the year ended December 31, 2017; (ii) prepayment of listing expenses; (iii) rental prepayment as a result of the expansion in our self-operated retail outlet network; and (iv) advertisement and promotion activities as we engaged a new spokesperson during the year ended December 31, 2017 to promote our FIRS and SHANSHAN brands.

### Trade and bills payables

Our trade and bills payables mainly consisted of amounts payable to our OEM suppliers for the purchase of products in the ordinary course of our business. The following table sets forth a breakdown of our trade and bills payables as of the dates indicated and the corresponding trade and bills payable turnover days for the years indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank acceptance bills	–	24,000	37,000
Trade payable	127,129	150,425	147,153
<b>Total trade and bills payables</b>	<b>127,129</b>	<b>174,425</b>	<b>184,153</b>
	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Average trade and bills payables turnover days <sup>(1)</sup>	152	182	178

- (1) Calculated by dividing the average trade payables at the beginning and ending of the year by the cost of sales for the year and then multiplied by 365 days (for the years ended December 31, 2015 and 2017) or 366 days (for the year ended December 31, 2016).

Our trade and bills payables remained stable at RMB174.4 million and RMB184.2 million as of December 31, 2016 and 2017, respectively. Our trade and bills payables increased by approximately 37.2% from RMB127.1 million as of December 31, 2015 to RMB174.4 million as of December 31, 2016, primarily due to the increased procurement in order to support the growth of our SHANSHAN brand business and our sales through e-commerce platforms.

Our trade and bills payables turnover days remained relatively stable for the years ended December 31, 2016 and 2017. Our trade and bills payables turnover days increased from 152 days for the year ended December 31, 2015 to 182 days for the year ended December 31, 2016. This increase was because we better utilized the credit terms provided by our suppliers.

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The table below sets forth the aging of our trade payables as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables aging for			
3 month or less	77,689	123,562	109,023
Over 3 month up to 6 months	42,524	18,944	17,795
Over 6 months up to 1 year	4,607	5,844	10,832
Over 1 year	2,309	2,075	9,503
<b>Total trade payables</b>	<b>127,129</b>	<b>150,425</b>	<b>147,153</b>

As of April 30, 2018, RMB116.3 million (or approximately 79.0%) of our trade payables as of December 31, 2017 were subsequently settled.

### Other payables and accruals

Other payables and accruals mainly consisted of (i) prepayments received from distributors for renovation of their retail outlets and accrued VAT payables; and (ii) sales rebate arising from deferred award payments to our distributors. The following table sets forth a breakdown of our other payables and accruals as of the dates indicated.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables and accruals	38,501	76,228	148,727
Sales rebate	22,824	12,520	7,926
Receipt in advance	17,390	19,713	17,980
Other tax payables	10,517	4,062	3,197
<b>Total other payables and accruals</b>	<b>89,232</b>	<b>112,523</b>	<b>177,830</b>

Our other payables and accruals increased by approximately 26.1% from RMB89.2 million as of December 31, 2015 to RMB112.5 million as of December 31, 2016, and further increased to RMB177.8 million as of December 31, 2017. These increases were primarily attributable to an increase in other payables resulting from the increase in guaranteed deposits received from our SHANSHAN franchisees from RMB49.2 million for the year ended December 31, 2016 to RMB123.2 million for the year ended December 31, 2017.

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### Assets and liabilities of a disposal group classified as held for sale

We identified an appropriate buyer, Mr. Wang Qin (王沁), who is an employee of JIC Garments and an Independent Third Party, in October 2017 to acquire our MARCO AZZALI operations. On March 26, 2018, Fashion Brand, Forall Confezioni and Shanshan HK entered into an equity transfer agreement with Mr. Wang Qin (王沁) for the disposal of their respective 55%, 35% and 10% equity interests in JIC Garments at EUR0.85, EUR1.0 and EUR0.15, respectively. The disposals were properly and legally completed and settled in May 2018. As a result of the above disposals, we have re-classified the assets and liabilities in respect of the MARCO AZZALI brand operations as held for sale in our consolidated statement of financial position. Please see “History, Reorganization and Corporate Structure — Disposal of JIC Garments after the Reorganization”, “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus and note 29 in Appendix I to this prospectus for details.

The table below sets forth the major classes of assets and liabilities relating to our MARCO AZZALI operations re-classified as held for sale in the consolidated statement of financial position as of December 31, 2017.

	<i>RMB'000</i>
<b>Assets</b>	
Property, plant and equipment	25
Intangible assets	1,686
Trade receivables	1,533
Inventories	14,457
Prepayment and other receivables	3,424
Cash and cash equivalents	623
Other current assets	151
	<hr/>
	21,899
	<hr/> <hr/>
<b>Liabilities</b>	
Trade payables	(5,413)
Other payables and accruals	(7,934)
Amount due to non-controlling interest	(6,398)
Other current liabilities	(2)
	<hr/>
	(19,747)
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### **Interest-bearing bank borrowings**

We did not have any bank borrowings as of December 31, 2015. As of December 31, 2016 and 2017, we had outstanding interest-bearing bank borrowings of RMB245.0 million and RMB285.0 million, respectively, representing (i) a bank borrowing from China Everbright Bank of RMB200.0 million and RMB200.0 million as of December 31, 2016 and 2017, respectively, for the repayment of the amounts due to our immediate holding company, Shanshan; (ii) a bank borrowing from Shanghai Pudong Development Bank of RMB35.0 million and RMB45.0 million as of December 31, 2016 and 2017, respectively, for the repayment of certain bank borrowings and general working capital purposes; (iii) a bank borrowing from Bank of Hangzhou of RMB10.0 million and RMB20.0 million as of December 31, 2016 and 2017, respectively, for general working capital purposes; and (iv) a bank borrowing from China Guangfa Bank of RMB20.0 million as of December 31, 2017 for general working capital purposes. Each of China Everbright Bank, Shanghai Pudong Development Bank, Bank of Hangzhou and China Guangfa Bank is an Independent Third Party. As of December 31, 2016 and 2017, all of the above bank borrowings were unsecured and repayable within one year. None of the outstanding bank borrowings as of December 31, 2017 and up to the Latest Practicable Date contained debt covenants relating to financial thresholds imposed on us, or other material covenants which could materially and adversely affect our ability to pay dividends or undertake additional debt or equity financings.

### **Amount due to immediate holding company**

Amount due to our immediate holding company primarily represented capital contributions from Shanshan for investments in the Non-core Subsidiaries. Please see “Merger reserve” in this section for further details.

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## FINANCIAL INFORMATION

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### INDEBTEDNESS

During the Track Record Period, our borrowings primarily consisted of Renminbi-denominated interest-bearing bank borrowings and amount due to our immediate holding company. The following table sets forth a breakdown of our borrowings as of the dates indicated.

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
<b>Current</b>				
Interest-bearing bank borrowings	–	245,000	285,000	285,000
Amount due to immediate holding company	355,264	–	–	–
Amount due to an associate	4,582	1,834	4,217	941
Amounts due to fellow subsidiaries	2,845	–	–	–
Amounts due to non-controlling shareholders of subsidiaries	8,568	5,741	3,200	3,200
<b>Total</b>	<b>371,259</b>	<b>252,575</b>	<b>292,417</b>	<b>289,141</b>

As of December 31, 2016, our Group had a total bank borrowings of RMB245.0 million, which carried fixed interest rates ranging from 4.57% to 4.79% per annum and were repayable within one year and unsecured. As of December 31, 2017, our Group had a total bank borrowings of RMB285.0 million, which carried fixed interest rates ranging from 4.79% to 5.44% and were repayable within one year and unsecured.

To the best of the knowledge of our Directors, each of China Everbright Bank, Shanghai Pudong Development Bank, Bank of Hangzhou and China Guangfa Bank is independent of our Group and is not connected persons to our Group.

### MERGER RESERVE

We recorded a net liability as of December 31, 2015 primarily due to a merger reserve. Please see “Description of selected items in our consolidated statements of financial position — Net current assets — Net current liabilities as of December 31, 2015” in this section for further details.



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The movements of merger reserve during the Track Record Period are set out below:

	Investments in the Non-core Subsidiaries	Capital funds to the Non-core Subsidiaries	Share capital of Fashion Brand	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of January 1, 2015	224,689	52,964	(100,000)	(3,046)	174,607
Proceeds from disposal of the Non-core Subsidiaries	(6,879)	-	-	-	(6,879)
Increase in capital fund to the Non-core Subsidiaries	-	19,461	-	-	19,461
Others	-	-	-	3,662	3,662
As of December 31, 2015 and January 1, 2016	217,810	72,425	(100,000)	616	190,851
Proceeds from disposal of, transfer or deregister of the Non-core Subsidiaries	(127,193)	-	-	-	(127,193)
Decrease in capital fund to the Non-core Subsidiaries	-	(12,250)	-	-	(12,250)
Acquisition of Fashion Brand at Reorganization <sup>(1)</sup>	-	-	-	-	-
Utilization of tax loss arising from the disposal of, transfer or deregistration of the Non-core Subsidiaries upon the Reorganization	(3,570)	-	-	-	(3,570)
Others	-	-	-	(616)	(616)
As of December 31, 2016 and January 1, 2017	<u>87,047</u>	<u>60,175</u>	<u>(100,000)</u>	<u>-</u>	<u>47,222</u>
Utilization of tax loss arising from the disposal of, transfer or deregistration of the Non-core Subsidiaries upon the Reorganization	(2,466)	-	-	-	(2,466)
As of December 31, 2017	<u>84,581</u>	<u>60,175</u>	<u>(100,000)</u>	<u>-</u>	<u>44,756</u>

*Note:*

- (1) The impact of the acquisition of Fashion Brand at Reorganization to merger reserve for the year ended December 31, 2016 and 2017 was RMB10, which is rounded to nil under the presentation of thousand dollars. The share capital of Fashion Brand contributed to merger reserve as of December 31, 2016 and 2017 was RMB99,999,990 which was rounded to RMB100,000,000 under the presentation of thousand dollars.

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## FINANCIAL INFORMATION

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### **Impact on our cash flow**

As mentioned above, the equity interests in the Non-core Subsidiaries were held by us on behalf of Shanshan, and the relevant capital contributions to these Non-core Subsidiaries were deemed as distributions to Shanshan. Accordingly, they were classified as cash outflow from financing activities, instead of investing activities.

### **RELATED PARTY TRANSACTIONS**

During the Track Record Period, we entered into certain related party transactions, details of which are set out in note 32 to the Accountants' Report in Appendix I to this prospectus. Our Directors have confirmed that these related party transactions were conducted on normal commercial terms and such terms were no less favorable to our Group than terms available to Independent Third Parties and were considered fair and reasonable and in the interests of our Shareholders as a whole.

### **WORKING CAPITAL SUFFICIENCY**

Taking into account the financial resources available to us, including the expected cash generated from our operations, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital for at least the next 12 months from the date of this prospectus. As of April 30, 2018 and the Latest Practicable Date, our Company had a total of RMB10.9 million and RMB10.9 million unutilized bank facilities, respectively.

### **CONTINGENT LIABILITIES**

Except as disclosed in this prospectus, as of December 31, 2017, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities.

### **CAPITAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

#### **Operating lease commitments**

Our operating lease commitments represent our minimum payment obligations under irrevocable operating lease agreements with respect to our office properties, warehouse and self-operated retail outlets. Our lease agreements have fixed and/or contingent rentals and terms ranging from one to 12 years.

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The following table sets forth our total minimum lease payments under our operating leases becoming due as of the dates indicated. Contingent rentals have not been included.

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease payments due in:			
Less than one year	3,879	12,212	29,244
Over one year up to five years	1,789	17,195	26,274
<b>Total</b>	<b>5,668</b>	<b>29,407</b>	<b>55,518</b>

### Capital commitments

We had no significant capital commitments as of December 31, 2015, 2016 and 2017.

### CAPITAL EXPENDITURES

The capital expenditures incurred for the years ended December 31, 2015, 2016 and 2017 were primarily made for the purchases of property, plant and equipment and intangible assets. The following table sets forth our capital expenditures by nature for the years indicated.

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	1,066	19,150	37,075
Intangible assets	12,000	1,648	1,063
<b>Total</b>	<b>13,066</b>	<b>20,798</b>	<b>38,138</b>

Our capital expenditures on property, plant and equipment primarily related to furniture, fixtures and equipment. Such capital expenditures were primarily used for fitting out our retail outlets. Our capital expenditures on intangible assets related to the trademark payments for the permanent right to use the MARCO AZZALI brand and the ERP systems we installed at retail outlets.

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### KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios reflecting our financial condition and results of operations as of the dates or for the years indicated.

<u>Financial ratios</u>	<u>As of or for the year ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Current ratio <sup>(1)</sup>	0.81	1.09	1.09
Quick ratio <sup>(2)</sup>	0.54	0.66	0.60
Gearing ratio <sup>(3)</sup>	N/A	170.2%	155.4%
Net debt to equity ratio <sup>(4)</sup>	N/A	102.7%	99.7%
Interest coverage <sup>(5)</sup>	206	7	5
Return on equity <sup>(6)</sup>	N/A	23.5%	20.2%
Return on assets <sup>(7)</sup>	9.3%	4.9%	4.3%

*Notes:*

- (1) Current ratio is calculated based on the total current assets divided by the total current liabilities as of the respective year ends.
- (2) Quick ratio is calculated based on the total current assets less inventories divided by the total current liabilities as of the respective year ends.
- (3) Gearing ratio is calculated based on the total debt divided by the total equity as of the respective year ends and multiplied by 100%.
- (4) Net debt to equity ratio is calculated by the net debt (total debt net of cash and cash equivalents) divided by the total equity as of the respective year ends and multiplied by 100%.
- (5) Interest coverage is calculated by the profit before interest and tax divided by interest expense for the year.
- (6) Return on equity is calculated by the profit and total comprehensive income for the year divided by the total equity as of the respective year ends and multiplied by 100%.
- (7) Return on assets is calculated by the profit and total comprehensive income for the year divided by the total assets as of the respective year ends and multiplied by 100%.

### Current and quick ratio

As of December 31, 2015, 2016 and 2017, our current ratios were 0.81, 1.09 and 1.09, respectively, while our quick ratios were 0.54, 0.66 and 0.60, respectively. The current ratio and quick ratio improved as of December 31, 2016 and 2017. The improvement was primarily due to the disposal of all of Non-core Subsidiaries during the year ended December 31, 2016 at a total consideration of RMB127.2 million in form of cash of RMB26.4 million and waiver of amount due to immediate holding company of RMB100.8 million, which increased the current assets and significantly reduced the current liabilities.

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## FINANCIAL INFORMATION

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### **Gearing and net debt to equity ratio**

We had deficit as of December 31, 2015. Following the disposal of all the Non-core Subsidiaries in 2016, we restored positive equity position while we had bank loans of RMB245.0 million and RMB285.0 million as of December 31, 2016 and 2017, respectively. Our gearing ratio and net debt-to-equity ratio were 170.2% and 102.7%, respectively, as of December 31, 2016, and 155.4% and 99.7%, respectively, as of December 31, 2017.

### **Interest coverage ratio**

For the years ended December 31, 2015, 2016 and 2017, our interest coverage rate was 206, seven and five times, respectively. The continual decrease in our interest coverage ratio during the Track Record Period was primarily due to a significant increase in finance costs as a result of our increased bank borrowings.

### **Return on equity**

No return on equity ratio was calculated in 2015 mainly due to the net liability position of our Group as of December 31, 2015. Our return on equity ratio remained relatively stable at 23.5% and 20.2% for the years ended December 31, 2016 and 2017, respectively.

### **Return on assets**

For the years ended December 31, 2015, 2016 and 2017, our return on assets was 9.3%, 4.9% and 4.3%, respectively. The decrease in return on assets from 9.3% for the year ended December 31, 2015 to 4.9% for the year ended December 31, 2016 was primarily due to the decrease in net profits as a result of the increase in listing expenses and selling and distribution expenses during the year ended December 31, 2016. Our return on assets remained relatively stable for the years ended December 31, 2016 and 2017.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

### **(a) Credit risk**

During the Track Record Period, our Group's maximum exposure to credit risk which may cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position.

In order to minimize the credit risk in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual receivables at the end of the Track Record Period to ensure that adequate impairment losses are made for irrecoverable amounts.

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## FINANCIAL INFORMATION

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Most of our Group's cash and cash equivalents are held in major reputable financial institutions in the PRC, which we believe are of high credit quality.

Our Group's concentration of credit risk on the trade and bills receivables as of December 31, 2015, 2016 and 2017 included five major counterparties accounting for 36.6%, 30.2% and 31.6% of the trade and bills receivables, respectively. Our Group has closely monitored the recoverability of the advances to these counterparties, ensured adequate collateral is received from these counterparties and taken effective measures to ensure timely collection of outstanding balances.

Our Group is exposed to the concentration of geographic risk on revenue, all of which was derived from our business operations in the PRC. Our Group has closely monitored the business performance of these customers in the PRC.

**(b) Liquidity risk**

Our Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. We are satisfied that our Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future in the normal course of business.

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The following table details the remaining contractual maturities as of December 31, 2015, 2016 and 2017 of our Group's financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which our Group can be required to pay. The table includes both interest and principal cash flows.

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As of December 31, 2015</b>					
Trade and bills payables	127,129	127,129	127,129	–	–
Other payables and accruals	38,501	38,501	38,501	–	–
Amount due to immediate holding company	355,264	355,264	355,264	–	–
Amount due to an associate	4,582	4,582	4,582	–	–
Amounts due to fellow subsidiaries	2,845	2,845	2,845	–	–
Amount due to a non-controlling shareholder of a subsidiary	17,503	18,748	8,941	2,802	7,005
	<u>545,824</u>	<u>547,069</u>	<u>537,262</u>	<u>2,802</u>	<u>7,005</u>
<b>As of December 31, 2016</b>					
Trade and bills payables	174,425	174,425	174,425	–	–
Other payables and accruals	76,228	76,228	76,228	–	–
Interest-bearing bank borrowings	245,000	249,121	249,121	–	–
Amount due to an associate	1,834	1,834	1,834	–	–
Amounts due to non-controlling shareholders of subsidiaries	12,094	12,963	5,989	2,790	4,184
	<u>509,581</u>	<u>514,571</u>	<u>507,597</u>	<u>2,790</u>	<u>4,184</u>
<b>As of December 31, 2017</b>					
Trade and bills payables	184,153	184,153	184,153	–	–
Other payables and accruals	148,727	148,727	148,727	–	–
Interest bearing bank borrowings	285,000	290,471	290,471	–	–
Amount due to an associate	4,217	4,217	4,217	–	–
Amount due to a non-controlling shareholder of a subsidiary	3,200	3,200	3,200	–	–
	<u>625,297</u>	<u>630,768</u>	<u>630,768</u>	<u>–</u>	<u>–</u>

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## FINANCIAL INFORMATION

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### (c) Interest rate risk

Our Group is not exposed to fair value interest rate risk in relation to its fixed-rate borrowings as they are carried at amortized costs. Our Group currently does not have an interest rate hedging policy. However, we monitor the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Our Group is not exposed to cash flow interest rate risk as the interest rates of its borrowings are fixed.

### (d) Currency risk

Currency risk to our Group is minimal as most of our Group's transactions are carried out in functional currency which is RMB.

## DIVIDENDS

We do not currently have a fixed dividend policy and may declare dividends from time to time as our Board considers appropriate in compliance with our Articles and the applicable laws and regulations. Our Board is responsible for submitting proposals in respect of dividend payments, if any, to our Shareholders for approval at general meetings. A decision to declare any dividends and the amount of such dividends depend on various factors, including our results of operation, cash flows, financial condition, future business prospects, statutory and contractual restrictions on the payment of dividends by us and other factors that our Board considers relevant. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profit. Our distributable profit represents the lower of the net profit after tax determined under the PRC GAAP or HKFRS or the accounting standards of the place where our Shares are listed, less:

- our accumulated losses in previous years;
- appropriations we are required to make to the statutory reserve, which is currently 10% of the unconsolidated net profit of our Company as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital; and
- appropriations to a discretionary surplus reserve as approved by the Shareholders in an annual general meeting.



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## FINANCIAL INFORMATION

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Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. The payment of any dividends by us must also be approved at a Shareholders' general meeting. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and any discretionary surplus reserve as approved by our Shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

We declared and paid dividends of RMB50.6 million during the year ended December 31, 2015, and did not declare and pay any dividends during the years ended December 31, 2016 and 2017, respectively. As of December 31, 2017, our accumulated distributable profits amounted to RMB82.0 million. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

### OFF-BALANCE SHEET ARRANGEMENTS

Save as disclosed in this prospectus, we did not have any material off-balance sheet arrangements as of the Latest Practicable Date.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for details of our unaudited pro forma adjusted consolidated net tangible assets.

### LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees. Listing expenses to be borne by us are estimated to be RMB50.3 million. We had incurred listing expenses of RMB28.2 million up to December 31, 2017, of which RMB21.8 million was charged to our consolidated statements of comprehensive income and RMB6.4 million was accounted for as deferred listing expenses in our consolidated statements of financial position to be accounted for as a deduction from equity upon the Listing. We expect to incur listing expenses of approximately RMB22.1 million after December 31, 2017, of which RMB14.1 million is expected to be charged to our consolidated statements of comprehensive income and RMB8.0 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

Our Directors expect listing expenses will have a material adverse impact on our results of operations for the year ending December 31, 2018. Our Directors would also like to emphasize that the amount of our listing expenses is a current estimate for reference only and the final amount to be recognized in our consolidated financial statements is subject to adjustment based on audit and the then changes in variables and assumptions.

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Fashion Brand and Lubiam Moda per L'Uomo were engaged in an arbitration proceeding in respect of the joint venture agreement of Lubiam Apparel in the ICC International Court of Arbitration. Pursuant to a final award dated March 9, 2018 (the “**Final Award**”), the arbitral tribunal of this arbitration proceeding ruled that Fashion Brand is required to pay damages of RMB3.2 million (the “**Damages**”) to Lubiam Moda per L'Uomo in relation to the dividends receivable by Lubiam Moda per L'Uomo for the year of 2014 which was approved by the board of Lubiam Apparel in 2015, together with the relevant interests (the “**Interests**”). We have recognized a provision in respect of the Damages as our other gains and losses for the year ended December 31, 2015. In respect of the payment of the Interests, having considered that the amount is immaterial, our Directors are of the view, and the Reporting Accountant concurs, that no provision or adjustment is required to be made by Fashion Brand in respect of the Interests for the Track Record Period upon conclusion of the arbitration proceeding. As advised by the PRC legal advisers advising on this arbitration proceeding, this arbitration proceeding had concluded after the issuance of the Final Award. Our Directors are of the view that the Final Award did not have a material adverse effect on our financial position and results of operations.

Our Directors have confirmed that save for (i) the aforementioned Final Award; (ii) the estimated non-recurring listing expenses as disclosed in “Listing expenses” in this section; and (iii) the disposal of MARCO AZZALI operations as disclosed in “Business — Our brands and products — Our historical MARCO AZZALI brand” in this prospectus, since December 31, 2017 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affects our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants' Report in Appendix I to this prospectus materially and adversely.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please see “Business — Business strategies” in this prospectus for details of our future plans.

### REASONS FOR THE SPIN-OFF

Our Directors believe that the spin-off of our Group from Shanshan and the listing of our Shares on the Stock Exchange have the following benefits:

**(i) Accommodate our capital needs for business operations and expansions**

As our financial performance and results of operations are subject to seasonal fluctuations, and there are often time lags between making payments to our suppliers and receiving payments from our customers, we have to allocate a portion of our working capital for procuring products and raw materials from our suppliers and fulfill our general working capital need. While our Directors consider our current level of capital resources to be sufficient in supporting our existing business operations, we are of the view that such level of capital resources is not adequate in funding our business expansion plan and the continuing expansion of our SHANSHAN franchisee retail network under the SHANSHAN Cooperative Arrangements. In particular, to support the growth of our SHANSHAN brands, it is expected that we will pay an increasing amount of refundable earnest money to the OEM suppliers who enter into consignment agreements with us under the SHANSHAN Cooperative Arrangements. Further, we are expected to incur significant capital resources to fund the fitting out of retail outlets as we increase the number of retail outlets.

As stated in “Business — Expansion plans — Developing our retail network in the PRC” in this prospectus, in order to fully capitalize on the business opportunities arising from the growth of the PRC menswear industry, we intend to further developing our retail network in the PRC, which in turn will require us to maintain a sufficient level of capital resources to support our business operation. If we face a net operating cash outflow in the future and do not have sufficient working capital at that time, (a) we may have to fund our operating costs by obtaining bank borrowings at unfavorable terms, resulting in significant finance costs; and (b) we may not be able to meet our payment obligations, including our trade and bills payables. The net proceeds of the Global Offering will provide financial resources to support our business expansion plans while at the same time effectively mitigate our risk exposure to net cash outflows from operating activities in the future.

**(ii) Enable investors to appraise our Group separately**

Shanshan is principally engaged in, among others, (i) the manufacture and sale of the raw materials of lithium battery such as anode and cathode materials and electrolyte; and (ii) operation and promotion of new energy vehicles. Given the different business nature between our Group and Shanshan, and our Group and Shanshan are believed to have different growth paths and have adopted different strategies, the spin-off is anticipated to provide investors with a clearer understanding of the respective operations and financial performance of our Group and Shanshan. Investors will be able to appraise the business, prospects, strategies, risk exposure and returns of our Group and Shanshan separately. We believe the value of our business will be properly reflected after the spin-off.

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## FUTURE PLANS AND USE OF PROCEEDS

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### **(iii) Provide our Group with a separate fund raising platform in Hong Kong**

Our Directors believe that the spin-off of our Group from Shanshan allows us to have more readily access to credit and/or negotiate for more favorable terms on our own than relying on Shanshan. Further, the Listing can increase the corporate and financial transparency of our Group which we believe will lead to the grant of credit lines on more favorable terms from our bankers.

The Listing will also enable our Group to have a fund-raising platform in Hong Kong, which allows us to gain direct access to the Hong Kong capital markets for equity and debt financing to fund our existing operations and future expansions, thereby accelerating our expansion and improving our operating and financial performance, and in turn result in a better financial return to our Shareholders.

### **(iv) Enhance our business efficiency, corporate profile and market recognition**

The spin-off will allow separate platforms for the business of our Group and Shanshan to grow with more focused development and strategic planning of their respective operations, which will in turn enhance their efficiency and decision-marketing processes and consequently assist in generating value to shareholders. The spin-off will also enable us to build our identity as a separate listed group specializing in the design, marketing and sale of formal and casual business menswear in the PRC, which our Directors believe can enhance our Group's profile, recognition and visibility in the PRC menswear industry, and in turn generate reassurance among our customers, OEM suppliers, distributors and franchisees given that a Hong Kong listed company is subject to ongoing regulatory compliance for announcements, financial disclosure and corporate governance.

The Listing will also allow our Group to strengthen our market position in the PRC menswear industry and maintain our competitiveness against other competitors in the PRC as our Directors believe that some of our customers, OEM suppliers, distributors and franchisees prefer to deal with listed companies than non-listed companies. Further, our Directors believe that a listing status can also facilitate our Group to bid and tender for work uniforms for large-scale enterprises under our work uniform business.

### **(v) Improve the capital structure of our Group**

While our Group had a cash balance of RMB82.4 million and an unutilized banking facilities in an aggregate sum of RMB10.9 million as at April 30, 2018, we also reached a gearing ratio of 155.4% as at December 31, 2017 and had an aggregate interest-bearing bank borrowings of RMB285.0 million as at April 30, 2018. In view of (i) the uncertainty in interest rate movement going forward, which may expose our Group to increasing borrowing costs in the future via debt financing; and (ii) the interest rate in the PRC is relatively high, in the interest of our long-term development, we intend to improve and optimize our capital structure and reduce our finance costs by gradually repaying our outstanding interest-bearing bank borrowing so as to achieve a sustainable growth and lower our exposure to interest rate risks. It is therefore important for us to pursue the Listing as we will then be able to raise fund through equity financing instead of debt financing. Further, the Listing will boost our equity base which in turn can reduce our gearing ratio considerably.

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## FUTURE PLANS AND USE OF PROCEEDS

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### (vi) Diversification of shareholder base and have more liquidity in trading Shares

Our Directors believe that the spin-off will enhance the liquidity of our Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the shares that are privately held by Shanshan before the Listing. Hence, our Directors consider that the Listing will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the trading of our Shares.

Our Directors believe that it is in the best interest of our Company to conduct equity financing by way of the Global Offering instead of debt financing. This is primarily because:

- (i) our Directors are reluctant to obtain a large amount of debt financing as our Directors consider that it is important to manage our gearing ratio and improve our overall capital structure so as to achieve sustainable growth; and
- (ii) our Directors believe equity financing through the Global Offering is more justifiable than debt financing as debt financing will subject our Group to interest rate risks and certain unfavorable borrowing terms such as the provision of collateral and fees for both borrowing and early repayment, as opposed to equity financing which is free from such interest rate risks and unfavorable borrowing terms.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$75.2 million (equivalent to approximately RMB61.4 million) after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and an Offer Price of HK\$4.095 per H Share, being the mid-point of the indicative Offer Price range of HK\$3.28 to HK\$4.91 per H Share in this prospectus. We intend to use the net proceeds from the Global Offering for the following purposes:

- we intend to allocate HK\$28.4 million (equivalent to approximately RMB23.2 million) from, or approximately 37.8% of, the net proceeds on developing our retail network in the PRC. Please see “Business — Business strategies — We plan to optimize and expand our sales and distribution network in the PRC” and “Business — Expansion plans — Developing our retail network in the PRC” in this prospectus for further details;
- we intend to allocate HK\$18.6 million (equivalent to approximately RMB15.2 million) from, or approximately 24.7% of, the net proceeds on deploying a variety of publicity campaigns in the PRC. Please see “Business — Business strategies — We plan to increase our brand promotion and marketing efforts” in this prospectus for further details;

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## FUTURE PLANS AND USE OF PROCEEDS

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- we intend to allocate HK\$14.5 million (equivalent to approximately RMB11.8 million) from, or approximately 19.3% of, the net proceeds on enhancing our information technology systems, including (i) upgrading our existing ERP systems; (ii) introducing an advanced warehouse management system; (iii) upgrading our existing inventory sharing and allocation system; (iv) introducing centralized raw material supplier management system; and (v) expanding our existing information technology facilities. Please see “Business — Business strategies — We plan to further enhance our information technology systems and our supply chain, logistics and inventory management capabilities” and “Business — Expansion plans — Enhancing our supply chain, logistics and inventory management capabilities” in this prospectus for further details;
- we intend to allocate HK\$6.2 million (equivalent to approximately RMB5.1 million) from, or approximately 8.2% of, the net proceeds on establishing a new warehousing and logistics center. Please see “Business — Business strategies — We plan to further enhance our information technology systems and our supply chain, logistics and inventory management capabilities” and “Business — Expansion plans — Enhancing our supply chain, logistics and inventory management capabilities” in this prospectus for further details; and
- we intend to allocate HK\$7.5 million (equivalent to approximately RMB6.1 million) from, or approximately 10.0% of, the net proceeds for our general working capital purposes.

In the event that the Over-allotment Option is exercised in full and after deducting underwriting fees and commissions as well as the estimated expenditures which we are required to pay in connection with the Global Offering, we will receive additional net proceeds ranging from HK\$15.9 million (equivalent to approximately RMB12.5 million, assuming that the Offer Price is HK\$3.28 per H Share, being the low-end of the Offer Price range) and approximately HK\$23.7 million (equivalent to approximately RMB18.5 million, assuming that the Offering Price is HK\$4.91 per H Share, being the high-end of the Offer Price range).

In the event that the Offer Price is set at HK\$4.91 per H Share (being the high-end of the proposed Offer Price range) and assuming that the Over-allotment Option is not exercised, after deducting underwriting fees and commissions as well as the estimated expenditures which we are required to pay in connection with the Global Offering, we will receive a net proceed of HK\$101.5 million (equivalent to approximately RMB82.9 million).

In the event that the Offer Price is set at HK\$3.28 per H Share (being the low-end of the proposed Offer Price range) and assuming that the Over-allotment Option is not exercised, after deducting underwriting fees and commissions as well as the estimated expenditures which we are required to pay in connection with the Global Offering, we will receive a net proceed of HK\$49.0 million (equivalent to approximately RMB40.0 million).

To the extent that our net proceeds are not sufficient to satisfy the working capital requirements of the purposes as set forth above, we intend to fund the shortfall through a variety of means including cash generated from operations and bank financing.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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To the extent that the net proceeds of the Global Offering are not immediately applied to the purposes described above and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds with banks or other financial institutions, or hold such net proceeds by converting into other treasury instruments. We will make appropriate announcements if there is any change to the above use of proceeds.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Dongxing Securities (Hong Kong) Company Limited

Future Land Resources Securities Limited

Huabang Securities Limited

SPDB International Capital Limited

First Capital Securities Limited

China Goldjoy Securities Limited

KGI Capital Asia Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering our Hong Kong Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated. Subject to the listing of and permission to deal in our H Shares in issue and to be issued as mentioned in this prospectus being granted by the Listing Committee of the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers, for our Hong Kong Offer Shares.

#### Grounds for termination

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination with immediate effect upon giving notice in writing by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) to the Company, at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there has come to the notice of the Joint Global Coordinators:
  - (i) any material matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the context of the Global Offering;



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## UNDERWRITING

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- (ii) any material statement contained in this prospectus which is discovered to be or becomes untrue, incorrect or misleading in any material respect in the context of the Global Offering;
  - (iii) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of the Group as a whole, the effect of which is so material and adverse as to make it impracticable or inadvisable to proceed with the Global Offering;
  - (iv) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted (other than subject to customary conditions) at or prior to 8:00 a.m. on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
  - (v) any person (other than the Joint Global Coordinators and the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus as expert or to the issue of the Prospectus; or
- (b) there shall develop, occur, exist or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Hong Kong Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong and the PRC (the “**Relevant Jurisdictions**”);
  - (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange due to exceptional financial circumstances or otherwise;
  - (iii) any change or development involving a prospective material change in taxation or exchange control (or the implementation of any exchange control) in any of the Relevant Jurisdictions;
  - (iv) any material change or development or event involving a prospective material change in the Group’s business, financial, trading position or their prospects;
  - (v) any change or development (whether or not permanent), or any event or series of events resulting in any change in local, national, regional or international financial, political, military, industrial, legal, economic, currency market,

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## UNDERWRITING

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fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any of the Relevant Jurisdictions;

- (vi) a general moratorium on commercial banking business activities in Hong Kong (imposed by the Financial Secretary or Hong Kong Monetary Authority or other competent authority) or any of the other Relevant Jurisdictions declared by the relevant authorities;
- (vii) any event of force majeure including but without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is or has been declared), riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic or pandemic of infectious disease, act of terrorism, earthquake, strike, lock-out or other state of emergency or calamity in or affecting any of the Relevant Jurisdictions;
- (viii) any material litigation or claim of any third party being threatened or instigated against any member of the Group;
- (ix) any imposition of economic sanctions, in whatever form, directly or indirectly, by or to any of the Relevant Jurisdictions;
- (x) a petition is presented for the winding up or liquidation of any member of the Group, or any member of the Group makes any compromise or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group;
- (xi) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of the Group or in respect of which such member of the Group is liable prior to its stated maturity;
- (xii) any executive Director being charged with an indictable offence or prohibited by the operation of law or otherwise disqualified from taking part in the management of a company, or the commencement by any government authority of an investigation or other action against any executive Director as such or an announcement by any government authority that it intends to take any such actions which would affect his or her suitability to act as a Director;
- (xiii) any prohibition on the Company for whatever reason from allotting the Offer Shares pursuant to the Global Offering and the terms set out in this Agreement and the Prospectus;

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## UNDERWRITING

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- (xiv) other than with the approval of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the issue or the requirement to issue by the Company of any supplement or amendment to the Prospectus (or to any documents used in connection with the Global Offering) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC;
  
- (xv) a breach of any of the representations, warranties and undertakings contained in the Hong Kong Underwriting Agreement or of any of the other obligations imposed upon or undertakings given by any party to the Hong Kong Underwriting Agreement other than the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters under the Hong Kong Underwriting Agreement,

which, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- a. is or will or is reasonably likely to be materially adverse to the business, financial condition or prospects of the Company and/or the Group taken as a whole;
  
- b. has or will have or is reasonably likely to have a material adverse effect on the success of the Global Offering; or
  
- c. makes or will make or is reasonably likely to make it impracticable, inadvisable or inexpedient to proceed with the Global Offering.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertakings by our Company***

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (including warrants or other convertible securities), whether or not of a class already listed, may be allotted or issued by us or form the subject of any agreement to such an allotment or issue by us at any time during the period commencing on the date of this prospectus and ending on the expiry of the six months period after the Listing Date, except pursuant to the Global Offering and the Over-allotment Option or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

#### ***Undertakings by our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholders have irrevocably and unconditionally undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering and the Over-allotment Option, they shall not and shall procure that the registered holder(s) of the Shares controlled by them shall not:

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## UNDERWRITING

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- (a) in the period commencing on the date by reference (the “**Reference Date**”) to which disclosure of their shareholdings in our Company is made in this prospectus and ending on the date (the “**End Date**”) which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of those securities of our Company in respect of which they are shown by this prospectus to be the beneficial owners (the “**Relevant Securities**”); and
- (b) in the period of six months commencing from the End Date, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would then cease to be the Controlling Shareholders of our Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have further irrevocably and unconditionally undertaken to the Stock Exchange and our Company that within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, they shall:

- (a) when they pledge or charge any Shares or securities of our Company beneficially owned by them in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in paragraphs (a) and (b) above by our Controlling Shareholders and disclose such matters by way of an announcement in accordance with the Listing Rules.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### **Undertakings by our Company**

We have undertaken to each of the Sole Sponsor, the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) pursuant to the Hong Kong Underwriting Agreement that, except pursuant to the Global Offering (including pursuant to the

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## UNDERWRITING

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Over-allotment Option), the grant of options under a share option scheme and the issue of Shares on exercise thereof or as otherwise permitted under the Listing Rules, and provided that the below restrictions shall not apply to any pledge or charge of Shares by any of our Controlling Shareholders in favour of any authorized institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months immediately following the Listing Date (the “**First Six-Month Period**”), we will not without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules:

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of the Shares, debt capital or other securities or any interest in our Company;
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company);
- (iii) enter into any transaction with the same economic effect as any transactions specified in (i) or (ii) above;
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

In the event that, during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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## UNDERWRITING

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### Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders, pursuant to the Hong Kong Underwriting Agreement, has undertaken jointly and severally to each of our Company, the Sole Sponsor, and the Joint Global Coordinators (for themselves and on behalf of all Hong Kong Underwriters) that:

- (a) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/him/her (together, the “**Controlled Entities**”) shall not, unless as a result of any exercise of the Over-allotment Option or otherwise in compliance with the requirements of the Listing Rules,
  - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge (other than any pledge or charge of our Company’s issued share capital after the consummation of the Global Offering (assuming the Over-allotment Option is not exercised) in favor of an authorized institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in compliance with Rule 10.07(2) of the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”); or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities;
  - (iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a)(i) or (a)(ii) above; or
  - (iv) announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a)(i), (a)(ii) or (a)(iii) above, which any of the foregoing transactions referred to in sub-paragraphs (a)(i), (a)(ii), (a)(iii) or (a)(iv) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

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## UNDERWRITING

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- (b) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in sub-paragraphs (a)(i), (a)(ii) or (a)(iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it/he/she would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company;
- (c) in the event that it/he/she enters into any of the transactions specified in sub-paragraphs (a)(i), (a)(ii) or (a)(iii) above or offers to or agrees or announces any intention to effect any such transactions, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
- (d) it/he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of the Company.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) that, within the period from the date by reference to which disclosure of their shareholding in the Company is made in the Prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company, the and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it/he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

We shall also inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to in paragraphs (i) and (ii) above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

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## UNDERWRITING

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### **International Placing**

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer our International Placing Shares for subscription by certain professional, institutional and other investors at the Offer Price payable in full on subscription, on and subject to the terms and conditions set out in the International Underwriting Agreement. It is expected that the International Underwriters will agree to severally underwrite for our International Placing Shares.

### **Commission**

The Hong Kong Underwriters will receive a commission of 3% and additional 0.5% at our discretion of the aggregate Offer Price of our Hong Kong Offer Shares (excluding any Offer Shares reallocated from the International Placing to the Hong Kong Public Offering and any Offer Shares reallocated from the Hong Kong Public Offering to the International Placing), out of which they will pay any sub-underwriting commissions. The commissions payable to the Underwriters will be borne by our Company with respect to all the Offer Shares (including pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor will in addition receive sponsorship fees. The underwriting commission, sponsor fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$4.095 (being the mid-point of Offer Price range between HK\$3.28 per Offer Share and HK\$4.91 per Offer Share), are estimated to amount to approximately RMB50.3 million in total (assuming that the Over-allotment Option is not being exercised).

### **Activities by Syndicate Members**

The Underwriters of the Global Offering (the “**Syndicate Members**”) and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own accounts and for the account of others. In relation to our H Shares, other activities could include acting as agent for buyers and sellers of our H Shares, entering into transactions with other buyers and sellers in a principal capacity, proprietary trading in our H Shares, and entering into over-the-counter or listing derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying, assets including our H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.



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## UNDERWRITING

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In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their underlying, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of other securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and these will also result in hedging activity in our H Shares in most cases.

These activities may affect the market price or value of our H Shares, the liquidity or trading volume in our H Shares, and the volatility of our Share price, and the extent to which this occurs from day to day cannot be estimated. It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

### **Hong Kong Underwriters' interests in our Company**

Save for their interests and obligations under the Underwriting Agreements, none of the Sole Sponsor, the Joint Global Coordinators or the Underwriters is interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

### **Minimum public float**

Our Directors will ensure that there will be a minimum of 25% of the total H Shares in issue in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be Tuesday, June 19, 2018, and in any event, not later than Thursday, June 21, 2018.

**Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus.** The Offer Price will not be more than HK\$4.91 per Offer Share and is expected to be not less than HK\$3.28 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on our Company's website at [www.chinafirs.com](http://www.chinafirs.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

**If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed and will lapse.**

Announcement of the final Offer Price, together with indication of the level of interests in the International Placing and the results of application under the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares is expected to be published on Tuesday, June 26, 2018.

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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$4.91 per Offer Share and is expected to be not less than HK\$3.28 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering as set out above. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be lower than the indicative Offer Price as stated in this prospectus.

Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$4.91 per Offer Share plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%. The H Shares will be traded in board lot of 1,000 H Shares each. That means a total of HK\$4,959.48 is payable for every board lot of 1,000 H Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$4.91 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Please see “How to Apply for Hong Kong Offer Shares” in this prospectus for further details.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional upon, among other things:

- (a) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed on or around the Price Determination Date;
- (c) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and
- (d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than 30 days after the date of this prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering on the next business day following such lapse on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.chinafirs.com](http://www.chinafirs.com). In the event of such lapse, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for our Hong Kong Offer Shares" in this prospectus.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

### THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of initially 33,400,000 Offer Shares will be made available under the Global Offering. Among these Offer Shares, 30,060,000 International Placing Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 3,340,000 Hong Kong Offer Shares (subject to re-allocation), representing 10% of the Offer Shares, will initially be offered to the public in Hong Kong under the Hong Kong Public Offering.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriter will underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Please see "Underwriting" in this prospectus for further details.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

### International Placing

Our Company is expected to offer initially 30,060,000 International Placing Shares (subject to re-allocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$4.91 per H Share plus a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% of the Offer Price.

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## STRUCTURE OF THE GLOBAL OFFERING

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It is expected that the International Underwriters, or selling agents nominated by it, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further H Shares and/or hold or sell its H Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole.

Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive H Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive H Shares under the Hong Kong Public Offering.

Please see “Conditions of the Hong Kong Public Offering” in this section for conditions of the International Placing.

### **Hong Kong Public Offering**

Our Company is initially offering 3,340,000 Hong Kong Offer Shares for subscription (subject to re-allocation) by the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$4.91 per H Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for H Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she has not applied for nor taken up any H Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offering is liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: 1,670,000 H Shares in pool A and 1,670,000 H Shares in pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### REALLOCATION AND CLAWBACK MECHANISM

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offering is subject to re-allocation on the following basis:

- (1) Where the H Shares under the International Placing are fully subscribed or over-subscribed:
  - (a) if the number of H Shares validly applied for under the Hong Kong Public Offering are under-subscribed, the Joint Global Coordinators has the authority to reallocate all or any of the unsubscribed H Shares under the Hong Kong Public Offering to the International Placing, in such proportions as the Joint Global Coordinators, deems appropriate;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) if the number of H Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then 3,340,000 H Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of H Shares available for subscription under the Hong Kong Public Offering will be increased to 6,680,000 H Shares, representing 20% of the Offer Shares;
  - (c) if the number of H Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of H Shares initially available for subscription under the Hong Kong Public Offering, then 6,680,000 H Shares will be allocated to the Hong Kong Public Offering from the International Placing, so that the total number of H Shares available for subscription under the Hong Kong Public Offering will be increased to 10,020,000 H Shares, representing 30% of the Offer Shares;
  - (d) if the number of H Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of H Shares initially available for subscription under the Hong Kong Public Offering, then 10,020,000 H Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of H Shares available for subscription under the Hong Kong Public Offering will be increased to 13,360,000 H Shares, representing 40% of the Offer Shares; and
  - (e) if the number of H Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of H Shares initially available for subscription under the Hong Kong Public Offering, then 13,360,000 H Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of H Shares available for subscription under the Hong Kong Public Offering will be increased to 16,700,000 H Shares, representing 50% of the Offer Shares.
- (2) Where the H Shares under the International Placing are under-subscribed:
- (a) if the number of H Shares under the Hong Kong Public Offering are under-subscribed, the Global Offering will not proceed unless fully underwritten by the Underwriters;
  - (b) if the number of H Shares under the Hong Kong Public Offering are over-subscribed irrespective of the number of times, up to 3,340,000 H Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of H Shares available for subscription under the Hong Kong Public Offering will be increased to 6,680,000 H Shares, representing 20% of the Offer Shares.

In the event of a reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering in the circumstances under paragraphs (1)(b), (1)(c), (1)(d), (1)(e) or (2)(b) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

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## STRUCTURE OF THE GLOBAL OFFERING

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In the event of a reallocation of the Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances under paragraphs (1)(b) or (2)(b) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$3.28 per Offer Share) stated in this prospectus.

In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 6,680,000 H Shares).

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company are expected to grant to the Joint Global Coordinators the Over-allotment Option which will expire on a date which is 30 days after the date of the last day of lodging application under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required by the Joint Global Coordinators to allot and issue up to and not more than additional 5,010,000 H Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Joint Global Coordinators may also cover such over-allocations by purchasing H Shares in the secondary market as may be permitted under the applicable laws and regulatory requirements and by delayed delivery of H Shares to the relevant placees, provided that such delayed delivery has been agreed in advance by the relevant parties. Any such secondary market purchases will be made in compliance with all application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 5,010,000 H Shares will represent approximately 3.62% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Joint Global Coordinators, as the stabilizing manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions which stabilize or maintain the market price of the H Shares at levels above those which might otherwise prevail for a limited period after the Listing Date. The number of H Shares that may be over-allocated will be up to, but not more than, an



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## STRUCTURE OF THE GLOBAL OFFERING

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aggregate of additional 5,010,000 H Shares, being the number of the H Shares that may be issued under the Over-allotment Option. Such stabilizing actions may include over-allocating International Placing Shares and covering such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market. However, there is no obligation on the Joint Global Coordinators to do this. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilizing) Rules of the SFO, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilizing action**”) with respect to any H Shares during the stabilization period, which should end on Sunday, July 15, 2018:

- (1) purchase, or agree to purchase, any of the H Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares. The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may also, in connection with any primary stabilizing action, take all or any of the following actions:
  - (a) for the purpose of preventing or minimizing any reduction in the market price of the H Shares;
    - (i) allocate a greater number of H Shares than the number that is initially offered under the Global Offering; or
    - (ii) sell or agree to sell H Shares so as to establish a short position in them;
  - (b) pursuant to an option or other right to purchase or subscribe for H Shares, purchase or subscribe for or agree to purchase or subscribe for H Shares in order to close out any position established under paragraph (a);
  - (c) sell or agree to sell any H Shares acquired by it in the course of the primary stabilizing action in order to liquidate any position that has been established by such action; and/or
  - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware that:

- the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, in connection with the stabilizing action, maintain a long position in the H Shares;
- there is no certainty regarding the extent to which and the time period for which the Joint Global Coordinators will maintain such a long position;
- liquidation of such a long position by the Joint Global Coordinators may have an adverse impact on the market price of our H Shares;

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## STRUCTURE OF THE GLOBAL OFFERING

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- stabilizing action cannot be taken to support the price of our H Shares for longer than the stabilizing period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, that the stabilizing period is expected to expire on Sunday, July 15, 2018, and that after this date, when no further stabilizing action may be taken, demand for our H Shares, and therefore its price could fall; and
- the price of our H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and that stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price the investor has paid for our H Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of SFO will be made within seven days of the expiration of the stabilization period.

### DEALING ARRANGEMENTS

Assuming the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, June 27, 2018, it is expected that dealings in the H Shares on the Stock Exchange will commence on Wednesday, June 27, 2018.

The H Shares will be traded in board lots of 1,000 H Shares each. The stock code of our Company is 1749.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (unless permitted by the relevant rules and regulations).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 12, 2018 until 12:00 noon on Friday, June 15, 2018 from:

- (1) any of the following offices of the Hong Kong Underwriters:

Dongxing Securities (Hong Kong) Company Limited  
Room 6805-6806A, 68/F,  
International Commerce Centre,  
1 Austin Road West,  
Kowloon,  
Hong Kong

Future Land Resources Securities Limited  
Flat B, 20/F, Guangdong Investment Tower  
148 Connaught Road Central, Sheung Wan  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Huabang Securities Limited  
Unit 2901-02, 29/F  
Enterprise Square Two  
3 Sheung Yuet Road, Kowloon Bay, Kowloon  
Hong Kong

SPDB International Capital Limited  
Suites 3207-3212  
One Pacific Place  
88 Queensway  
Hong Kong

First Capital Securities Limited  
Units 4512, 45/F  
The Center  
99 Queen's Road Central, Central  
Hong Kong

China Goldjoy Securities Limited  
Unit 1703-06  
Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

KGI Capital Asia Limited  
41/F Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

(2) any of the following branches of Wing Lung Bank Limited:

	<u>Branch Name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	Kennedy Town Branch	28 Catchick Road
	North Point Branch	361 King's Road
	Aberdeen Branch	201 Aberdeen Main Road
<b>Kowloon</b>	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
<b>New Territories</b>	Tsuen Wan Branch	251 Sha Tsui Road

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 12, 2018 until 12:00 noon on Friday, June 15, 2018 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and prospectus available.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Ltd. — Shanshan Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Tuesday, June 12, 2018 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, June 13, 2018 – 9:00 a.m. to 5:00 p.m.**  
**Thursday, June 14, 2018 – 9:00 a.m. to 5:00 p.m.**  
**Friday, June 15, 2018 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 15, 2018, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Applications Lists" below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you and severally) for yourself or as an agent or nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) winding up and agree to comply with the Companies Ordinance, the Companies (Miscellaneous Provisions) Ordinance, the Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies issued by the State Council of the PRC and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our H Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the H Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Global Coordinators, will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** service by you or by any one as your agent or by any other person; and



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “2. Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. Tuesday, June 12, 2018 until 11:30 a.m. Friday, June 15, 2018, and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, June 15, 2018, or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” below.

### **No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Centre  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our H Share Registrar.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
  - declare that only one set of electronic application instructions has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulation and the Articles of Association;
- agree with our Company, for itself and for the benefit of each Shareholder of our Company and each director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each of the shareholders of our Company and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
  - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;
  - (b) that any award made in such arbitration shall be final and conclusive; and
  - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with our Company (for our Company itself and for the benefit of each of the Shareholder of our Company) that H Shares in our Company are freely transferable by their holders;
- authorize our Company to enter into a contract on our behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Tuesday, June 12, 2018 – 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, June 13, 2018 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Thursday, June 14, 2018 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Friday, June 15, 2018 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, June 12, 2018 until 12:00 noon on Friday, June 15, 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, June 15, 2018, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” below.

### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Personal data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the H Share Registrar, the receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, June 15, 2018.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for H Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Please see “Structure of the Global Offering — Determination of the Offer Price” in this prospectus for further details on the Offer Price.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 15, 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, June 15, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, June 26, 2018 on our Company’s website at [www.chinafirs.com](http://www.chinafirs.com), and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.chinafirs.com](http://www.chinafirs.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Tuesday, June 26, 2018;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, June 26, 2018 to 12:00 midnight on Tuesday, July 3, 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, June 26, 2018 to Friday, June 29, 2018; and
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, June 26, 2018 to Friday, June 29, 2018 at all the receiving bank branches as disclosed in this prospectus.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Please see "Structure of the Global Offering" in this prospectus for further details.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES**

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they have to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- your **electronic application instructions** through the **HK eIPO White Form service** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations;  
or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$4.91 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, June 26, 2018.

### 14. DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on Tuesday, June 26, 2018. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

H Share certificates will only become valid at 8:00 a.m. on Wednesday, June 27, 2018 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s), from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, June 26, 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, June 26, 2018, by ordinary post and at your own risk.

***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, June 26, 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, June 26, 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, June 26, 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the HK eIPO White Form Service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, June 26, 2018, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, June 26, 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of H Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, June 26, 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Tuesday, June 26, 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, June 26, 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, June 26, 2018. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, June 26, 2018.

### 15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.



*The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the Company's independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.*



Tel : +852 2218 8288  
Fax : +852 2815 2239  
www.bdo.com.hk

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

電話 : +852 2218 8288  
傳真 : +852 2815 2239  
www.bdo.com.hk

香港干諾道中111號  
永安中心25樓

## **ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHANSHAN BRAND MANAGEMENT CO., LTD AND DONGXING SECURITIES (HONG KONG) COMPANY LIMITED**

### **INTRODUCTION**

We report on the historical financial information of Shanshan Brand Management Co., Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages I-5 to I-57, which comprises the consolidated statements of financial position as at 31 December 2015, 2016 and 2017 and the statements of financial position of the Company as at 31 December 2015, 2016 and 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-5 to I-57 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 12 June 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### **DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2 and 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2 and 3 of the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **OPINION**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2015, 2016 and 2017, the Group's financial position as at 31 December 2015, 2016 and 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 2 and 3 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE****Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividends**

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

BDO Limited  
*Certified Public Accountants*

Ng Wai Man  
Practising Certificate no. P05309

Hong Kong,  
12 June 2018

**I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by us in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

## (A) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2015	2016	2017
		RMB	RMB	RMB
Revenue	7	526,081,752	592,082,843	797,888,217
Cost of sales		(273,677,779)	(303,973,449)	(366,627,910)
Gross profit		252,403,973	288,109,394	431,260,307
Other revenue	8	1,785,018	1,177,700	5,258,464
Other gains and losses	9	(10,664,191)	2,742,868	(10,385,255)
Selling and distribution expenses		(129,420,248)	(179,115,292)	(308,064,893)
Administrative expenses		(52,256,988)	(51,621,059)	(47,543,510)
Finance costs	10	(326,872)	(7,397,767)	(14,100,867)
Share of results of associates		5,615,932	6,962,074	8,271,295
Listing expenses		–	(12,895,325)	(8,888,633)
Profit before income tax	11	67,136,624	47,962,593	55,806,908
Income tax expense	12	(14,233,167)	(14,148,111)	(18,845,753)
<b>Profit and total comprehensive income for the year</b>		<b>52,903,457</b>	<b>33,814,482</b>	<b>36,961,155</b>
<b>Profit and total comprehensive income for the year attributable to:</b>				
– Owners of the Company		52,829,797	35,244,473	44,970,288
– Non-controlling interests		73,660	(1,429,991)	(8,009,133)
		<b>52,903,457</b>	<b>33,814,482</b>	<b>36,961,155</b>
<b>Earnings per share attributable to the owners of the Company</b>				
– Basic and dilutive	14	0.53	0.35	0.45

## (B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2015	2016	2017
		RMB	RMB	RMB
<b>Non-current assets</b>				
Property, plant and equipment	17	3,322,909	17,707,117	39,269,999
Intangible assets	18	11,126,705	11,539,094	2,604,565
Interests in associates	19	54,576,859	59,925,204	66,370,459
Deferred tax assets	20	14,869,372	12,843,054	12,678,618
Other receivables	23	1,996,954	–	–
Total non-current assets		85,892,799	102,014,469	120,923,641
<b>Current assets</b>				
Inventories	21	164,522,219	234,172,486	336,423,934
Trade and bills receivables	22	207,421,683	198,858,906	163,328,060
Prepayments and other receivables	23	26,245,536	44,558,666	92,971,253
Amount due from immediate holding company	33(a)	–	1,098,574	14,917,385
Amounts due from fellow subsidiaries	33(a)	8,097,350	5,082,350	1,501,844
Tax recoverable		–	66,662	–
Pledged deposits	24	–	9,200,000	13,800,000
Cash and cash equivalents	24	76,944,496	97,109,638	102,072,916
		483,231,284	590,147,282	725,015,392
Assets of a disposal group classified as held for sale	29	–	–	21,898,903
Total current assets		483,231,284	590,147,282	746,914,295
<b>Current liabilities</b>				
Trade and bills payables	25	127,128,881	174,424,924	184,153,651
Other payables and accruals	26	89,232,241	112,522,645	177,829,716
Interest-bearing bank borrowings	27	–	245,000,000	285,000,000
Amount due to immediate holding company	33(a)	355,263,881	–	–
Amount due to an associate	19	4,582,254	1,833,834	4,216,683
Amounts due to fellow subsidiaries	33(a)	2,845,000	–	–
Amounts due to non-controlling shareholders of subsidiaries	28	8,568,024	5,741,207	3,200,000
Income tax payables		6,039,347	2,314,037	10,291,218
		593,659,628	541,836,647	664,691,268
Liabilities of a disposal group classified as held for sale	29	–	–	19,747,139
Total current liabilities		593,659,628	541,836,647	684,438,407
<b>Net current (liabilities)/assets</b>		(110,428,344)	48,310,635	62,475,888
<b>Total assets less current liabilities</b>		(24,535,545)	150,325,104	183,399,529
<b>Non-current liabilities</b>				
Amount due to a non-controlling shareholder of a subsidiary	28	8,935,023	6,353,017	–
<b>Net (liabilities)/assets</b>		(33,470,568)	143,972,087	183,399,529
<b>Capital and reserves</b>				
Share capital	30	50,000,000	100,000,000	100,000,000
Reserves		(115,500,552)	13,372,094	60,808,669
		(65,500,552)	113,372,094	160,808,669
Non-controlling interests		32,029,984	30,599,993	22,590,860
<b>Total (deficit)/equity</b>		(33,470,568)	143,972,087	183,399,529

## (C) STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2015	2016	2017
		RMB	RMB	RMB
<b>Non-current assets</b>				
Investment in a subsidiary	31	–	10	10
Property, plant and equipment	17	2,294,961	16,524,614	37,414,858
Intangible assets	18	205,664	1,781,998	2,604,565
Deferred tax assets	20	14,869,372	12,843,054	12,678,618
Total non-current assets		17,369,997	31,149,676	52,698,051
<b>Current assets</b>				
Inventories	21	115,039,603	191,956,818	312,101,858
Trade and bills receivables	22	199,421,828	188,865,595	157,070,059
Prepayments and other receivables	23	10,600,995	39,315,006	90,929,356
Amount due from immediate holding company	33(a)	–	585,527	14,018,196
Amounts due from fellow subsidiaries	33(a)	4,996,870	4,976,870	1,377,513
Amount due from a subsidiary	31	–	113,900,000	103,900,000
Pledged deposits	24	–	9,200,000	13,800,000
Cash and cash equivalents	24	31,043,212	58,437,023	68,103,358
Total current assets		361,102,508	607,236,839	761,300,340
<b>Current liabilities</b>				
Trade and bills payables	25	123,965,114	169,187,972	181,825,719
Other payables and accruals	26	66,259,500	97,871,894	171,195,726
Interest-bearing bank borrowings	27	–	245,000,000	285,000,000
Amounts due to non-consolidated subsidiaries		760,395	–	–
Amount due to immediate holding company	33(a)	71,743,211	–	–
Amount due to an associate		4,791,532	1,820,031	4,216,683
Amounts due to fellow subsidiaries	33(a)	677,902	–	–
Income tax payables		5,373,514	1,648,203	9,625,386
Total current liabilities		273,571,168	515,528,100	651,863,514
<b>Net current assets</b>		87,531,340	91,708,739	109,436,826
<b>Net assets</b>		104,901,337	122,858,415	162,134,877
<b>Capital and reserves</b>				
Share capital	30	50,000,000	100,000,000	100,000,000
Reserves	32(d)	54,901,337	22,858,415	62,134,877
<b>Total equity</b>		104,901,337	122,858,415	162,134,877

**(D) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Share capital	Capital reserve	Statutory surplus reserve	Merger reserve	Accumulated profits	Attributable to ordinary equity holders of the Company	Non- Controlling Interests	Total equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	(Note 30)	(Note 32c)	(Note 32a)	(Note 32b)				
<b>At 1 January 2015</b>	50,000,000	-	17,960,589	(174,607,082)	55,134,014	(51,512,479)	26,106,324	(25,406,155)
Profit and total comprehensive income for the year	-	-	-	-	52,829,797	52,829,797	73,660	52,903,457
Deemed distribution to immediate holding company	-	-	-	(16,243,225)	-	(16,243,225)	-	(16,243,225)
Transfer to statutory surplus reserve	-	-	5,222,201	-	(5,222,201)	-	-	-
Capital injection from non-controlling shareholders	-	-	-	-	-	-	5,850,000	5,850,000
Final 2014 dividend declared and paid (Note 13)	-	-	-	-	(50,574,645)	(50,574,645)	-	(50,574,645)
<b>At 31 December 2015 and 1 January 2016</b>	50,000,000	-	23,182,790	(190,850,307)	52,166,965	(65,500,552)	32,029,984	(33,470,568)
Profit/(loss) and total comprehensive income for the year	-	-	-	-	35,244,473	35,244,473	(1,429,991)	33,814,482
Deemed contribution from immediate holding company	-	-	-	140,058,476	-	140,058,476	-	140,058,476
Capital restructuring at group Reorganisation	50,000,000	15,304,925	(20,598,439)	-	(44,706,486)	-	-	-
Transfer to statutory surplus reserve	-	-	1,795,708	-	(1,795,708)	-	-	-
Utilisation of tax loss arising from the disposal of subsidiaries upon the Reorganisation	-	-	-	3,569,697	-	3,569,697	-	3,569,697
<b>At 31 December 2016 and 1 January 2017</b>	100,000,000	15,304,925	4,380,059	(47,222,134)	40,909,244	113,372,094	30,599,993	143,972,087
Profit/(loss) and total comprehensive income for the year	-	-	-	-	44,970,288	44,970,288	(8,009,133)	36,961,155
Transfer to statutory surplus reserve	-	-	3,927,646	-	(3,927,646)	-	-	-
Utilisation of tax loss arising from the disposal of subsidiaries upon the Reorganisation	-	-	-	2,466,287	-	2,466,287	-	2,466,287
<b>At 31 December 2017</b>	<u>100,000,000</u>	<u>15,304,925</u>	<u>8,307,705</u>	<u>(44,755,847)</u>	<u>81,951,886</u>	<u>160,808,669</u>	<u>22,590,860</u>	<u>183,399,529</u>



## (E) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
<b>Operating activities</b>			
Profit before income tax	67,136,624	47,962,593	55,806,908
Adjustments for:			
Interest income	(1,007,233)	(566,703)	(995,056)
Interest expenses	326,872	7,397,767	14,100,867
Impairment loss on trade receivables, net	8,749,562	422,236	1,030,443
(Reversal of impairment loss)/impairment loss on other receivables, net	(116,658)	(93,251)	157,328
Write down of inventories, net	2,300,141	321,842	3,795,249
Loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale	–	–	7,021,290
Depreciation on property, plant and equipment	3,784,766	4,631,187	15,380,714
Amortisation on intangible assets	1,187,449	1,236,500	1,393,777
Loss on disposal/written off of property, plant and equipment	47,808	4,213	128
Share of results of associates	(5,615,932)	(6,962,074)	(8,271,295)
Operating cash flows before movements in working capital	76,793,399	54,354,310	89,420,353
Decrease/(increase) in inventories	7,991,360	(69,972,109)	(120,503,858)
(Increase)/decrease in trade and bills receivables	(51,795,913)	7,020,883	32,967,393
Increase in prepayments and other receivables	(12,719,695)	(25,891,151)	(51,994,063)
Increase in amount due from immediate holding company	–	–	(13,823,611)
Increase in pledged deposits	–	(9,200,000)	(4,600,000)
Increase in trade and bills payables	26,200,547	46,705,648	15,141,524
Increase in other payables and accruals	3,814,091	23,290,404	73,241,268
Increase/(decrease) in amount due to an associate	589,786	(2,748,420)	2,384,803
Decrease in amounts due to non-controlling shareholders of subsidiaries	(3,932,020)	(1,579,527)	–
Cash generated from operations	46,941,555	21,980,038	22,233,809
Income taxes paid	(25,550,198)	(12,344,069)	(8,171,187)
<b>Cash generated from operating activities</b>	<b>21,391,357</b>	<b>9,635,969</b>	<b>14,062,622</b>

	Year ended 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Investing activities</b>			
Interest received	1,007,233	566,703	995,056
Dividend received from associates	1,206,400	1,613,729	1,826,040
Proceeds from disposal of property, plant and equipment	1,574,568	130,081	3,130
Purchase of property, plant and equipment	(1,065,603)	(18,030,031)	(37,075,480)
Purchase of intangible assets	–	(990,769)	(1,063,022)
(Increase)/decrease in amounts due from fellow subsidiaries	(3,020,000)	3,015,000	3,434,928
Increase/(decrease) in amount due to a fellow subsidiary	2,845,000	(2,845,000)	–
Decrease in amounts due to non-controlling shareholders of subsidiaries	–	(3,829,296)	(2,496,033)
<b>Net cash generated from/(used in) investing activities</b>	<b>2,547,598</b>	<b>(20,369,583)</b>	<b>(34,375,381)</b>
<b>Financing activities</b>			
Interest paid	(326,872)	(7,397,767)	(14,100,867)
Decrease in amount due to immediate holding company	(6,596,307)	(208,268,895)	–
Deemed (distribution to)/contribution from immediate holding company	(1,344,204)	1,565,418	–
Dividends paid to owners of the Company	(50,574,645)	–	–
Proceeds from borrowings	–	325,000,000	406,000,000
Repayment of borrowings	–	(80,000,000)	(366,000,000)
Capital injection from non-controlling shareholders	5,850,000	–	–
<b>Net cash (used in)/generated from financing activities</b>	<b>(52,992,028)</b>	<b>30,898,756</b>	<b>25,899,133</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(29,053,073)</b>	<b>20,165,142</b>	<b>5,586,374</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>105,997,569</b>	<b>76,944,496</b>	<b>97,109,638</b>
<b>Cash and cash equivalents at end of year</b>	<b>76,944,496</b>	<b>97,109,638</b>	<b>102,696,012</b>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

Ningbo Shanshan Garment Brand Management Co., Ltd (“Shanshan Garment Brand”), the predecessor of the Company, was established as a limited liability company in the People’s Republic of China (the “PRC”) on 23 August 2011. On 18 May 2016, Shanshan Garment Brand was converted into a joint stock company with limited liability and renamed as Shanshan Brand Management Co., Ltd. The address of its registered office and principal place of business is No. 238, Middle Yunlin Road, Wang Chun Industrial Zone, Ningbo, Zhejiang Province, PRC.

Pursuant to a group reorganisation (the “Reorganisation”) as more fully explained in Note 2 below, the Company has since 26 May 2016 become the holding company of the subsidiaries now comprising the Group. The Group is principally engaged in the design, research, development and sale of its own branded menswear.

At the date of this report, in the opinion of the directors of the Company, the Company’s immediate and ultimate holding companies are Ningbo Shanshan Co., Ltd (“Shanshan”) and Shanshan Holding Co., Ltd respectively, both of which were established in the PRC. Shanshan is currently listed in the Shanghai Stock Exchange. The particulars of the Company’s subsidiaries are as follows:

Name of subsidiaries	Place and date of establishment and type of legal entity	Place of operation	Issued and paid-up capital	Proportion of effective equity interests held by the Company		Principal activities
				Directly	Indirectly	
Ningbo Shanshan Fashion Brand Management Co., Ltd (“Fashion Brand”)* (Note b) (寧波杉杉時尚服裝品牌管理有限公司)	The PRC/17 June 2009/Limited liability company	The PRC	Renminbi (“RMB”) 100 million	100%	N/A	Investment holding and trademark sub-licensing
JIC Garments (Ningbo) Co., Ltd (“JIC Garments”) (Note c) (寧波傑艾希服裝有限公司)	The PRC/19 September 2001/Limited liability company	The PRC	United States Dollars (“USD”) 4.67 million	N/A	55%	Design, develop and sales of men’s apparel under MARCO AZZALI brand
Lubiam (Ningbo) Apparel Co., Ltd (“Lubiam Apparel”) (Note c) (寧波魯彼昂姆服飾有限公司)	The PRC/21 December 2005/Limited liability company	The PRC	USD5 million	N/A	60%	Design, develop and sales of men’s apparel under LUBIAM brand
Shanghai Haimeng Apparel Co., Ltd (“Shanghai Haimeng”)* (Note b) (上海海盟服裝有限公司)	The PRC/14 October 2011/Limited liability company	The PRC	RMB10 million	N/A	60%	Inactive and in the process of deregistration

*Notes:*

- (a) The statutory financial statements of the Company for the years ended 31 December 2015, 2016 and 2017 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by BDO CHINA SHU LUN PAN Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.
- (b) No audited financial statements have been prepared for Fashion Brand and Shanghai Haimeng for the years ended 31 December 2015, 2016 and 2017 as these entities are not subject to any statutory audit requirements under the relevant rules and regulations in the PRC.
- (c) The statutory financial statements of JIC Garments and Lubiam Apparel for the years ended 31 December 2015, 2016 and 2017 prepared under PRC GAAP were audited by Ningbo Yinzhou Huike Certified Public Accountants (寧波市鄞州匯科會計師事務所), certified public accountants registered in the PRC.

All companies now comprising the Group have adopted 31 December as their financial year end date.

\* The English name is for identification purpose only

**2. REORGANISATION**

Pursuant to the Reorganisation to rationalise the group structure to prepare for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company acquired the equity interests in the companies comprising the Group from Shanshan and its subsidiary on 26 May 2016 and since then become the holding company of the companies now comprising the Group. The major steps of the Reorganisation are described below:

**Stage 1: Transfer, disposal and deregistration of non-core or inactive companies****(a) Transfer of Ningbo Marco Wear Clothing Co., Ltd. ("Marco Wear") (寧波瑪珂威爾服飾有限公司)**

Marco Wear was a limited liability company established in the PRC and was 55% equity interest owned by Fashion Brand immediate prior to the transfer of equity interest in April 2016. Marco Wear was principally engaged in suits manufacturing business which does not form part of the Group's core business. As the Group had outsourced substantially all of the production process, Marco Wear ceased its operation in February 2015.

On 19 April 2016, Fashion Brand transferred its 55% equity interest in Marco Wear to Ningbo Yuanzhong Investment Co., Ltd ("Yuanzhong Investment"), a wholly-owned subsidiary of Shanshan, at RMB8,564,054. The consideration was settled by waiver of the amount due to Shanshan.

**(b) Transfer of Shanshan Fashion Industrial Park Suqian Co., Ltd. ("Shanshan Shuqian") (杉杉時尚產業園宿遷有限公司)**

Shanshan Shuqian was a limited liability company established in the PRC and was 66.67% equity interest owned by Fashion Brand immediate prior to the transfer of equity interest in April 2016. Shanshan Shuqian was principally engaged in property leasing and management business which does not form part of the Group's core business.

On 13 April 2016, Fashion Brand transferred its 66.67% equity interest in Shanshan Shuqian to Shanshan at RMB39,941,524. The consideration was settled by waiver of the amount due to Shanshan.

**(c) Transfer of Ningbo Shanshan Bolai Import and Export Co., Ltd. ("Shanshan Bolai") (寧波杉杉博萊進出口有限公司)**

Shanshan Bolai was a limited liability company established in the PRC and was wholly owned by Fashion Brand immediate prior to the transfer of equity interest in April 2016. Shanshan Bolai ceased operations in 2015.

On 7 April 2016, Fashion Brand transferred its 100% equity interest in Shanshan Bolai to Yuanzhong Investment, a wholly-owned subsidiary of Shanshan, at RMB5,600,000. The consideration was settled by waiver of the amount due to Shanshan.

**(d) Transfer of Ningbo Race Brand Management Co., Ltd. ("Race Brand") (寧波瑞思品牌管理有限公司)**

Race Brand was a limited liability company established in the PRC and was wholly owned by Fashion Brand immediate prior to the transfer of equity interest in April 2016. Race Brand was principally engaged in the production and sales of French menswear under a licensed brand. The trademark licensing arrangement was terminated in March 2015.

On 13 April 2016, Fashion Brand transferred its 100% equity interest in Race Brand to Yuanzhong Investment, a wholly-owned subsidiary of Shanshan, at RMB4,653,830. The consideration was settled by waiver of the amount due to Shanshan.

**(e) Disposal of Jiangsu Shanshan Clothing Industry Co., Ltd. ("Jiangsu Shanshan") (江蘇杉杉服裝產業有限公司)**

Jiangsu Shanshan was a limited liability company established in the PRC and was wholly owned by Fashion Brand immediate prior to the disposal of equity interest in April 2016. Jiangsu Shanshan was principally engaged in the suits and shirts manufacturing business which does not form part of the Group's core business as the Group outsourced substantially all of the production process.

On 18 April 2016, Fashion Brand transferred its 100% equity interest in Jiangsu Shanshan to Ningbo Shanshan Suyu Apparel Co., Ltd (寧波杉杉宿豫服裝有限公司), an independent third party at RMB42,039,191. The consideration was settled by waiver of amount due to Shanshan.

**(f) Deregister of Ningbo Shanshan Shirt Co., Ltd. (“Shanshan Shirt”) (寧波杉杉襯衫有限公司)**

Shanshan Shirt was a limited liability company established in the PRC and was 55% equity interest owned by Fashion Brand immediate prior to the deregistration. Shanshan Shirt was principally engaged in shirts manufacturing business which does not form part of the Group’s core business as the Group outsourced substantially all of the production process.

Shanshan Shirt ceased its operation in February 2015 and deregistered in May 2016. On 22 June 2016, the date of deregistration, a cash refund of RMB26,394,101 equivalent to the relevant shareholding portion of the net asset value of Shanshan Shirt was received from Shanshan.

**(g) Deregister of Ningbo Hehuli Textile Co., Ltd. (“Hehuli”) (寧波和乎梨紡織品有限公司)**

Hehuli was a limited liability company established in the PRC and was wholly owned by Fashion Brand immediate prior to the deregistration. Hehuli was principally engaged in sales of womenswear which ceased its operation in August 2015. Hehuli was deregistered in May 2016. At the date of deregistration, the net asset value of Hehuli was Nil.

## **Stage 2: Conversion and rename of the Company**

On 4 May 2016, Shanshan and Shaanxi Maoye Gongmao Co., Ltd (“Shaanxi Maoye”), held 90% and 10% respectively of equity interest of Shanshan Garment Brand, entered into a promoters’ agreement, pursuant to which each of them agreed to convert Shanshan Garment Brand into a joint stock company with limited liability in the PRC with registered share capital of RMB100,000,000 divided into 100,000,000 domestic shares of a par value of RMB1.0 each which was determined with reference to net asset value of Shanshan Garment Brand under the PRC accounting regulation at 31 December 2015.

On 18 May 2016, Shanshan Garment Brand was converted into a joint stock company with limited liability with share capital enlarged from RMB50,000,000 to RMB100,000,000 and renamed as Shanshan Brand Management Co., Ltd (杉杉品牌運營股份有限公司).

The proportion of equity interest held by Shanshan and Shaanxi Maoye remain unchanged after completion of the conversion in May 2016.

## **Stage 3: Acquisition of 100% equity interest in Fashion Brand by the Company**

As part of Reorganisation, on 26 May 2016, the Company acquired 90% and 10% equity interest in Fashion Brand from Shanshan and Ningbo Shanshan Tongda Trading Co., Ltd, a wholly owned subsidiary of Shanshan, for a consideration of RMB9.0 and RMB1.0 respectively.

Since then, the Company become the holding company of Fashion Brand and its subsidiaries, which is equivalent to the subsidiaries now comprising the Group.

Immediate prior to and after the acquisition, Fashion Brand and the Company were under the common control of Shanshan. The acquisition was accounted for under the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by HKICPA. The subsidiaries of Fashion Brand, which had not been acquired by the Company in the Reorganisation, do not exist in the current group structure and their businesses did not form part of the Group’s core business, therefore their financial position, performance and cash flows are excluded in these consolidated financial statements.

Accordingly, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the three years ended 31 December 2015, 2016 and 2017 have included the results, changes in equity and cash flows of the companies now comprising the Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of the Group as of 31 December 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

### 3. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with the basis of presentation set out in Note 2 and the significant accounting policies set out in Note 5 below, which conform to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new/revised HKFRSs which are relevant to the Group and became effective during the Track Record Period. In preparing this Historical Financial Information, the Group has adopted all these new/revised HKFRSs consistently throughout the Track Record Period.

At the date of this report, HKICPA has issued certain new/amended HKFRSs that have been issued but are not yet effective and have not been adopted early by the Group. Details of which are set out in Note 4 to the Historical Financial Information.

The Historical Financial Information has been prepared under the historical cost basis.

The Historical Financial Information is presented in RMB, which is the same as the functional currency of the Company and its subsidiaries.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 6 to the Historical Financial Information.

### 4. NEW/REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The following new/revised HKFRSs, potentially relevant to the Group’s Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by the Group.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures <sup>1</sup>
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing costs eligible for capitalisation <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers <sup>1</sup>
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

#### HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are

measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements. The Group expect the replacement of the incurred loss impairment model in HKAS 39 with the expected credit loss model required in HKFRS 9 may result in earlier provision of credit losses on the Group’s financial assets measured at amortised costs including the trade and other receivables.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The initial adoption of HKFRS 9 would not have a significant impact on the Group’s financial position and performance.

#### **HKFRS 15 – Revenue from Contracts with Customers**

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The initial adoption of HKFRS 15 would not have a significant impact on the Group’s financial position and performance.

#### **HKFRS 16 – Leases**

For lease accounting, HKFRS 16 introduces a single accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in Note 34, the Group’s total future minimum lease payments under non-cancelable operating leases as at 31 December 2017 is RMB55,518,210. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

The initial adoption of HKFRS 16 would not have a significant impact on the Group's financial position and performance.

**Amendments to HKFRS 10 and HKAS 28 – Sales or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Business combination and basis of consolidation**

*(i) Merger accounting for common control combination*

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

*(ii) Acquisition method of accounting for non-common control combination*

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consolidation of a business combination is recognised immediately in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.



Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity.

**(b) Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

**(c) Associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associate are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

**(d) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	Over the lease terms
Plant and machinery	2-10 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (Note 5(f)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

**(e) Intangible assets****(i) Acquired intangible assets**

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment, if any.

Amortisation is recognised in profit or loss and included as part of administrative expenses and is provided on straight-line method over their estimated useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less impairment, if any.

Software	5 years
Trademark	10 years

**(ii) Impairment**

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 5(f)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment should be treated as a revaluation and therefore credited to other comprehensive income. However, to the extent that an impairment on the revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

**(f) Impairment of assets (other than financial assets)**

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- interests in associates

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value-in-use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, 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 or cash-generating unit.

**(g) Financial instruments**

*(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset is acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus direct transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sales of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporated other types of contractual and monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

*(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loan and receivables are recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**(iii) Financial liabilities**

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and bills payables, other payables and accruals, interest-bearing bank borrowings, amounts due to non-consolidated subsidiaries, immediate holding company, an associate, fellow subsidiaries and non-controlling shareholders of subsidiaries are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

**(iv) Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

**(v) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**(vi) Derecognition**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

**(h) Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

**(i) Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs. Cost is calculated using the weighted average method. Net realisable value represents 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.

**(j) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable of goods sold, stated at net of discounts, returns and value-added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. The Group bases its estimates of returns on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Trademark sub-licensing income is recognised in the income statement on a straight-line basis over the terms of the relevant agreements.

Interest income is recognised on time-proportion basis using effective interest method.

Service income is recognised when the service is provided.

**(k) Income taxes**

**(i) Current tax**

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**(ii) Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**(l) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

*The Group as lessee*

Operating leases payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

**(m) Foreign currency**

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of Track Record Period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

**(n) Employee benefits**

*(i) Retirement benefit costs*

The employees of the Group which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute certain percentage of employees’ salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the Track Record Period. The Group’s obligations under these plans are limited to the fixed percentage contributions payable.

*(ii) Short-term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period) in which the employees render the related services. Short term employee benefits are recognised in the year when the employee render the related service.

**(o) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

**(p) Related parties**

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or its parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) 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).
  - (ii) 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).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which is a group provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

**6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

In addition to information disclosed elsewhere in this Historical Financial Information, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year for the Track Record Period are as follows:

**(a) Useful lives, residual values and depreciation of property, plant and equipment**

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation

charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

**(b) Impairment of property, plant and equipment and intangible assets**

The impairment loss of property, plant and equipment and intangible assets is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value-in-use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the end of reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

**(c) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at the end of each reporting period.

**(d) Impairment of trade and other receivables**

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provision at the end of each reporting period.

**7. SEGMENT INFORMATION AND REVENUE**

**(a) Reportable segment**

During the Track Record Period, the information reported to the executive directors of the Company, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRSs. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive directors of the Company have determined that the Group has only one single reportable segment which is trading of garments in the PRC. The executive directors of the Company allocate resources and assess performance on an aggregated basis.

**(b) Geographic information**

During the Track Record Period, the Group's operations and non-current assets are situated in the PRC in which all of its revenue was derived.

**(c) Information about major customer**

During the Track Record Period, there is no customer with transactions exceeded 10% of the Group's revenue.



## (d) Revenue

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Sale of goods	509,686,752	573,096,779	783,171,237
Trademark sub-licensing income	16,395,000	18,986,064	14,716,980
	<u>526,081,752</u>	<u>592,082,843</u>	<u>797,888,217</u>

## 8. OTHER REVENUE

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Interest income	1,007,233	566,703	995,056
Sundry income ( <i>Note</i> )	777,785	610,997	4,263,408
	<u>1,785,018</u>	<u>1,177,700</u>	<u>5,258,464</u>

*Note:* Sundry income mainly represent the profit from sales of raw materials, provision of steam service and provision of supporting service.

## 9. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Donation	–	(863,196)	–
Exchange losses, net	(540,524)	(54,862)	(67,994)
Government grant	797,791	943,353	254,300
Impairment loss on trade receivables, net	(8,749,562)	(422,236)	(1,030,443)
Reversal of impairment loss/(impairment loss) on other receivables, net	116,658	93,251	(157,328)
Loss on disposal/written off of property, plant and equipment	(47,808)	(4,213)	(128)
Written down of inventories, net	(2,300,141)	(321,842)	(3,795,249)
Loss on reclassification in respect of property, plant and equipment and intangible assets as held for sale	–	–	(7,021,290)
Others	59,395	3,372,613	1,432,877
	<u>(10,664,191)</u>	<u>2,742,868</u>	<u>(10,385,255)</u>

## 10. FINANCE COSTS

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Interest expenses on loan from a non-consolidated subsidiary wholly repayable within one year ( <i>Note</i> )	37,334	–	–
Imputed interest on amount due to a non-controlling shareholder of a subsidiary	289,538	289,538	289,538
Interest expenses on bank borrowings wholly repayable within one year	–	7,108,229	13,811,329
	<u>326,872</u>	<u>7,397,767</u>	<u>14,100,867</u>

*Note:* The subsidiary was disposed of before the completion of Reorganisation.

## 11. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Auditor's remuneration ( <i>Note</i> )	–	–	–
Advertising and promotional expenses	18,509,224	24,620,139	24,451,747
Amortisation on intangible assets	1,187,449	1,236,500	1,393,777
Depreciation on property, plant and equipment	3,784,766	4,631,187	15,380,714
Cost of inventories sold	273,677,779	303,973,449	366,627,910
Lease payments under operating leases:			
– minimum lease payments	9,247,299	12,209,665	27,513,184
– contingent rents	15,375,861	14,257,034	20,121,179
Trademark payments	1,692,483	1,256,361	1,069,789
Staff costs ( <i>Note 15</i> )	58,434,523	68,117,878	86,388,988
	<u>58,434,523</u>	<u>68,117,878</u>	<u>86,388,988</u>

*Note:* Auditor's remuneration for the Track Record Period was borne by its immediate holding company.

## 12. INCOME TAX EXPENSE

Enterprise income tax ("EIT") has been provided at the rate of 25% for each of the years ended 31 December 2015, 2016 and 2017 on the estimated assessable profit for the years arising from the PRC.

The amounts of income tax expense in the consolidated statements of comprehensive income represent:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Provision of tax for current year	17,538,826	12,121,793	18,681,317
Deferred tax ( <i>Note 20</i> )	(3,305,659)	2,026,318	164,436
Income tax expense	<u>14,233,167</u>	<u>14,148,111</u>	<u>18,845,753</u>

The income tax expense for the years can be reconciled to the profit before income tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
Profit before income tax	<u>67,136,624</u>	<u>47,962,593</u>	<u>55,806,908</u>
Tax charges calculated at the domestic income tax rate of 25% ( <i>Note</i> )	16,784,156	11,990,648	13,951,727
Tax effect of revenue not subject to tax	(411,463)	(732,523)	(8,886)
Tax effect of expenses not deductible for tax purposes	1,258,206	3,503,172	4,643,298
Tax effect of tax losses not recognised	917,530	1,277,091	2,327,438
Tax effect of share of results of associates	(1,403,983)	(1,740,520)	(2,067,824)
Utilisation of tax losses not recognised in previous years	(1,098,462)	(149,757)	–
Others	(1,812,817)	–	–
Income tax expense	<u>14,233,167</u>	<u>14,148,111</u>	<u>18,845,753</u>

At 31 December 2015, 2016 and 2017, the Group had estimated unused tax losses of approximately RMB58,806,709, RMB85,872,272 and RMB80,013,665 respectively available for offset against future profits which were arising from operation. Included in 31 December 2015 and 2016 and 2017 were RMB40,778,860, RMB66,472,962 and RMB63,943,871 respectively arising from the disposal of non-consolidated subsidiaries upon Reorganisation. The tax losses are subject to the final assessment by the tax authorities in the respective jurisdictions where the tax losses arising from.

No deferred tax asset has been recognised in respect of the estimated unused tax losses due to unpredictability of future profit streams. The tax losses are losses which may be carried forward for a period of five years from their respective year of origination.

*Note:* The domestic income tax rate represents the EIT rate in the PRC where the Group's operations are substantially based.

**13. DIVIDENDS**

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Final dividend declared and paid in respect of prior year	50,574,645	–	–

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Historical Financial Information.

**14. EARNINGS PER SHARE**

The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to owners of the Company for each of the Track Record Period and on the assumption that 100,000,000 shares, representing the number of shares of the Company immediately after the Reorganisation as described in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus had been in issue throughout the Track Record Period.

The Group had no potentially dilutive ordinary shares in issue during the Track Record Period.

**15. STAFF COSTS**

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Staff costs (including directors) comprise:			
– Salaries and allowances	51,845,857	58,923,635	74,913,669
– Contributions to defined contribution retirement plan	6,588,666	9,194,243	11,475,319
	<u>58,434,523</u>	<u>68,117,878</u>	<u>86,388,988</u>

## 16. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

## (a) Directors' emoluments

The emolument for each of the director for the years ended 31 December 2015, 2016 and 2017 is set out below:

*Year ended 31 December 2015*

Name of directors	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cao Yang	–	351,200	–	351,200
Hua Li <sup>4</sup>	–	–	–	–
Qian Cheng <sup>1</sup>	–	–	–	–
Shen Lu Yan <sup>3</sup>	–	–	–	–
Weng Hui Ping <sup>2</sup>	–	–	–	–
Zhuang Wei	–	–	–	–
Total	–	351,200	–	351,200

*Year ended 31 December 2016*

Name of directors	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cao Yang	–	425,500	49,068	474,568
Hua Li <sup>4</sup>	–	–	–	–
Luo Ye Fei <sup>5</sup>	–	489,100	28,200	517,300
Qian Cheng <sup>1</sup>	–	–	–	–
Weng Hui Ping <sup>2</sup>	–	–	–	–
Yan Jing Fen <sup>5</sup>	–	125,769	11,151	136,920
Zhuang Wei	–	–	–	–
Zhu Zhi Lin <sup>6</sup>	–	646,000	26,760	672,760
Total	–	1,686,369	115,179	1,801,548

*Year ended 31 December 2017*

Name of directors	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cao Yang	–	425,010	49,068	474,078
Luo Ye Fei <sup>5</sup>	–	486,612	28,200	514,812
Weng Hui Ping <sup>2</sup>	–	–	–	–
Yan Jing Fen <sup>5</sup>	–	231,281	19,116	250,397
Zhuang Wei	–	–	–	–
Zhu Zhi Lin <sup>6</sup>	–	525,800	26,347	552,147
Total	–	1,668,703	122,731	1,791,434

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any emoluments during the Track Record Period.

*Notes:*

- 1 Mr. Qian Cheng, non-executive director, resigned on 4 August 2016.
- 2 Mr. Weng Hui Ping, executive director, resigned on 18 May 2016, re-appointed on 4 August 2016 and resigned on 25 May 2017.
- 3 Mr. Shen Lu Yan, non-executive director, resigned on 27 May 2015.
- 4 Ms. Hua Li was appointed as non-executive director on 27 May 2015 and resigned on 18 May 2016.
- 5 Mr. Luo Ye Fei and Ms. Yan Jing Fen were appointed as executive directors on 18 May 2016.
- 6 Mr. Zhu Zhi Lin was appointed as executive director on 18 May 2016 and resigned on 3 January 2018. The emoluments paid to him during the Track Record Period represented emoluments for acting in the capacity as a director.

**(b) Five highest paid individuals**

The five highest paid individuals of the Group during the year ended 31 December 2015 were not directors. During the year ended 31 December 2016 and 2017, the five highest paid individuals of the Group included 3 and 2 directors respectively with details of whose emoluments are set out in Note 16(a) above.

Details of the emoluments of the 5, 2 and 3 individuals for the years ended 31 December 2015, 2016 and 2017 respectively are as follows:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Wages, salaries, bonus and allowances	2,257,000	1,260,188	1,234,008
Contributions to defined contribution retirement plan	74,556	52,200	30,694
	<u>2,331,556</u>	<u>1,312,388</u>	<u>1,264,702</u>

The emoluments paid or payable to the above individuals were within the following band:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>No. of individuals</i>	<i>No. of individuals</i>	<i>No. of individuals</i>
Nil to HK\$1,000,000	5	2	3

## 17. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Cost</b>					
At 1 January 2015	7,207,460	14,526,795	4,270,707	2,690,886	28,695,848
Additions	729,098	327	336,178	–	1,065,603
Disposal/written-off	(420,000)	(10,740,581)	(169,426)	(438,915)	(11,768,922)
At 31 December 2015 and 1 January 2016	7,516,558	3,786,541	4,437,459	2,251,971	17,992,529
Additions	1,737,761	317,065	16,924,478	170,385	19,149,689
Disposal/written-off	(305,000)	(30,729)	(22,377)	–	(358,106)
At 31 December 2016 and 1 January 2017	8,949,319	4,072,877	21,339,560	2,422,356	36,784,112
Additions	1,353,136	1,153,475	34,568,869	–	37,075,480
Disposal/written-off	–	–	(92,296)	–	(92,296)
Classified as held for sale	–	–	(705,652)	(12,266)	(717,918)
At 31 December 2017	10,302,455	5,226,352	55,110,481	2,410,090	73,049,378
<b>Accumulated depreciation</b>					
At 1 January 2015	4,969,965	11,906,114	2,458,012	1,697,309	21,031,400
Charge for the year	1,895,137	740,310	636,079	513,240	3,784,766
Eliminated on disposal/written-off	–	(9,613,079)	(158,767)	(374,700)	(10,146,546)
At 31 December 2015 and 1 January 2016	6,865,102	3,033,345	2,935,324	1,835,849	14,669,620
Charge for the year	703,854	615,273	3,085,973	226,087	4,631,187
Eliminated on disposal/written-off	(177,917)	(25,337)	(20,558)	–	(223,812)
At 31 December 2016 and 1 January 2017	7,391,039	3,623,281	6,000,739	2,061,936	19,076,995
Charge for the year	766,541	165,794	14,295,611	152,768	15,380,714
Eliminated on disposal/written-off	–	–	(89,038)	–	(89,038)
Loss on reclassification as held for sale	–	–	103,004	418	103,422
Classified as held for sale	–	–	(689,918)	(2,796)	(692,714)
At 31 December 2017	8,157,580	3,789,075	19,620,398	2,212,326	33,779,379
<b>Carrying value</b>					
At 31 December 2017	2,144,875	1,437,277	35,490,083	197,764	39,269,999
At 31 December 2016	1,558,280	449,596	15,338,821	360,420	17,707,117
At 31 December 2015	651,456	753,196	1,502,135	416,122	3,322,909

	<b>The Company</b>				
	<b>Leasehold improvements</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Cost</b>					
At 1 January 2015	1,419,597	3,833,225	1,746,468	1,953,524	8,952,814
Additions	–	323	314,237	–	314,560
Disposal/written-off	–	(47,009)	(4,981)	–	(51,990)
At 31 December 2015 and 1 January 2016	1,419,597	3,786,539	2,055,724	1,953,524	9,215,384
Additions	735,043	317,064	16,813,194	158,120	18,023,421
Disposal/written-off	–	(30,730)	(5,975)	–	(36,705)
At 31 December 2016 and 1 January 2017	2,154,640	4,072,873	18,862,943	2,111,644	27,202,100
Additions	–	1,153,478	34,559,640	–	35,713,118
Disposal/written-off	–	–	(2,694)	–	(2,694)
At 31 December 2017	2,154,640	5,226,351	53,419,889	2,111,644	62,912,524
<b>Accumulated depreciation</b>					
At 1 January 2015	946,399	2,302,711	500,840	1,103,894	4,853,844
Charge for the year	473,198	740,310	422,449	445,130	2,081,087
Eliminated on disposal/written-off	–	(9,676)	(4,832)	–	(14,508)
At 31 December 2015 and 1 January 2016	1,419,597	3,033,345	918,457	1,549,024	6,920,423
Charge for the year	–	615,273	2,946,836	226,087	3,788,196
Eliminated on disposal/written-off	–	(25,336)	(5,797)	–	(31,133)
At 31 December 2016 and 1 January 2017	1,419,597	3,623,282	3,859,496	1,775,111	10,677,486
Charge for the year	275,641	165,794	14,230,612	150,389	14,822,436
Eliminated on disposal/written-off	–	–	(2,256)	–	(2,256)
At 31 December 2017	1,695,238	3,789,076	18,087,852	1,925,500	25,497,666
<b>Carrying value</b>					
At 31 December 2017	<u>459,402</u>	<u>1,437,275</u>	<u>35,332,037</u>	<u>186,144</u>	<u>37,414,858</u>
At 31 December 2016	<u>735,043</u>	<u>449,591</u>	<u>15,003,447</u>	<u>336,533</u>	<u>16,524,614</u>
At 31 December 2015	<u>–</u>	<u>753,194</u>	<u>1,137,267</u>	<u>404,500</u>	<u>2,294,961</u>



## 18. INTANGIBLE ASSETS

	The Group		
	Trademark	Software	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Cost</b>			
At 1 January 2015	13,016,800	394,393	13,411,193
Additions	12,000,000	–	12,000,000
At 31 December 2015 and 1 January 2016	25,016,800	394,393	25,411,193
Additions	–	1,648,889	1,648,889
At 31 December 2016 and 1 January 2017	25,016,800	2,043,282	27,060,082
Additions	–	1,063,022	1,063,022
Classified as held for sale	(12,000,000)	(159,350)	(12,159,350)
At 31 December 2017	13,016,800	2,946,954	15,963,754
<b>Accumulated amortisation</b>			
At 1 January 2015	13,016,800	80,239	13,097,039
Charge for the year	1,132,075	55,374	1,187,449
At 31 December 2015 and 1 January 2016	14,148,875	135,613	14,284,488
Charge for the year	1,132,077	104,423	1,236,500
At 31 December 2016 and 1 January 2017	15,280,952	240,036	15,520,988
Charge for the year	1,132,075	261,702	1,393,777
Loss on reclassification as held for sale	6,917,868	–	6,917,868
Classified as held for sale	(10,314,095)	(159,349)	(10,473,444)
At 31 December 2017	13,016,800	342,389	13,359,189
<b>Carrying value</b>			
At 31 December 2017	–	2,604,565	2,604,565
At 31 December 2016	9,735,848	1,803,246	11,539,094
At 31 December 2015	10,867,925	258,780	11,126,705

	<u>The Company</u>
	<u>Software</u>
	<i>RMB</i>
<b>Cost</b>	
At 1 January 2015, 31 December 2015 and 1 January 2016	235,043
Additions	<u>1,648,889</u>
At 31 December 2016 and 1 January 2017	1,883,932
Additions	<u>1,063,022</u>
At 31 December 2017	<u>2,946,954</u>
<b>Accumulated amortisation</b>	
At 1 January 2015	5,876
Charge for the year	<u>23,503</u>
At 31 December 2015 and 1 January 2016	29,379
Charge for the year	<u>72,555</u>
At 31 December 2016 and 1 January 2017	101,934
Charge for the year	<u>240,455</u>
At 31 December 2017	<u>342,389</u>
<b>Carrying value</b>	
At 31 December 2017	<u><u>2,604,565</u></u>
At 31 December 2016	<u><u>1,781,998</u></u>
At 31 December 2015	<u><u>205,664</u></u>

#### 19. INTERESTS IN ASSOCIATES

	<u>As at 31 December</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cost of investments in unlisted associates	32,020,633	32,020,633	32,020,633
Share of results of the associates	<u>22,556,226</u>	<u>27,904,571</u>	<u>34,349,826</u>
	<u>54,576,859</u>	<u>59,925,204</u>	<u>66,370,459</u>
Amount due to an associate	<u>(4,582,254)</u>	<u>(1,833,834)</u>	<u>(4,216,683)</u>

The amount due to an associate is unsecured, interest-free and repayable on demand.

Details of the Group's associates at 31 December 2015, 2016 and 2017 are as follows:

<u>Name of associate</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Proportion of nominal value of issued capital held by the Group</u>	<u>Principal activities</u>
Ningbo Shanjing Apparel Co., Ltd 寧波杉京服飾有限公司 ("Ningbo Shanjing")	Incorporated	The PRC	46%	Manufacture of apparel products under sub-contracting
Le Coq Sportif (Ningbo) Co., Ltd 寧波樂卡克服飾有限公司 ("Le Coq Sportif")	Incorporated	The PRC	20%	Retailing, trading and distribution of sporting goods

The summarised financial information in respect of the associates held by the Group at the end of each Track Record Period is set out below:

	<u>As at 31 December</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>Ningbo Shanjing</i>			
Current assets	52,528,168	57,863,058	64,338,272
Non-current assets	25,134,485	22,537,744	20,259,783
Current liabilities	(9,870,003)	(11,073,399)	(13,852,652)
<i>Le Coq Sportif</i>			
Current assets	206,716,002	245,004,425	365,312,329
Non-current assets	2,492,158	2,534,439	3,819,796
Current liabilities	(92,246,961)	(107,365,877)	(199,994,264)
	<u>Year ended 31 December</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>Ningbo Shanjing</i>			
Revenue	58,515,481	66,694,896	75,585,866
Profit for the year and total comprehensive income	559,769	1,534,753	1,417,999
<i>Le Coq Sportif</i>			
Revenue	350,377,264	410,414,556	538,610,898
Profit for the year and total comprehensive income	26,792,188	31,280,432	38,095,075
Dividends received	(1,206,400)	(1,613,729)	(1,826,040)

## 20. DEFERRED TAX ASSETS

Details of the deferred tax assets recognised in the consolidated statements of financial position and statements of financial position and movements during the Track Record Period are as follows:

	<b>The Group and the Company</b>		
	<b>Impairment of assets</b>	<b>Deferred revenue</b>	<b>Total</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At 1 January 2015	6,455,556	5,108,157	11,563,713
Credit to profit or loss	2,707,756	597,903	3,305,659
At 31 December 2015 and 1 January 2016	9,163,312	5,706,060	14,869,372
Credit/(charge) to profit or loss	563,606	(2,589,924)	(2,026,318)
At 31 December 2016 and 1 January 2017	9,726,918	3,116,136	12,843,054
Credit/(charge) to profit or loss	984,324	(1,148,760)	(164,436)
At 31 December 2017	<u>10,711,242</u>	<u>1,967,376</u>	<u>12,678,618</u>

## 21. INVENTORIES

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Raw materials	13,116,145	12,482,151	8,097,986
Work-in-progress	5,831,047	10,283,062	18,133,453
Finished goods	145,575,027	211,407,273	310,192,495
	<u>164,522,219</u>	<u>234,172,486</u>	<u>336,423,934</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Raw materials	11,068,268	10,459,172	7,069,982
Work-in-progress	5,617,416	10,167,396	18,133,453
Finished goods	98,353,919	171,330,250	286,898,423
	<u>115,039,603</u>	<u>191,956,818</u>	<u>312,101,858</u>

## 22. TRADE AND BILLS RECEIVABLES

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Trade receivables	236,912,963	228,135,932	206,877,027
Bills receivables	25,894,260	26,530,750	11,809,173
Less: provision for impairment	(55,385,540)	(55,807,776)	(55,358,140)
	<u>207,421,683</u>	<u>198,858,906</u>	<u>163,328,060</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Trade receivables	228,209,045	216,616,213	200,591,909
Bills receivables	24,904,000	26,530,750	11,809,173
Less: provision for impairment	(53,691,217)	(54,281,368)	(55,331,023)
	<u>199,421,828</u>	<u>188,865,595</u>	<u>157,070,059</u>

- (a) During each of the years ended 31 December 2015, 2016 and 2017, the Group sold goods amounted to RMB11,073,220, RMB3,191,939 and Nil, respectively to a company controlled by a key management personnel of the Group.

As at 31 December 2015, 2016 and 2017, included in trade and bills receivables were amounts of RMB16,183,028, Nil and Nil respectively due from this customer.

During the Track Record Period, 240 days credit period was granted to this customer through normal credit assessment procedure same as other customers.

On 18 November 2016, the Group ceased business relationship with this customer and entered into purchase agreement with this customer to buy back the inventories previously sold to this customer. For inventories sold on or after 1 September 2016, the inventories were bought back at original price of RMB1,676,032. For inventories sold on or before 31 August 2016, the inventories were bought back at the price of RMB13,562,790, which is after certain percent of discount.

- (b) During the years ended 31 December 2015, 2016 and 2017, the Group sold goods amounted to RMB10,947,054, RMB681,336 and Nil respectively to a family member of a key management personnel of the Group.

As at 31 December 2015, 2016 and 2017, included in trade and bills receivables were amounts of RMB13,660,742, RMB1,314,081 and Nil respectively due from this customer.

During the Track Record Period, 240 days credit period was granted to this customer through normal credit assessment procedure same as other customers.

On 1 August 2016, the Group ceased business relationship with this customer and entered into purchase agreement with this customer to buy back the inventories previously sold to this customer. For inventories sold on or after 1 January 2016, the inventories were bought back at original price of RMB3,818,721. For inventories sold on or before 31 December 2015, the inventories were bought back at the price of RMB4,068,003, which is after certain percent of discount.

(c) Movements in provision for impairment during the Track Record Period are as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At beginning of year	112,056,563	55,385,540	55,807,776
Charge for the year, net	8,749,562	422,236	1,030,443
Amount written off	(65,420,585)	–	–
Classified as held for sale ( <i>note 29</i> )	–	–	(1,480,079)
	<u>55,385,540</u>	<u>55,807,776</u>	<u>55,358,140</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At beginning of year	110,385,183	53,691,217	54,281,368
Charge for the year, net	8,726,619	590,151	1,049,655
Amount written off	(65,420,585)	–	–
At end of year	<u>53,691,217</u>	<u>54,281,368</u>	<u>55,331,023</u>

(d) The ageing analysis of trade and bills receivables (net of impairment losses) at the end of each Track Record Period based on the delivery date is as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 3 months	106,268,258	104,605,567	96,868,762
Over 3 months but within 6 months	71,033,576	51,510,911	39,222,650
Over 6 months but within 1 year	22,057,042	42,335,372	25,123,210
Over 1 year	8,062,807	407,056	2,113,438
	<u>207,421,683</u>	<u>198,858,906</u>	<u>163,328,060</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 3 months	99,996,172	98,081,105	91,330,722
Over 3 months but within 6 months	70,119,442	50,438,005	39,063,144
Over 6 months but within 1 year	21,877,709	40,346,485	25,095,631
Over 1 year	7,428,505	–	1,580,562
	<u>199,421,828</u>	<u>188,865,595</u>	<u>157,070,059</u>

The Group offers a general credit period from 30 to 240 days on sales of goods to customers while, business partners with strong financial background may be offered longer credit terms.

(e) The ageing analysis of trade and bills receivables which are past due but not impaired are as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Not past due	170,751,146	169,213,810	146,501,630
Less than 1 month past due	13,435,633	6,089,870	3,946,262
1 to 3 months past due	9,094,244	13,502,930	7,686,510
Over 3 months past due	14,140,660	10,052,296	5,193,658
	<u>207,421,683</u>	<u>198,858,906</u>	<u>163,328,060</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Not past due	165,573,240	166,438,915	141,232,487
Less than 1 month past due	11,751,244	2,615,660	3,813,111
1 to 3 months past due	8,650,736	13,218,502	7,512,382
Over 3 months past due	13,446,608	6,592,518	4,512,079
	<u>199,421,828</u>	<u>188,865,595</u>	<u>157,070,059</u>

The Group's receivables that were past due but not impaired related to a number of independent customers that have a good track record. Based on past experience, the directors consider that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group's receivables that were not past due related to a number of independent customers that have no recent history of default. The Group does not hold any collateral over these balances.

### 23. PREPAYMENTS AND OTHER RECEIVABLES

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Prepayments	8,920,969	18,263,088	67,606,880
Other receivables	20,042,266	26,923,072	26,027,659
Less: provision for impairment	(720,745)	(627,494)	(663,286)
	<u>28,242,490</u>	<u>44,558,666</u>	<u>92,971,253</u>
Less: other receivables repayable after 1 year	(1,996,954)	–	–
	<u>26,245,536</u>	<u>44,558,666</u>	<u>92,971,253</u>

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Prepayments	6,138,742	14,770,429	65,963,782
Other receivables	4,800,981	24,883,305	25,304,302
Less: provision for impairment	(338,728)	(338,728)	(338,728)
	<u>10,600,995</u>	<u>39,315,006</u>	<u>90,929,356</u>

Movements in provision for impairment during the Track Record Period are as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At beginning of year	837,403	720,745	627,494
(Reversal)/charge for the year, net	(116,658)	(93,251)	157,328
Classified as held for sale ( <i>note 29</i> )	–	–	(121,536)
At end of year	<u>720,745</u>	<u>627,494</u>	<u>663,286</u>

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
At beginning of year	409,926	338,728	338,728
Reversal for the year net	(71,198)	–	–
At end of year	<u>338,728</u>	<u>338,728</u>	<u>338,728</u>

#### 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cash and bank balances	76,944,496	97,109,638	102,072,916
Pledged deposits ( <i>Note b</i> )	–	9,200,000	13,800,000
Total ( <i>Note a</i> )	<u>76,944,496</u>	<u>106,309,638</u>	<u>115,872,916</u>



	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cash and bank balances	31,043,212	58,437,023	68,103,358
Pledged deposits ( <i>Note b</i> )	–	9,200,000	13,800,000
<b>Total (<i>Note a</i>)</b>	<b>31,043,212</b>	<b>67,637,023</b>	<b>81,903,358</b>

*Notes:*

- (a) As at 31 December 2015, 2016 and 2017, the Group has cash and cash equivalents denominated in RMB amounted to approximately RMB72,836,712, RMB106,309,638 and RMB116,496,012 respectively, which are deposited with banks in the PRC.

All the Company's cash and cash equivalents are denominated in RMB.

RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks in the PRC that are authorised to conduct foreign exchange business.

Bank balances earn interest at floating rates based on daily bank deposit rates.

- (b) As at 31 December 2016 and 2017, the pledged deposits were placed to secure the outstanding bank acceptance bills disclosed in Note 25 below.

**25. TRADE AND BILLS PAYABLES**

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Bank acceptance bills	–	24,000,000	37,000,000
Trade payables	127,128,881	150,424,924	147,153,651
	<b>127,128,881</b>	<b>174,424,924</b>	<b>184,153,651</b>

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Bank acceptance bills	–	24,000,000	37,000,000
Trade payables	123,965,114	145,187,972	144,825,719
	<b>123,965,114</b>	<b>169,187,972</b>	<b>181,825,719</b>

As at 31 December 2016 and 2017, the ageing of the Group's and the Company's bank acceptance bills were all within six months, and there were no overdue bills. The bank acceptance bills were secured by pledged deposits of RMB9,200,000 and RMB13,800,000 as at 31 December 2016 and 2017 respectively as disclosed in Note 24.

The trade payables are normally due to be settled within twelve months. The ageing analysis, based on invoice date, as at 31 December 2015, 2016 and 2017 are as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 3 months	77,688,805	123,561,021	109,023,694
Over 3 months but within 6 months	42,523,631	18,944,401	17,794,544
Over 6 months but within 1 year	4,607,148	5,844,332	10,832,045
Over 1 year	2,309,297	2,075,170	9,503,368
	<u>127,128,881</u>	<u>150,424,924</u>	<u>147,153,651</u>

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Within 3 months	76,316,751	120,389,970	108,159,137
Over 3 months but within 6 months	42,202,059	18,173,423	17,148,265
Over 6 months but within 1 year	3,518,574	5,151,511	10,779,472
Over 1 year	1,927,730	1,473,068	8,738,845
	<u>123,965,114</u>	<u>145,187,972</u>	<u>144,825,719</u>

## 26. OTHER PAYABLES AND ACCRUALS

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Other payables and accruals	38,501,007	76,227,833	148,727,081
Other tax payables	10,516,921	4,062,094	3,197,153
Receipt in advance	17,390,075	19,712,571	17,980,376
Sales rebate ( <i>Note</i> )	22,824,238	12,520,147	7,925,106
	<u>89,232,241</u>	<u>112,522,645</u>	<u>177,829,716</u>

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Other payables and accruals	16,997,898	62,830,985	142,546,599
Other tax payables	9,403,788	3,301,527	2,905,535
Receipt in advance	17,033,576	19,219,235	17,818,486
Sales rebate ( <i>Note</i> )	22,824,238	12,520,147	7,925,106
	<u>66,259,500</u>	<u>97,871,894</u>	<u>171,195,726</u>

*Note:* Sales rebate are granted to customers when they meet certain sales target and are redeemable in next sales transactions.

## 27. INTEREST-BEARING BANK BORROWINGS

	The Group and Company		
	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Interest-bearing bank borrowings due for repayment within one year	–	245,000,000	285,000,000

At 31 December 2016, bank borrowings were unsecured, arranged at fixed interest rate ranges from 4.57% to 4.79% per annum and repayable within one year.

At 31 December 2017, bank borrowings were unsecured, arranged at fixed interest rate ranges from 4.79% to 5.44% per annum and repayable within one year.

## 28. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

Included in balances at 31 December 2015 and 2016 and 2017, were amounts of RMB12,764,320 and RMB8,894,224 and RMB6,398,191 respectively for the purchase of trademark from non-controlling shareholders of subsidiaries which were unsecured, repayable within 5 years by instalments and with imputed interest rate of 2.6% per annum.

## 29. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In October 2017, the management of the Company identified an independent third party to acquire JIC Garments, a 55% owned subsidiary of the Company which were mainly engaged in design, develop and sales of men's apparel under MARCO AZZALI brand and anticipants that the sales will complete within 2018. The following major classes of assets and liabilities relating to this operation have been classified as held for sale in the consolidated statement of financial position.

	<i>RMB</i>
Property, plant and equipment	25,204
Intangible assets	1,685,906
Inventories	14,457,161
Trade receivables	1,533,010
Prepayment and other receivables	3,424,148
Cash and cash equivalents	623,096
Other current assets	150,378
	<u>21,898,903</u>
Trade payables	(5,412,798)
Other payables and accruals	(7,934,195)
Amount due to non-controlling shareholder ( <i>Note 28</i> )	(6,398,191)
Other current liabilities	(1,955)
	<u>(19,747,139)</u>

In accordance with HKFRS 5 the assets and liabilities of the disposal group have been written down to their fair value less costs to sell of RMB8. This is a non-recurring fair value measurement.

A loss of RMB7,021,290 has been recognised in other gains and losses on the measurement of the disposal group to fair value less costs to sell. Accordingly, losses of RMB103,422 and RMB6,917,868 have been allocated to the property, plant and equipment and intangible assets of the disposal group respectively.

In addition, JIC Garments contributed loss of RMB9,362,737 to the Group's profit in 2017. Together with the impairment loss detailed above the cumulative expense related to the disposal group held for sale was RMB16,384,027.

JIC Garments does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation.

The fair value less costs to sell of the disposal group was determined by the quoted consideration of this transaction.

As at 31 December 2017, there was an amount of RMB2,151,756 due to group companies by JIC Garments which had been eliminated in the Group's consolidated financial statements.

### 30. SHARE CAPITAL

#### Issued and fully paid

	<b>The Group and Company</b>	
	<i>Number of shares</i>	<i>RMB</i>
Ordinary shares		
At 1 January and 31 December 2015	50,000,000	50,000,000
Increase in share capital through utilisation of reserve at Reorganisation	<u>50,000,000</u>	<u>50,000,000</u>
At 31 December 2016 and 31 December 2017	<u><u>100,000,000</u></u>	<u><u>100,000,000</u></u>

### 31. INVESTMENT IN A SUBSIDIARY

	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Cost of investment in an unlisted subsidiary	–	10	10
Amount due from a subsidiary	<u>–</u>	<u>113,900,000</u>	<u>103,900,000</u>
	<u><u>–</u></u>	<u><u>113,900,010</u></u>	<u><u>103,900,010</u></u>

Amount due from a subsidiary is unsecured, interest-free and repayable on demand.

## 32. PURPOSE OF RESERVES

- (a) The statutory surplus reserve is required by the relevant laws and regulations in the PRC which required the Company and its subsidiaries, which established in the PRC to appropriate 10% of its net profit after tax, as determined under the PRC accounting regulation, to a statutory surplus reserve until the reserve fund reaches 50% of these companies' registered capital. It may be utilised by the Company for restricted purposes including offsetting against prior years' losses or increase the capital of the Company. The transfer of this reserve must be made before the distribution of dividend to the equity owners of these companies.
- (b) At the preparation of the consolidated financial statements of the Group, certain entities under the control of the Group were not consolidated to the consolidated financial statements. Merger reserve was created which mainly includes investment costs less proceeds from disposal, transfer of and deregister of these non-consolidated entities.

Merger reserve also included the amount of issued capital and premium of consolidated entities under the Group's Reorganisation completed on 26 May 2016.

- (c) Being part of the Group's Reorganisation which details were set out in Note 2 to the Historical Financial Information, the Company (previously known as "Shanshan Garment Brand") increased share capital from RMB50,000,000 to RMB100,000,000 with reference to the net asset value of the Company at the date of capital restructuring. Increase in share capital was completed through utilisation of accumulated profit and statutory surplus reserve. The excess portion of net asset value of the Company at the date of capital restructuring over the enlarged share capital was transferred to capital reserve.
- (d) Reserves of the Company

	Statutory surplus reserve	Capital reserve	Accumulated profits	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Note 32a)</i>	<i>(Note 32c)</i>		
<b>At 1 January 2015</b>	16,007,132	–	47,768,247	63,775,379
Profit and total comprehensive income for the year	–	–	41,700,603	41,700,603
Transfer to statutory surplus reserve	5,222,201	–	(5,222,201)	–
Final 2014 dividend declared and paid ( <i>Note 13</i> )	–	–	(50,574,645)	(50,574,645)
<b>At 31 December 2015 and 1 January 2016</b>	21,229,333	–	33,672,004	54,901,337
Profit and total comprehensive income for the year	–	–	17,957,078	17,957,078
Capital restructuring at group Reorganisation ( <i>Note c</i> )	(20,598,439)	15,304,925	(44,706,486)	(50,000,000)
Transfer to statutory surplus reserve	1,795,708	–	(1,795,708)	–
<b>At 31 December 2016 and 1 January 2017</b>	2,426,602	15,304,925	5,126,888	22,858,415
Profit and total comprehensive income for the year	–	–	39,276,462	39,276,462
Transfer to statutory surplus reserve	3,927,646	–	(3,927,646)	–
<b>At 31 December 2017</b>	<u>6,354,248</u>	<u>15,304,925</u>	<u>40,475,704</u>	<u>62,134,877</u>

## 33. RELATED PARTY DISCLOSURES

## (a) Amounts due from/(to) immediate holding company/fellow subsidiaries

Amounts due from/(to) immediate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand.

The amounts due from immediate holding company/fellow subsidiaries may be categorised as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Amount due from immediate holding company:			
– Trade nature ( <i>Note i</i> )	–	485,527	13,998,196
– Non-trade nature	–	613,047	919,189
	–	1,098,574	14,917,385
	<u>–</u>	<u>1,098,574</u>	<u>14,917,385</u>
Amount due from fellow subsidiaries:			
– Trade nature	–	–	1,353,428
– Non-trade nature	8,097,350	5,082,350	148,416
	8,097,350	5,082,350	1,501,844
	<u>8,097,350</u>	<u>5,082,350</u>	<u>1,501,844</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Amount due from immediate holding company:			
– Trade nature ( <i>Note i</i> )	–	485,527	13,998,196
– Non-trade nature	–	100,000	20,000
	–	585,527	14,018,196
	<u>–</u>	<u>585,527</u>	<u>14,018,196</u>
Amount due from fellow subsidiaries:			
– Trade nature	–	–	1,339,336
– Non-trade nature	4,996,870	4,976,870	38,177
	4,996,870	4,976,870	1,377,513
	<u>4,996,870</u>	<u>4,976,870</u>	<u>1,377,513</u>

*Note:*

- (i) The amount due from immediate holding company which is trade nature mainly arose from the sales arrangement as described in note 33(b)(ii).

**(b) Transactions with related parties**

- (i) During the Track Record Period, save as disclosed in Note 22 to the Historical Financial Information, the Group entered into the following significant transactions with its related parties:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Product inspection expenses recharged on markup to:</b>			
– immediate holding company	2,564	–	–
– associates	36,221	–	36,396
<b>Sales of goods to:</b>			
– immediate holding company	594,113	47,298	2,051
– non-consolidated subsidiaries	542,541	–	–
– associates	61,712	162,000	5,643
– fellow subsidiaries	9,185	–	69,644
– a company controlled by a key management personnel of the Group	11,073,220	3,191,939	–
– a family member of a key management personnel of the Group	10,947,054	681,336	–
<b>Steam expenses recharged on markup to:</b>			
– an associate	591,295	–	–
<b>Sales proceed of disposal of property, plant and equipment to:</b>			
– non-consolidated subsidiaries	1,116,277	–	–
<b>Purchases from:</b>			
– non-consolidated subsidiaries	(6,447,420)	(266,016)	–
– fellow subsidiaries	–	(3,972)	–
– an associate	–	–	(1,172,333)
<b>Sub-contracting expenses charged by:</b>			
– non-consolidated subsidiaries	(6,080,148)	(1,906,165)	–
– associates	(8,225,770)	(3,677,360)	(7,100,646)
<b>Buy back of inventories previously sold upon cessation of business relationship from:</b>			
– a company controlled by a key management personnel of the Group	–	(15,238,822)	–
– a family member of a key management personnel of the Group	–	(7,886,724)	–

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
<b>Rental expenses charged by:</b>			
– immediate holding company	(3,112,142)	(3,185,613)	(4,437,977)
<b>Water and electricity expenses charged by:</b>			
– immediate holding company	(1,229,712)	(1,055,709)	(1,540,189)
<b>Sales commission charged by:</b>			
– a fellow subsidiary	(635,147)	(523,855)	(1,489,719)
<b>Shopping mall expenses charged by:</b>			
– a fellow subsidiary	(322,140)	(228,387)	(527,539)
<b>Interest expenses charged by:</b>			
– non-consolidated subsidiaries	(37,334)	–	–

- (ii) During the Track Record Period, the Group occasionally participated in the tendering and bidding of uniform of large-scale enterprises through Shanshan. After winning such bids, Shanshan would then designate the Group to fulfill its obligation under the relevant bid contracts entered into between the project customers and Shanshan. Following delivery of goods by the Group to the project customers in connection with such bids, the Group would issue invoices to Shanshan in accordance with the contractual price in respect of such delivered goods (net of certain tender costs and relevant tax on actual incurred basis), and Shanshan would then, in return, issue invoices to such relevant customers at the same contractual price. The amount of invoices being issued by the Group to Shanshan under this arrangement for each of the years ended 31 December 2015, 2016 and 2017 were RMB15,702,096, RMB3,724,187 and RMB15,669,190 respectively.

(c) **Compensation of key management personnel**

Total emoluments of the Group's directors and senior managements during the Track Record Period are as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB	RMB	RMB
– Short-term benefits	2,875,700	3,131,673	3,112,537
– Contributions to defined contribution retirement plan	58,026	193,479	201,031
	<u>2,933,726</u>	<u>3,325,152</u>	<u>3,313,568</u>

The emoluments paid or payable to senior managements were within the following band:

	Year ended 31 December		
	2015	2016	2017
	No. of individuals	No. of individuals	No. of individuals
Nil to HK\$1,000,000	6	3	3



**34. COMMITMENTS****(a) Operating lease commitments**

Total future minimum lease payments under non-cancellable operating leases are due as follows:

	<b>The Group</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Not later than one year	3,878,997	12,212,042	29,244,466
Later than one year but not later than 5 years	1,788,537	17,195,107	26,273,744
	<u>5,667,534</u>	<u>29,407,149</u>	<u>55,518,210</u>
	<b>The Company</b>		
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Not later than one year	2,852,501	8,839,316	24,708,656
Later than one year but not later than 5 years	1,003,479	13,457,780	25,460,151
	<u>3,855,980</u>	<u>22,297,096</u>	<u>50,168,807</u>

The Group leases various offices, retail shops and warehouses under non-cancellable lease agreements. The lease terms are between one to twelve years.

The operating leases of certain retail shops also call for additional rentals, which will be based on a certain percentage of revenue of the operation being undertaken therein pursuant to the terms and condition as stipulated in the respective agreements. As the future revenue of these retail shops could not be accurately determined as at the end of the year, the relevant contingent rentals have not been included.

**(b) Capital commitments**

As at 31 December 2015, 2016 and 2017, the Group had no significant capital commitments.

**35. CONTINGENT LIABILITIES**

As at 31 December 2015, 2016 and 2017, the Group had no significant contingent liabilities.

## 36. NOTES SUPPORTING CASH FLOW STATEMENT

## Reconciliation of liabilities arising from financing activities

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

	As at 31 December 2014	Financing cash flows	Non-cash changes	As at 31 December 2015
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
			<i>(Note i)</i>	
Amount due to immediate holding company	350,860,188	(6,596,307)	11,000,000	355,263,881
	<u>350,860,188</u>	<u>(6,596,307)</u>	<u>11,000,000</u>	<u>355,263,881</u>
	As at 31 December 2015	Financing cash flows	Non-cash changes	As at 31 December 2016
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
			<i>(Note ii)</i>	
Amount due to immediate holding company	355,263,881	(208,268,895)	(146,994,986)	–
Interest-bearing bank borrowings	–	245,000,000	–	245,000,000
	<u>–</u>	<u>245,000,000</u>	<u>–</u>	<u>245,000,000</u>
	As at 31 December 2016	Financing cash flows	Non-cash changes	As at 31 December 2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Interest-bearing bank borrowings	245,000,000	40,000,000	–	285,000,000
	<u>245,000,000</u>	<u>40,000,000</u>	<u>–</u>	<u>285,000,000</u>

## Notes:

- (i) Non-cash changes for the year ended 31 December 2015 represents impairment loss on a loan receivable from a non-consolidated subsidiary transferred to the immediate holding company.
- (ii) Non-cash changes for the year ended 31 December 2016 represents the consideration from the disposal or deregistration of non-consolidated subsidiaries during the Reorganisation set out in note 2 settled by waiver of the amount due to Shanshan and the transfer of balances due from these non-consolidated subsidiaries to Shanshan.

## 37. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings as disclosed in Note 27, cash and cash equivalents and equity of the Company, comprising share capital, reserves and accumulated profits. The Group's risk management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

Based on the management's recommendations, the Group will balance its overall capital structure through the issue of new debts and the payment of dividends.

The gearing ratio at end of the Track Record Period was as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Debts	–	245,000,000	285,000,000
Cash and cash equivalents	(76,944,496)	(97,109,638)	(102,072,916)
Net debts	<u>(76,944,496)</u>	<u>147,890,362</u>	<u>182,927,084</u>
(Deficit)/equity	<u>(30,270,568)</u>	<u>147,172,087</u>	<u>186,599,529</u>
Net debts to equity ratio	<u>N/A</u>	<u>100%</u>	<u>98%</u>

### 38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group and the Company's financial assets and financial liabilities as recognised at 31 December 2015, 2016 and 2017 and may be categorised as follows:

	The Group		
	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Loans and receivables:</b>			
Trade and bills receivables	207,421,683	198,858,906	163,328,060
Other receivables	17,092,216	25,836,871	25,353,773
Amount due from immediate holding company	–	1,098,574	14,917,385
Amounts due from fellow subsidiaries	8,097,350	5,082,350	1,501,844
Pledged deposits	–	9,200,000	13,800,000
Cash and cash equivalents	76,944,496	97,109,638	102,072,916
	<u>309,555,745</u>	<u>337,186,339</u>	<u>320,973,978</u>
<b>Financial liabilities measured at amortised cost:</b>			
Trade and bills payables	127,128,881	174,424,924	184,153,651
Other payables and accruals	38,501,007	76,227,833	148,727,081
Interest-bearing bank borrowings	–	245,000,000	285,000,000
Amount due to immediate holding company	355,263,881	–	–
Amount due to an associate	4,582,254	1,833,834	4,216,683
Amounts due to fellow subsidiaries	2,845,000	–	–
Amount due to non-controlling shareholders of subsidiaries	17,503,047	12,094,224	3,200,000
	<u>545,824,070</u>	<u>509,580,815</u>	<u>625,297,415</u>

	The Company		
	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Loans and receivables:</b>			
Trade and bills receivables	199,421,828	188,865,595	157,070,059
Other receivables	4,462,253	24,544,578	24,958,653
Amount due from immediate holding company	–	585,527	14,018,196
Amounts due from fellow subsidiaries	4,996,870	4,976,870	1,377,513
Amount due from a subsidiary	–	113,900,000	103,900,000
Pledged deposits	–	9,200,000	13,800,000
Cash and cash equivalents	31,043,212	58,437,023	68,103,358
	<u>239,924,163</u>	<u>400,509,593</u>	<u>383,227,779</u>
<b>Financial liabilities measured at amortised cost:</b>			
Trade and bills payables	123,965,114	169,187,972	181,825,719
Other payables and accruals	16,997,898	62,830,985	142,546,599
Interest-bearing bank borrowings	–	245,000,000	285,000,000
Amounts due to non-consolidated subsidiaries	760,395	–	–
Amount due to immediate holding company	71,743,211	–	–
Amount due to an associate	4,791,532	1,820,031	4,216,683
Amounts due to fellow subsidiaries	677,902	–	–
	<u>218,936,052</u>	<u>478,838,988</u>	<u>613,589,001</u>

### 39. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. These risks are limited by the Group's financial management policies and practices described below:

#### (a) Credit risk

As at the end of Track Record Period, the Group's maximum exposure to credit risk which may cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual receivables at the end of the Track Record Period to ensure that adequate impairment losses are made for irrecoverable amounts.

Most of the Group's cash and cash equivalents are held in major reputable financial institutions in the PRC, which management believes are of high credit quality.

The Group's concentration of credit risk on the trade and bills receivables as at 31 December 2015, 2016 and 2017 included five major counterparties accounting for 37%, 30% and 32% of the trade and bills receivables respectively. The Group has closely monitored the recoverability of the advances to these counterparties and taken effective measures to ensure timely collection of outstanding balances. The Group has not obtained collateral from customers.

The Group is exposed to the concentration of geographic risk on revenue which is generated mostly from customers located in the PRC. The Group has closely monitored the business performance of these customers in the PRC.

**(b) Liquidity risk**

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. The management of the Company is satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future in the normal course of business.

The following table details the remaining contractual maturities at the end of Track Record Period of the Group's financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	The Group				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>31 December 2015</b>					
Trade and bills payables	127,128,881	127,128,881	127,128,881	–	–
Other payables and accruals	38,501,007	38,501,007	38,501,007	–	–
Amount due to immediate holding company	355,263,881	355,263,881	355,263,881	–	–
Amount due to an associate	4,582,254	4,582,254	4,582,254	–	–
Amounts due to fellow subsidiaries	2,845,000	2,845,000	2,845,000	–	–
Amount due to a non-controlling shareholder of a subsidiary	17,503,047	18,748,063	8,941,528	2,801,867	7,004,668
	<u>545,824,070</u>	<u>547,069,086</u>	<u>537,262,551</u>	<u>2,801,867</u>	<u>7,004,668</u>
<b>31 December 2016</b>					
Trade and bills payables	174,424,924	174,424,924	174,424,924	–	–
Other payables and accruals	76,227,833	76,227,833	76,227,833	–	–
Interest-bearing bank borrowings	245,000,000	249,120,613	249,120,613	–	–
Amount due to an associate	1,833,834	1,833,834	1,833,834	–	–
Amounts due to non-controlling shareholders of subsidiaries	12,094,224	12,962,841	5,989,383	2,789,383	4,184,075
	<u>509,580,815</u>	<u>514,570,045</u>	<u>507,596,587</u>	<u>2,789,383</u>	<u>4,184,075</u>
<b>31 December 2017</b>					
Trade and bills payables	184,153,651	184,153,651	184,153,651	–	–
Other payables and accruals	148,727,081	148,727,081	148,727,081	–	–
Interest-bearing bank borrowings	285,000,000	290,471,111	290,471,111	–	–
Amount due to an associate	4,216,683	4,216,683	4,216,683	–	–
Amount due to a non-controlling shareholder of a subsidiary	3,200,000	3,200,000	3,200,000	–	–
	<u>625,297,415</u>	<u>630,768,526</u>	<u>630,768,526</u>	<u>–</u>	<u>–</u>

	The Company				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>31 December 2015</b>					
Trade and bills payables	123,965,114	123,965,114	123,965,114	–	–
Other payables and accruals	16,997,898	16,997,898	16,997,898	–	–
Amounts due to non-consolidated subsidiaries	760,395	760,395	760,395	–	–
Amount due to immediate holding company	71,743,211	71,743,211	71,743,211	–	–
Amount due to an associate	4,791,532	4,791,532	4,791,532	–	–
Amounts due to fellow subsidiaries	677,902	677,902	677,902	–	–
	<u>218,936,052</u>	<u>218,936,052</u>	<u>218,936,052</u>	<u>–</u>	<u>–</u>
<b>31 December 2016</b>					
Trade and bills payables	169,187,972	169,187,972	169,187,972	–	–
Other payables and accruals	62,830,985	62,830,985	62,830,985	–	–
Interest-bearing bank borrowings	245,000,000	249,120,613	249,120,613	–	–
Amount due to an associate	1,820,031	1,820,031	1,820,031	–	–
	<u>478,838,988</u>	<u>482,959,601</u>	<u>482,959,601</u>	<u>–</u>	<u>–</u>
<b>31 December 2017</b>					
Trade and bills payables	181,825,719	181,825,719	181,825,719	–	–
Other payables and accruals	142,546,599	142,546,599	142,546,599	–	–
Interest-bearing bank borrowings	285,000,000	290,471,111	290,471,111	–	–
Amount due to an associate	4,216,683	4,216,683	4,216,683	–	–
	<u>613,589,001</u>	<u>619,060,112</u>	<u>619,060,112</u>	<u>–</u>	<u>–</u>

**(c) Interest rate risk**

The Group is not exposed to fair value interest rate risk in relation to its fixed-rate borrowings (see Note 27 for details) as they are carried at amortised costs. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is not exposed to cash flow interest rate risk as the interest rates of its borrowings are fixed (see Note 27 for details).

**(d) Currency risk**

Currency risk to the Group is minimal as most of the Group's transactions are carried out in functional currency.

## 40. NON-CONTROLLING INTERESTS

JIC Garments, a 55% owned subsidiary, and Lubiam Apparel, a 60% owned subsidiary of the Company, have material non-controlling interests. Summarised financial information in relation to the non-controlling interests of JIC Garments and Lubiam Apparel, before intra-group eliminations, are presented below:

	Year ended 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>JIC Garments</i>			
Revenue	28,179,732	23,600,682	23,410,961
Loss for the year and total comprehensive income	(3,863,286)	(4,097,937)	(16,384,027)
Loss allocated to non-controlling interests	(1,738,479)	(1,844,072)	(7,372,812)
Cash used in operating activities	(9,971,112)	(477,070)	(497,796)
Cash generated from/ (used in) investing activities	1,160,866	(2,621,883)	(2,550,800)
Cash generated from/ (used in) financing activities	12,673,128	(217,154)	(144,769)
Net cash inflows/(outflows)	<u>3,862,882</u>	<u>(3,316,107)</u>	<u>(3,193,365)</u>
<i>Lubiam Apparel</i>			
Revenue	47,332,497	34,666,778	32,003,860
Profit/(loss) for the year and total comprehensive income	4,530,348	1,035,200	(1,590,802)
Profit/(loss) allocated to non-controlling interests	1,812,139	414,080	(636,321)
Cash generated from/ (used in) operating activities	8,189,874	1,965,296	(992,964)
Cash used in investing activities	(175,337)	(542,531)	(1,261,723)
Net cash inflows/(outflows)	<u>8,014,537</u>	<u>1,422,765</u>	<u>(2,254,687)</u>

	As at 31 December		
	2015	2016	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<i>JIC Garments</i>			
Current assets	33,691,172	26,491,358	20,182,994
Non-current assets	11,006,180	9,907,620	1,711,110
Current liabilities	(15,280,356)	(13,661,926)	(18,055,181)
Non-current liabilities	(8,935,024)	(6,353,017)	(3,838,915)
Net assets	<u>20,481,972</u>	<u>16,384,035</u>	<u>8</u>
Accumulated non-controlling interests	<u>9,216,887</u>	<u>7,372,816</u>	<u>3,159,584</u>
<i>Lubiam Apparel</i>			
Current assets	65,364,755	64,380,958	60,959,611
Non-current assets	799,615	976,665	1,818,987
Current liabilities	(9,096,297)	(7,254,351)	(6,266,129)
Net assets	<u>57,068,073</u>	<u>58,103,272</u>	<u>56,512,469</u>
Accumulated non-controlling interests	<u>22,827,229</u>	<u>23,241,309</u>	<u>22,604,988</u>

### III. SUBSEQUENT EVENTS

(a) Lubiam Apparel, Fashion Brand and a non-controlling shareholder of Lubiam Apparel, namely, Lubiam Moda per L'Uomo, were engaged in an arbitration proceeding in respect of the joint venture agreement of Lubiam Apparel in the ICC International Court of Arbitration, in which Lubiam Moda per L'Uomo claimed that Fashion Brand was in breach of the joint venture agreement. Lubiam Moda per L'Uomo sought for i) losses of approximately RMB6.6 million as a result of a reform of the joint venture implemented by Fashion Brand in 2012 which constitute a breach of the joint venture agreement; and ii) an undistributed dividend of RMB3.2 million plus interest which were approved by directors of the joint venture in a board resolution in 2015. Pursuant to a final award dated 9 March 2018, the arbitral tribunal of this arbitration proceeding ruled that:

- (i) Fashion Brand is not liable for the damages of approximately RMB6.6 million sought by Lubiam Moda per L'Uomo; and
- (ii) Fashion Brand is required to pay RMB3.2 million, together with the relevant interests, to Lubiam Moda per L'Uomo relating to the dividend distribution of Lubiam Apparel for the year ended 31 December 2014 proposed in 2015.



This arbitration proceeding had concluded after the issuance of the final award. Accordingly, a provision of RMB3.2 million was recognised in other gains and losses of the Group for the year ended 31 December 2015.

- (b) On March 26, 2018, Fashion Brand and non-controlling shareholders of JIC Garments, namely Forall Confezioni S.P.A. (“Forall Confezioni”) and Hong Kong Shanshan Resource Company Limited (“Shanshan HK”), entered into an equity purchase agreement with Wang Qin, an Independent Third Party, pursuant to which Fashion Brand, Forall Confezioni and Shanshan HK agreed to transfer their respective 55%, 35% and 10% equity interests in JIC Garments to Mr. Wang Qin at a nominal consideration of EUR0.85, EUR1.0 and EUR0.15, respectively.

#### **IV. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2017.

The information set out in this Appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

**(A) STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group as if the Global Offering had taken place on 31 December 2017.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, may not give a true picture of the financial position of the Group as at 31 December 2017 or any future dates.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributed to the owners of the Company as at 31 December 2017 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<b>Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$3.28 per Share	158,204	61,761	219,965	1.65	2.02
Based on the Offer Price of HK\$4.91 per Share	158,204	104,666	262,870	1.97	2.41

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 are based on audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2017 of RMB160,808,669 as shown in the Accountants' Report set out in Appendix I to this prospectus with adjustment for intangible assets of the Group attributable to owners of the Company of RMB2,604,565.
2. The estimated net proceeds from the Global Offering are based on the total of 33,400,000 indicative Offer Price of HK\$3.28 and HK\$4.91 per Share, after deduction of the underwriting fees and related expenses payable by the Group which has not been reflected in consolidated net tangible assets of the Group as at 31 December 2017. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars to Renminbi at an exchange rate of HK\$1.00 to RMB0.81672.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 133,400,000 Shares in issue immediately following the completion of the Global Offering but takes no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.81672. No presentation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that date.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

**(B) ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for inclusion in this prospectus, received from the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.*



Tel : +852 2218 8288  
Fax : +852 2815 2239  
www.bdo.com.hk

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

電話 : +852 2218 8288  
傳真 : +852 2815 2239  
www.bdo.com.hk

香港干諾道中111號  
永安中心25樓

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF SHANSHAN BRAND MANAGEMENT CO., LTD**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shanshan Brand Management Co. Ltd (the "Company") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Company as at 31 December 2017, and related notes as set out on pages II-1 to II-2 in Part A of Appendix II of the Company's prospectus dated 12 June 2018 (the "Prospectus") in connection with the proposed initial public offering of the shares of the Company (the "Global Offering"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Notes 2 to 5 in Part A of Appendix II of the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Global Offering on the Company's consolidated financial position as at 31 December 2017 as if the Global Offering had taken place on the same date. As part of this process, information about the Company's consolidated financial position has been extracted by the directors of the Company from the Company's financial information for the three years ended 31 December 2015, 2016 and 2017, on which an accountants' report set out in Appendix I of the Prospectus has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

### **BDO LIMITED**

*Certified Public Accountants*

Hong Kong

12 June 2018

In accordance with relevant rules and regulations applicable to enterprises whose shares are listed on a stock exchange in the PRC, Shanshan, a Controlling Shareholder of the Group whose shares are listed on the Shanghai Stock Exchange of the PRC, has published its unaudited first quarterly financial information for the three months ended March 31, 2018.

The following is the text of the unaudited first quarterly financial information of Shanshan, which comprises the statements of financial position as of December 31, 2017 and March 31, 2018; the statements of comprehensive income for the three months ended March 31, 2017 and 2018; the statements of cash flows for the three months ended March 31, 2017 and 2018 of Shanshan and its subsidiaries (collectively the “**Shanshan Group**”) as extracted and translated from the Chinese version of the unaudited first quarterly financial information of Shanshan Group published on the internet website of the Shanghai Stock Exchange of the PRC ([www.sse.com.cn](http://www.sse.com.cn)) on April 26, 2018. The unaudited first quarterly financial information of Shanshan Group has been prepared in accordance with the PRC GAAP. The board of directors, board of supervisors, directors, supervisors and senior management of Shanshan Group acknowledged the responsibility to ensure the content of the unaudited first quarterly financial information to be true, accurate, complete and free from misrepresentation, misleading statements and material omissions and will bear joint and several legal liabilities. The English text is translated for the purpose of inclusion in this Prospectus and is for reference only. Shall there be any discrepancies or inconsistencies between the English and Chinese versions of the unaudited first quarterly financial information, the Chinese version shall prevail.

## A. UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

## (a) Unaudited statements of financial position

*(prepared in accordance with PRC GAAP)*

	Consolidated		Shanshan Group	
	As of	As of	As of	As of
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	RMB	RMB	RMB	RMB
<b>Current assets:</b>				
Cash and cash equivalents	1,718,765,820.45	1,667,160,854.76	552,045,922.89	630,077,795.27
Financial assets at fair value through profit or loss	429,462.76	602,281.06	-	-
Bills receivables	510,697,185.79	541,571,130.25	500,000.00	48,306,406.69
Trade receivables	3,116,874,734.44	2,713,761,282.33	21,601,912.10	18,638,715.23
Prepayments	548,325,300.86	430,210,619.17	10,449,172.81	2,712,264.15
Other receivables	264,100,883.82	205,818,654.45	3,165,881,614.95	2,981,160,791.61
Inventories	3,022,121,218.44	2,333,520,492.96	-	-
Assets classified as held for sale	22,483,848.70	81,052,160.83	-	-
Non-current assets due within one year	623,729,938.39	595,031,736.56	-	-
Other current assets	737,494,113.72	675,784,270.73	302,802,818.72	300,000,000.00
<b>Total current assets</b>	<b>10,565,022,507.37</b>	<b>9,244,513,483.10</b>	<b>4,053,281,441.47</b>	<b>3,980,895,972.95</b>
<b>Non-current assets:</b>				
Available-for-sale financial assets	7,359,540,660.37	6,402,880,902.28	3,257,765,710.37	3,050,656,095.99
Long-term receivables	533,026,653.89	584,412,766.18	-	-
Long-term equity investments	1,491,540,276.44	1,453,845,789.62	4,930,998,455.03	4,801,492,968.10
Fixed assets	2,890,858,592.75	2,645,360,347.41	475,161,088.65	480,267,666.90
Construction in progress	853,724,773.51	1,002,978,864.19	-	-
Construction materials	3,337,312.24	1,864,592.51	-	-
Intangible assets	373,581,737.72	374,607,090.46	98,410,415.60	99,175,617.23
Goodwill	162,659,882.26	162,659,882.26	-	-
Long-term deferred expenditures	47,890,975.33	46,806,556.20	5,727,400.77	6,168,232.74
Deferred tax assets	69,102,968.12	69,060,802.69	357,011.04	357,011.04
Other non-current assets	145,332,156.48	84,199,290.61	-	-
<b>Total non-current assets</b>	<b>13,930,595,989.11</b>	<b>12,828,676,884.41</b>	<b>8,768,420,081.46</b>	<b>8,438,117,592.00</b>
<b>Total assets</b>	<b>24,495,618,496.48</b>	<b>22,073,190,367.51</b>	<b>12,821,701,522.93</b>	<b>12,419,013,564.95</b>



	Consolidated		Shanshan Group	
	As of	As of	As of	As of
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	RMB	RMB	RMB	RMB
<b>Current liabilities:</b>				
Short-term borrowings	3,617,326,708.00	2,987,722,662.40	2,051,000,000.00	1,851,000,000.00
Bills payables	1,473,918,365.55	1,581,962,353.00	–	–
Trade payables	2,093,146,374.92	1,409,019,628.91	21,935,273.25	42,650,043.57
Receipt in advance	117,989,912.79	102,658,376.78	33,538,628.16	32,197,904.00
Salaries and welfare payables	48,827,481.62	79,154,641.68	3,898,331.14	6,475,694.61
Tax payables	144,960,299.49	175,037,903.61	87,276,941.98	108,541,098.77
Interest payables	41,280,663.58	74,600,627.75	4,687,500.00	49,112,893.67
Dividend payables	701,360.00	701,360.00	701,360.00	701,360.00
Other payables	356,984,986.53	286,438,902.46	1,051,873,146.63	970,505,397.82
Liabilities classified as held-for-sale	22,483,841.01	22,483,841.01	–	–
Non-current liabilities due within one year	124,261,097.11	154,953,393.11	–	–
Other current liabilities	4,083,243.08	3,835,159.19	–	–
<b>Total current liabilities</b>	<b>8,045,964,333.68</b>	<b>6,878,568,849.90</b>	<b>3,254,911,181.16</b>	<b>3,061,184,392.44</b>
<b>Non-current liabilities:</b>				
Long-term borrowings	967,320,392.67	865,961,842.49	–	–
Debt securities issued	748,676,281.42	748,315,267.27	748,676,281.42	748,315,267.27
Long-term payables	215,946,547.82	224,802,062.01	–	–
Estimated liabilities	9,405,095.89	9,405,095.89	–	–
Deferred income	236,199,561.78	227,655,489.34	–	–
Deferred tax liabilities	1,329,009,173.31	1,088,750,094.11	780,056,293.60	728,278,890.00
Other non-current liabilities	900,000,001.92	900,000,001.92	–	–
<b>Total non-current liabilities</b>	<b>4,406,557,054.81</b>	<b>4,064,889,853.03</b>	<b>1,528,732,575.02</b>	<b>1,476,594,157.27</b>
<b>Total liabilities</b>	<b>12,452,521,388.49</b>	<b>10,943,458,702.93</b>	<b>4,783,643,756.18</b>	<b>4,537,778,549.71</b>

## APPENDIX III

UNAUDITED FIRST QUARTERLY FINANCIAL  
INFORMATION OF SHANSHAN GROUP

	Consolidated		Shanshan Group	
	As of	As of	As of	As of
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	RMB	RMB	RMB	RMB
<b>Equity:</b>				
Share capital	1,122,764,986.00	1,122,764,986.00	1,122,764,986.00	1,122,764,986.00
Capital reserve	2,952,259,402.88	2,952,259,402.88	2,958,770,631.81	2,958,770,631.81
Other comprehensive income	3,972,719,266.36	3,256,208,979.56	2,339,739,834.65	2,184,298,015.96
Special reserve	1,281,556.97	586,438.78	–	–
Surplus reserve	177,724,340.10	177,724,340.10	177,724,340.10	177,724,340.10
Retained profits	3,073,453,690.77	2,923,685,299.38	1,439,057,974.19	1,437,677,041.37
Total owners' equity attributable to the equity holders of the parent company	11,300,203,243.08	10,433,229,446.70	–	–
Non-controlling interests	742,893,864.91	696,502,217.88	–	–
<b>Total equity</b>	<u>12,043,097,107.99</u>	<u>11,129,731,664.58</u>	<u>8,038,057,766.75</u>	<u>7,881,235,015.24</u>
<b>Total liabilities and equity</b>	<u>24,495,618,496.48</u>	<u>22,073,190,367.51</u>	<u>12,821,701,522.93</u>	<u>12,419,013,564.95</u>

## (b) Unaudited statements of comprehensive income

*(prepared in accordance with PRC GAAP)*

	Consolidated		Shanshan Group	
	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	RMB	RMB	RMB	RMB
I. Total revenue	1,813,531,187.95	1,537,699,891.71	17,887,769.86	8,937,902.80
II. Total operating costs	1,695,832,925.49	1,451,876,937.13	-	-
Including: Operating costs	1,338,386,901.09	1,123,121,816.57	1,122,840.90	-
Tax and surcharges	8,030,997.66	6,540,985.76	23,153.01	84,932.48
Selling expenses	99,433,504.20	98,643,273.18	3,680,316.18	4,689,136.59
Administrative expenses	170,142,964.65	170,135,328.93	21,025,565.40	18,806,662.34
Finance costs	63,588,084.29	38,374,349.72	13,796,839.76	8,016,909.99
Asset impairment losses	16,250,473.60	15,061,182.97	9,878,106.32	10,833,628.80
Add: Gain/(loss) from change in fair value	(172,818.30)	68,138.21	-	-
Investment income	41,478,254.57	42,217,424.40	32,295,879.02	36,230,604.01
Including: Gain from investment in associates and joint ventures	37,584,878.91	40,181,593.44	32,295,879.02	36,230,604.01
Gain/(loss) from disposal of assets	37,184,672.43	(604,509.87)	-	(2,753.59)
Other gains	24,606,663.15	-	724,190.00	-
III. Operating profit	220,795,034.31	127,504,007.32	1,381,017.31	2,734,483.02
Add: Non-operating income	2,687,397.90	4,746,782.31	-	20,000.00
Less: Non-operating expenses	389,201.93	733,246.00	84.49	-
IV. Total profit	223,093,230.28	131,517,543.63	1,380,932.82	2,754,483.02
Less: Income tax expenses	42,705,450.68	27,542,146.75	-	-
V. Net profit	180,387,779.60	103,975,396.88	1,380,932.82	2,754,483.02
(I) Categorized by operation continuity				
1. Net profit from continuing operations	180,387,779.60	103,975,396.88	1,380,932.82	2,754,483.02
(II) Categorized by ownership				
1. Non-controlling interests	30,619,388.21	20,559,240.23	-	-
2. Net profit attributable to shareholders of the parent company	149,768,391.39	83,416,156.65	-	-

**APPENDIX III**
**UNAUDITED FIRST QUARTERLY FINANCIAL  
INFORMATION OF SHANSHAN GROUP**

	Consolidated		Shanshan Group	
	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
VI. Net other comprehensive income after tax	716,510,286.80	208,190,110.64	155,441,818.69	205,494,330.01
Net other comprehensive income after tax attributable to equity holders of the parent company	716,510,286.80	208,190,110.64	-	-
(I) Other comprehensive income that will be reclassified to profit or loss in future	716,510,286.80	208,190,110.64	155,441,818.69	205,494,330.01
1. Share of other comprehensive income of investees that will be reclassified to profit or loss in future under equity method	109,607.91	1,699,132.04	109,607.91	1,699,132.04
2. Gain or loss arising from changes in the fair value of available-for-sale financial assets	716,400,678.89	206,490,978.60	155,332,210.78	203,795,197.97
VII. Total comprehensive income	896,898,066.40	312,165,507.52	156,822,751.51	208,248,813.03
Total comprehensive income attributable to equity holders of the parent company	866,278,678.19	291,606,267.29	-	-
Total comprehensive income attributable to non-controlling interests	30,619,388.21	20,559,240.23	-	-
VIII. Earnings per share:				
(I) Earnings per share, basic (RMB/share)	<u>0.133</u>	<u>0.074</u>	<u>0.001</u>	<u>0.002</u>
(II) Earnings per share, diluted (RMB/share)	<u>0.133</u>	<u>0.074</u>	<u>0.001</u>	<u>0.002</u>

## (c) Unaudited statements of cash flows

*(prepared in accordance with PRC GAAP)*

	Consolidated		Shanshan Group	
	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	RMB	RMB	RMB	RMB
<b>I. Cash flow generated from operating activities:</b>				
Cash received from sales of goods and provision of labor services	1,882,075,874.79	1,173,060,580.15	8,341,643.56	24,956,574.42
Tax refunds received	22,132,637.82	2,424,842.77	-	-
Cash received from other operating activities	72,458,917.38	65,929,096.00	386,429,053.89	238,489,992.64
<b>Sub-total of cash inflow from operating activities</b>	<b>1,976,667,429.99</b>	<b>1,241,414,518.92</b>	<b>394,770,697.45</b>	<b>263,446,567.06</b>
Cash paid for purchase of goods and engagement of labor services	1,919,688,411.35	1,136,302,894.82	1,000,000.00	764,268.00
Cash paid to and for employees	160,894,774.85	137,635,047.07	9,013,629.55	6,180,339.57
Payments of various taxes	98,591,034.26	97,832,469.66	23,806,879.10	30,082,855.36
Cash paid for other operating activities	221,787,545.19	206,443,209.37	452,200,078.68	559,154,127.70
<b>Sub-total of cash outflow from operating activities</b>	<b>2,400,961,765.65</b>	<b>1,578,213,620.92</b>	<b>486,020,587.33</b>	<b>596,181,590.63</b>
<b>Net cash flow from operating activities</b>	<b>(424,294,335.66)</b>	<b>(336,799,102.00)</b>	<b>(91,249,889.88)</b>	<b>(332,735,023.57)</b>
<b>II. Cash flow generated from investing activities:</b>				
Cash received from disposal of investment	4,000,000.00	458,120,586.00	-	-
Cash received from investment gains	3,774,802.99	259,422.12	-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	96,397,809.41	133,100.00	-	11,000.00
Cash generated from other investing activities	704,627.47	-	14,928,055.82	-
<b>Sub-total of cash inflow from investing activities</b>	<b>104,877,239.87</b>	<b>458,513,108.12</b>	<b>14,928,055.82</b>	<b>11,000.00</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	273,763,381.49	189,666,226.10	26,399,035.21	8,066,960.80
Cash paid for investments	-	592,030,276.05	97,100,001.00	51,307,565.05
<b>Sub-total of cash outflow from investing activities</b>	<b>273,763,381.49</b>	<b>781,696,502.15</b>	<b>123,499,036.21</b>	<b>59,374,525.85</b>
<b>Net cash flow from investing activities</b>	<b>(168,886,141.62)</b>	<b>(323,183,394.03)</b>	<b>(108,570,980.39)</b>	<b>(59,363,525.85)</b>

	Consolidated		Shanshan Group	
	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	RMB	RMB	RMB	RMB
<b>III. Cash flow generated from financing activities:</b>				
Cash received from investors	16,000,000.00	4,000,000.00	-	-
Including: Cash received by subsidiaries from investment by non-controlling shareholders	16,000,000.00	4,000,000.00	-	-
Cash received on drawdown of loans	2,119,549,712.41	941,000,000.00	1,330,000,000.00	640,000,000.00
Cash received from other financing activities	13,007,473.68	-	-	-
<b>Sub-total of cash inflow from financing activities</b>	<b>2,148,557,186.09</b>	<b>945,000,000.00</b>	<b>1,330,000,000.00</b>	<b>640,000,000.00</b>
Cash paid for repayment of debt	1,387,684,791.83	881,997,364.70	1,130,000,000.00	810,000,000.00
Cash paid for distribution of dividend or profit or payment of interests	103,912,925.91	104,469,703.95	78,211,002.11	96,076,525.00
Cash paid for other financing activities	-	62,722,398.04	-	-
<b>Sub-total of cash outflow from financing activities</b>	<b>1,491,597,717.74</b>	<b>1,049,189,466.69</b>	<b>1,208,211,002.11</b>	<b>906,076,525.00</b>
<b>Net cash flow from financing activities</b>	<b>656,959,468.35</b>	<b>(104,189,466.69)</b>	<b>121,788,997.89</b>	<b>(266,076,525.00)</b>
<b>IV. Effect on cash and cash equivalents from change of exchange rates</b>	<b>816,448.30</b>	<b>(562,211.55)</b>	<b>-</b>	<b>(2.09)</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>64,595,439.37</b>	<b>(764,734,174.27)</b>	<b>(78,031,872.38)</b>	<b>(658,175,076.51)</b>
Add: Cash and cash equivalents at the beginning of the period	1,091,949,802.27	2,245,889,715.21	628,150,795.27	1,529,578,148.67
<b>VI. Cash and cash equivalents at the end of the period</b>	<b>1,156,545,241.64</b>	<b>1,481,155,540.94</b>	<b>550,118,922.89</b>	<b>871,403,072.16</b>

**OVERVIEW**

The following is a summary of certain PRC tax consequences on investors relating to the ownership of H shares by an investor who purchases such H Shares in the Global Offering and holds the H shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the tax laws of the PRC in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section in this prospectus does not address any aspect of the PRC or taxation other than income tax, capital tax, business tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisors regarding the PRC and other tax consequences of investing in H Shares.

**TAXATION IN THE PRC****Taxation on dividends***Individual investors*

According to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (“**IIT Law**”), as amended, and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation authority of the State Council or reduced by an applicable tax treaty.

*Enterprises*

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (“**EIT Law**”), and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), both effective on January 1, 2008, a PRC resident enterprise is generally subject to a 25% EIT on all incomes. According to the EIT Law and its implementing rules, dividends paid to its investor which is an eligible PRC resident enterprise can be exempted from the EIT and dividends paid to its non-PRC resident enterprise investors, who do not have an establishment or place of business in the PRC, or if established, the relevant dividends that are in fact not associated with such establishment or place of business in the PRC, are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC Government provide otherwise.

*Notice on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders* (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》國稅函[2008]897號) (Guo Shui Han [2008] No. 897) issued by the

SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold EIT at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares which are derived out of profit generated since January 1, 2008. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Pursuant to the *Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Arrangement**”) signed on August 21, 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident by a PRC company, but such tax shall not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident enterprise directly holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the total amount of dividends payable by that PRC company.

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau may be entitled to preferential treatment of the withholding tax imposed on dividends received by such investors from the PRC company. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement must apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate, subject to the approval of the PRC tax authorities.

### **Taxation on gains from share transfer**

#### ***Individual investors***

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the *Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares* (《個人轉讓股票所得繼續暫免徵收個人所得稅的通知》財稅字[1998]61號) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, effective from January 1, 1997, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. After the latest amendment to the IIT Law on June 30, 2011 and its implementing rules amended on July 19, 2011 and implemented on September 1, 2011, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the *Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales*



*Limitation* (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》財稅[2009]167號) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for shares of certain specified companies which are subject to sales limitations (as defined in the supplementary notice of such Circular issued on November 10, 2010). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that IIT shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change the practice which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H shares.

### *Enterprises*

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

### **PRC stamp duty**

Under the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) amended on January 8, 2011 and the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例實施細則》), effective on October 1, 1988, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside PRC.

### **PRC legacy duty**

The PRC currently does not impose any legacy duty.

### **Major taxes on the company in the PRC**

Please see “Regulatory Overview” in this prospectus for further details.

### **ADMINISTRATION OF FOREIGN EXCHANGE IN THE PRC**

Renminbi is the lawful currency of the PRC, which is subject to foreign exchange controls and is not freely exchangeable. The SAFE, under the authorization of the People's Bank of China (the “PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the *Regulations of the People's Republic of China for the Administration of Foreign Exchange* (《中華人民共和國外匯管理條例》) (“**Foreign Exchange Administrative Regulations**”) which became effective from April 1, 1996. The Foreign Exchange Administrative Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are not subject to SAFE approval while capital account items are. The latest amended (on August 5, 2008) Foreign Exchange Administrative Regulations clarifies that the State does not impose restrictions on international payments and transfers under the current account items.

Pursuant to relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated foreign exchange banks and can be deposited into foreign exchange accounts at the designated foreign exchange banks.

The PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of the SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

The Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (國務院關於取消和調整一批行政審批項目等事項的決定), which was issued and became effective on October 23, 2014, canceled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

#### **SAFE Circular 54**

According to the Circular on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (Hui Fa [2014] No. 54, the “**Circular 54**”) (《關於境外上市外匯管理有關問題的通知》匯發[2014]54號) issued by SAFE on December 26, 2014, a domestic issuer shall, within 15 working days after the completion of the offering of shares for its overseas listing, register overseas listing with the Foreign Exchange Bureau at the place of its incorporation. After overseas listing, a domestic shareholder intending to increase or reduce his holding of overseas shares of the listed company shall register his shareholding with the local Foreign Exchange Bureau at the place where he resides within 20 working days before the increase and reduction of shares with related materials. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the prospectus and other disclosure documents.

**OVERVIEW**

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, arbitration system, securities laws and especially elaborates company law and regulations. It also contains a summary of certain requirements of Hong Kong Listing Rules. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies Ordinance (《公司條例(香港)》), certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix IV to this prospectus.

**THE PRC LEGAL SYSTEM**

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives, local regulations and rules, and international treaties entered into by China. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC (the "SCNPC") are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing the State organs, civil and criminal matters. The SCNPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue regulations, rules and measures within the jurisdiction of their respective departments. All administrative rules, regulations, and measures promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC and the SCNPC. In the event that any such conflict arises, the Standing Committee of the NPC has the power to abrogate such administrative rules, regulations and measures.

Local regulations may be enacted or issued at the provincial or municipal people's congresses and the standing committees of the provincial or municipal people's congresses. The local governments may promulgate rules applicable to their own administrative region. However, these local regulations must not conflict with the PRC Constitution, the national laws, or the administrative rules and regulations promulgated by the State Council, as well as the administrative regulations promulgated by the State Council.

The power to interpret laws is vested by the PRC Constitution in the SCNPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, the Supreme Court of the PRC has the power to give brief interpretation on the specific application of laws in judicial proceedings of the court in addition to its power to issue specific interpretation for specific cases.

## THE PRC JUDICIAL SYSTEM

Pursuant to the Law of Organization of the People's Courts of PRC (《中華人民共和國人民法院組織法》) passed on July 1, 1979 and lately amended on October 31, 2006, the PRC judicial system is composed of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are divided into criminal, civil, and administrative divisions as well as certain people's courts based on the natures of the region, population and cases. The intermediate people's courts and higher people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division and juvenile delinquency division), in accordance with needs. The Supreme People's Court is the highest judicial authority of PRC.

The PRC adopt a two-tier judicial system. If a party is not satisfied with a judgment or order of the first instance of a local people's court, it may appeal against such judgment or order to the people's court at the next higher level, and the judgments or orders of the second instance of the people's court at the higher level or the judgments or orders of the first instance of the Supreme People's Court are final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's courts at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures. If a party considers an error exists in a final and binding judgment, which has taken effect, it may appeal for a retrial to the original people's court or a people's court at a higher level.

The PRC civil procedures are governed by the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**") adopted on April 9, 1991 and newly amended on June 27, 2017, which prescribes the criteria for filing a civil lawsuit, the jurisdiction of the people's courts, the procedures for a civil lawsuit, the court procedures, and the procedures for enforcement of a civil judgment or order. All parties to a civil lawsuit conducted within the PRC must comply with the Civil Procedure Law. A general civil case is heard by a people's court located in the defendant's place of domicile. A court may also be specified in a contract by express agreement by the parties to preside the case provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action

but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreigner, stateless person, foreign enterprise and an organization is given the same litigation rights and obligations as a citizen, legal person and other organization of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens, legal person and other organization, the PRC courts may apply the principal of reciprocity to the Civil Litigation Rights of the citizens, enterprises and organizations of that foreign country. If any party to a civil lawsuit refuses to comply with a judgment or order made by a people's court or an award made by an arbitration organ in the PRC, the affected party may apply to the people's court to enforce the judgment, order or award. There are time limits of two years imposed on the right to apply for such enforcement.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to the PRC enforcement procedures by the people's court in accordance with the principle of reciprocity or the international treaty with the relevant foreign country entered into or involved in which provides for such recognition and enforcement unless the people's court considers that the recognition or enforcement of such a judgment or ruling will violate the basic legal principles of the PRC and its sovereignty or public security, or for reasons of social and public interest.

#### **THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS**

The Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”) was adopted by the NPC Standing Committee on December 29, 1993 and was amended four times on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013, respectively. The latest revised Company Law came into effect on March 1, 2014. The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Companies with Limited Liability (《國務院關於股份有限公司境外募集股份及上市特別規定》) (“**Special Regulations**”) was promulgated on August 4, 1994 by the State Council. The Mandatory Provisions for the Articles of Association of Companies Listing Overseas (《到境外上市公司章程必備條款》) (the “**Mandatory Provisions**”) was promulgated jointly by the CSRC and the State Commission for Restructuring on August 27, 1994. The Company Law, Special Regulations and Mandatory Provisions constitute the main regulatory framework for the joint stock companies with limited liability listed overseas, and their major provisions are summarized as follows:

##### **General**

A “company” is a corporate legal person incorporated in accordance with the Company Law with independent legal person status and entitlements to such legal person properties and liability to the extent of its total assets.

Companies can be divided into limited liability companies and joint stock companies with limited liability. The liability of shareholders of a limited liability company is limited to the amount of capital they contribute, while the liability of shareholders of a joint stock company with limited liability is limited to the amount of shares they subscribe.

**Incorporation**

A joint stock company with limited liability may be incorporated by promotion or subscription. A joint stock company with limited liability may be incorporated by a minimum of two but not more than 200 promoters. At least half of the promoters must have residence within the PRC.

The promoters shall convene an inauguration meeting within 30 days from the date the subscription amounts have been fully paid up. The inauguration meeting shall be constituted by the presence of the promoters and subscribers. Where shares issued remain undersubscribed by the deadline stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter return the subscription amounts so paid up together with interest at bank rates payable for a deposit of an equivalent amount for the same term. The promoters shall give notice to each of the subscribers or make a public announcement regarding the date of the inaugural meeting no less than 15 days before the date of the meeting. The inauguration meeting shall be held only if the promoters and subscribers representing more than half of the total shares issued are present.

Within 30 days after the conclusion of the inaugural meeting, the board of Directors shall apply to the registration authority for registration of the establishment of the company.

Upon the establishment of the joint stock company with limited liability, in the event that only partial payment of contribution has been made by a promoter, the remainder shall be paid in full in accordance with the provisions of the Articles of Association, whereas other promoters shall bear joint and several liabilities. Where the actual value of the non-monetary capital contribution for the establishment of the company is significantly lower than the carrying amount stated in the Articles of Association, the promoter of such contribution shall make up the difference, whereas other promoters shall bear joint and several liabilities.

Promoter(s) of a joint stock company with limited liability shall bear the following liabilities:

- where the company cannot be incorporated, they shall bear the joint and several liability for all the debts and expenses incurred in the act of incorporation;
- where the company cannot be incorporated, they shall bear the joint and several liability for refunding the subscription moneys paid by the subscribers, plus the bank deposit interest for the same period of time; and where the interests of the company are impaired due to the fault committed by the promoters in the process of the incorporation of the company, they shall bear the liability to pay compensation to the company.

**Amendments to the Articles of Association**

A company may amend its Articles of Association in accordance with the laws, administrative regulations and the Articles of Association. Any amendment to the Articles of Association involving any issue set out in the Mandatory Provisions shall become effective upon approval by the company approval department authorized by the State Council and by the CSRC. If there is any change relating to the registration of the company, application shall be made for registration of the changes in accordance with the laws.

The Mandatory Provisions requires that the company must not modify or delete those provisions in the articles of association related to the mandatory provisions of the articles of association without authorization.

**Share capital**

Under the Securities Law of PRC (《中華人民共和國證券法》) (the “**Securities Law**”), a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million.

The promoter of a joint stock company with limited liability may make capital contribution in cash or in kind or by injection of non-monetary property such as assets, intellectual property rights or land use rights with monetary value and lawfully transferrable, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made with non-monetary assets, a valuation and verification of the asset contributed must be carried out without any overvaluation or undervaluation. Where the law or administrative regulations in place have any other provisions on valuation, such provisions shall prevail.

The issuance of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank *pari passu* with each other and shall be issued on the same conditions and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares. The share offering price may be equal to or greater than the par value of the share, but may not be less than the par value.

A joint stock company with limited liability may issue registered or bearer share certificates. Approval from the CSRC shall be obtained for the purpose of public share offering overseas. Shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Foreign shares listed overseas may be issued in form of foreign depository receipts or other derivative means. Where a company issues foreign shares listed overseas that the total number of which falls below the total number of shares under the proposed offering, it may, upon approval of the CSRC, retain shares of not more than 15% of the total number of foreign share overseas listing under such proposed offering besides the amount of underwritten shares agreed with the underwriters. Issuance of the retained shares shall form a part of the offering. Shares issued to promoters and legal persons shall be registered under the names of such promoters and legal persons and shall not be registered under any other names or the names of its representatives.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisal must be carried out to ensure no overvaluation or under-valuation of the assets.

**Increase in share capital**

When a company is issuing new shares, resolutions shall be passed by the shareholders' general meeting approving the class, number and issue price of the new shares, the dates of commencement and completion of the issue and the class and amount of new shares to be issued to existing shareholders. When a company launches a public issue of new shares with the approval of the CSRC, a new share offering prospectus and financial report must be published and a subscription form must be prepared.

After the new share issuance of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made.

**Reduction of share capital**

A balance sheet and a property list shall be prepared for the purpose of the reduction of registered capital of a company.

The company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution regarding the reduction is made. The creditors of the company may require the company to pay its debts or provide guarantees for the debts within 30 days upon receiving such notice or, in the absence of such notice, within 45 days from the date of the relevant announcement.

The company shall register the change for capital reduction with the relevant company registration authority.

**Repurchase of shares**

A company may not purchase its own shares other than for one of the following purposes:

- to reduce its registered capital;
- to merge with another company that holds its shares;
- to grant shares to its employees as incentives; and
- to purchase its own shares from its shareholders who are against the resolution regarding the merger or demerger with another company in a shareholders' general meeting.



Where the company purchases its own shares for the purposes of the first to third items above, it shall obtain approval at the shareholders' general meeting. Following the acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of the first circumstance and transferred or canceled within six months in the case of the second to fourth circumstances above.

Shares acquired by the company for the purpose of the third item under paragraph one of this section shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the profit after tax of the company, and the shares so acquired shall be transferred to the employees of the company within one year.

### **Transfer of shares**

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only affect a transfer of its shares on a stock exchange established in accordance with law or by other ways as required by the State Council.

Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. Under the Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of the shareholders' general meeting or five days prior to the record date for the purpose of dividend distribution. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of shareholder's general meeting or five days prior to any base date for determination of dividend distributions. Where the laws in place have any other provisions on the registration of changes in the share register of listed companies, such provisions shall prevail.

The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder.

Shares held by a promoter may not be transferred within one year from the date of the establishment of a company. Shares of the company issued before the public offering of shares shall not be transferred within one year from the date on which the shares are listed and commenced trading on a stock exchange. Directors, supervisors and senior management of a company shall report to the company their shareholdings in the company and changes therein and shall not transfer more than 25% of the total number of shares they held in the company each year during their terms of office. The shares of the company held by them shall not be transferred within one year from the date on which the shares are listed. They shall not transfer the shares of the company held by them within six months from the date they leave the company. The Articles of Association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and senior management of the company.

**Shareholders**

A shareholder of a company is a person who lawfully holds shares in the company and whose name (title) is entered in the register of shareholders. A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him. Shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

The shareholders of ordinary shares of a company shall enjoy the following rights:

- the right to receive dividends and other distributions in proportion to their shareholdings;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise voting rights;
- the right to supervise the company's business operations, present proposals or raise queries;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- the right to obtain relevant information in accordance with the Articles of Association;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of remaining assets of the company in proportion with the number of shares held; and
- other rights conferred by laws, administrative regulations and the Articles of Association.

The shareholders of ordinary shares of the company shall assume the following obligations:

- to comply with the Articles of Association;
- to pay subscription money according to the number of shares subscribed and the method of subscription; and
- other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders of the company shall not abuse their shareholders' rights to damage the interests of the company or other shareholders, or to take advantage of the company's independent status or the limited liability of shareholders to damage the interests of the company's creditors.

**Derivative action by minority shareholders**

The Company Law provides shareholders of a joint stock company with limited liability with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock company with limited liability is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

**Shareholders' general meetings**

A shareholders' general meeting of a joint stock company with limited liability is formed by all shareholders. The shareholders' general meeting is the organ of authority of the company and shall exercise the following powers:

- to decide on the company's operational policies and investment plans;
- to elect or replace the Directors and supervisors (who are not staff representatives) and to decide on matters relating to the remuneration of Directors and supervisors;
- to examine and approve reports of the board of Directors;
- to examine and approve reports of the supervisory committee or supervisors;
- to examine and approve the proposed annual financial budget and final accounts of the company;
- to examine and approve the company's proposals for profit distribution and recovery of losses;
- to decide on any increase or reduction of registered capital of the company;

- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution, liquidation or change of nature of the company;
- to amend the Articles of Association of the company; and
- other powers as provided for in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary general meeting is required to be held within two months after the occurrence of any of the following:

- the number of Directors is less than the number stipulated by the law or less than two-thirds of the number specified in the Articles of Association;
- the losses of the company which are not recovered reach one third of the total paid-in share capital of the company;
- when shareholders alone or in aggregate holding 10% or more of the total shares of the company request;
- whenever the board of Directors deems necessary;
- when the supervisory committee so requests; or
- other circumstances as provided for in the Articles of Association.

Shareholders' general meetings shall be convened by the board of Directors, and presided over by the chairman of the board of Directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a Director nominated by more than half of Directors shall preside over the meeting. Where the board of Directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for 90 days consecutively may unilaterally convene and preside over such meeting.

To convene a shareholders' general meeting, a notice of the shareholders' a notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. Notice of the meeting in connection with the issuance of bearer's shares stating the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Shareholders alone or in aggregate holding more than 3% of the total shares of the company may put forward a new proposal in writing to the board of Directors ten days prior to the shareholders' general meeting. The board of Directors shall, within two days after receiving the new proposal, notify other shareholders thereof and submit such proposal to the shareholders' general meeting for consideration. The content of the proposal shall be within the scope of power of the shareholders' general meetings, including a clear subject and specific matters to be resolved. The shareholders' general meeting shall not decide on matters, which are not within its scope of above notices.

Holders of bearer's share certificates who wish to attend the shareholders' general meeting shall deposit their share certificates with the company five days before the meeting, and such share certificates shall remain in the custody of the company until the close of the shareholders' general meeting.

Shareholders present at a shareholders' general meeting shall have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of the amendments to the Articles of Association, addition or reduction of registered capital, merger, division, dissolution or change of nature of the company, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the Company Law and the Articles of Association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the Directors shall convene a shareholders' general meeting promptly to vote on the above matters.

The accumulative voting system may be adopted pursuant to the provisions of the Articles of Association or a resolution of the shareholders' general meeting for the election of Directors and supervisors at the shareholders' general meeting. For the election of Directors and supervisors at the shareholders' general meeting, each share shall be entitled to votes equivalent to the number of Directors or supervisors to be elected and shareholders may consolidate their voting rights when casting a vote.

A shareholder may appoint proxy to attend the shareholders' general meeting and the proxy shall submit the form of proxy to the company and exercise the voting rights within the scope of authorization. Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and Directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

### **Board of Directors**

A joint stock company with limited liability shall have a board of Directors, which shall consist of 5 to 19 members. Members of the board of Directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise.

The term of a Director shall be stipulated in the Articles of Association, provided that no term of office shall last for more than three years. A Director may serve consecutive terms if reelected. A Director shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a reelected Director takes office, if reelection is not conducted in a timely manner upon the expiry of his term of office or if the resignation of Directors results in the number of Directors being less than the quorum.

The board of Directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the Directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a Director nominated by more than half of Directors shall perform his duties.

The board of Directors shall be accountable to the shareholders' general meeting and exercises the following powers:

- to convene the shareholders' general meetings and report on its work at the shareholders' general meetings;
- to implement the resolutions passed in the shareholders' general meetings;
- to decide on the business plans and investment proposals of the company;
- to formulate the proposals of the annual financial budget and final accounts of the company;
- to formulate the proposals for profit distribution and recovery of losses of the company;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution or change of nature of the company;
- to decide on the internal management structure of the company;
- to appoint or dismiss the company's general manager and appoint or dismiss the deputy general managers and financial officers of the company based on the nomination of the general manager and to decide on their remuneration;
- to formulate the company's basic management system; and
- to exercise any other power under the Articles of Association.

Meetings of the board of Directors shall be convened at least twice a year. Notice of meeting shall be given to all Directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the Directors or the supervisory committee. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of Directors may provide for a different method of giving notice and notice period for convening an interim board meeting.

Meetings of the board of Directors shall be held only if half or more of the Directors are present. Resolutions of the board of Directors shall be adopted with approval of more than half of all Directors. Each Director shall have 1 vote for resolutions to be approved by the board of Directors.

Directors shall attend board meetings in person. If a Director is unable to attend a board meeting, he may appoint another Director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. Minutes shall be prepared in respect of matters considered at the board meeting and the Directors attending the meeting shall sign to endorse such minutes.

Directors shall be accountable to the resolutions of the board of Directors. If a resolution of the board of Directors violates the law, administrative regulations or the Articles of Association of the company, and as a result of which the company sustains serious losses, the Directors participating in the resolution are liable to compensate the company. However, if it can be proved that a Director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such Director may be relieved from that liability.

### **Supervisory committee**

A joint stock company with limited liability shall have a supervisory committee composed of not less than 3 members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, provided that the proportion of representatives of the company's staff shall not be less than one-third. The actual proportion shall be stipulated in the Articles of Association. Representatives of the company's staff and workers on the supervisory committee shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management may not act concurrently as supervisors.

The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a duly reelected supervisor takes office, if reelection is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- to review the company's financial position;
- to supervise the Directors and senior management in their performance of their duties and to propose the removal of Directors and senior management who have violated laws, regulations, the Articles of Association or shareholders' resolution;
- when the acts of Directors and senior management are harmful to the company's interests, to require correction of these acts;
- to propose the convening of extraordinary general meetings and to convene and preside over shareholders' meetings when the board of Directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- to make proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against Directors and senior management pursuant to Article 151 of the Company Law; and
- other powers specified in the Articles of Association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. Resolutions of the supervisory committee require the approval of more than half of all supervisors. Each Director shall have one vote for resolutions to be approved by the board of supervisors. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and the supervisors attending the meeting shall sign to endorse such minutes.



**Senior management**

Senior management shall mean the manager, deputy manager(s), financial controller, board secretaries of a listed company and other personnel as stipulated in the Articles of Association.

A joint stock company with limited liability shall have a manager who shall be appointed or removed by the board of Directors. The manager shall report to the board of Directors and may exercise the following powers:

- to supervise the production, operation and administration of the company and arrange for the implementation of board resolutions;
- to arrange for the implementation of the company's annual business and investment plans;
- to formulate plans for the establishment of the company's internal management structure;
- to formulate the basic administration system of the company;
- to formulate the company's internal rules;
- to recommend the appointment of or dismissal of deputy managers and any financial controller;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of Directors); and
- other powers conferred by the board of Directors.

Other provisions of the Articles of Association concerning the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

**Eligibility and obligations of Directors, supervisors and senior management**

The following persons may not serve as a Director, supervisor or senior management of a company:

- persons without civil capacity or with restricted civil capacity;
- persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former Directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence; and
- persons who have a relatively large amount of debts due and outstanding.

The Directors, supervisors and senior management shall comply with the laws, administrative regulations and the Articles of Association of the company and shall faithfully perform their due diligence obligations to the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- misappropriation of company funds;
- deposit of company funds into accounts under their own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the Articles of Association or without prior approval of the shareholders' general meeting or board of Directors;
- entering into contracts or deals with the company in violation of the Articles of Association or without prior approval of the shareholders' general meeting or board of Directors;

- using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accepting for their own benefit commissions from other parties dealing with the company;
- unauthorized divulgence of confidential information of the company; or
- other acts in violation of their duty of loyalty to the company.

Any Director, supervisor or senior management who violates any laws, administrative regulation or the Articles of Association of the company during the course of performing his duties and causes losses to the company shall be liable to compensate for any loss caused to the company. Where a Director or senior management violates any provisions of the laws, administrative regulations or the Articles of Association of the company which undermines the shareholders' interests, the shareholders shall be entitled to commence proceedings with the People's Court.

Where the attendance of a Director, supervisor or senior management is requested by the shareholders' meeting or shareholders' general meeting, such Director, supervisor or senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management shall furnish with all truthfulness facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory committee or the supervisors.

A company shall not directly, or through its subsidiary, provide loans to any Director, supervisor or senior management and shall regularly disclose to shareholders any information regarding remunerations received by the Directors, supervisors or senior management of the company.

#### **Finance and accounting systems and profit distribution**

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each fiscal year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

A joint stock company with limited liability shall deposit its financial statements at the company for inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock company with limited liability issuing its shares in public must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its profits for the company's statutory common reserve fund, except where the fund has reached over 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocating such profits to the statutory common reserve fund in accordance with the above provisions. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund.

After the joint stock company with limited liability has made good on its losses and made allocations to its common reserve fund, the remaining after-tax profits shall be distributed in proportion to the number of shares held by the shareholders, except when the Articles of Association provide not to distribute in proportion to their shareholding. Profit distributed to shareholders by the shareholders' general meeting or the board of Directors before losses have been made good and appropriations have been made to the statutory commons reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of a joint stock company with limited liability on issue and other incomes required by the financial department of the State Council to be treated as the capital common reserve shall be accounted for as capital common reserve of the company. The common reserve shall be applied to make up the company's losses, expand the production and business operations of the company or increase the company's capital. Nonetheless, the capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' general meeting or the board of Directors in accordance with the Articles of Association. The accountant shall be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of Directors of the company is going to conduct a poll on the dismissal of the accountant. The company shall provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant engaged without any refusal, withholding and false information. The accountant's term of office shall commence from the end of the annual general meeting of the company and it shall expire on the end of the next annual general meeting of the company.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

**Merger and division**

The merger of a company may be conducted by way of absorption or consolidation. As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within ten days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within thirty days. The creditors may, within thirty days as of the receipt of the notice or within 45 days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within thirty days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

**Dissolve and liquidation**

A company shall be dissolved by reason of the following:

- the term of its operations set down in the company's Articles of Association has expired or other events of dissolution specified in the company's Articles of Association have occurred;
- the shareholders' meeting or the shareholders' general meeting has resolved to dissolve the company;
- the company is dissolved by reason of its merger or demerger;
- the business licence is invalidated; the company is closed down, or is dissolved as ordered; or
- the company is dissolved by the People's Court in response to the request of shareholders with shareholding representing more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a source of significant losses for shareholders.

In the event of the first circumstance above, the company may carry on its existence by amending its Articles of Association. Where the company is dissolved in the first, second, fourth and fifth circumstances above, a liquidation committee shall be established and shall conduct liquidation within 15 days after the occurrence of an event of dissolution. Members of the liquidation committee of a joint stock company with limited liability shall be composed of its Directors or the person approved by the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court, requesting the court to appoint relevant personnel to form the liquidation committee. The People's Court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors or issue public notices;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the surplus assets of the company after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation committee shall notify the creditors within ten days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge its claim with the liquidation committee within thirty days after receiving notification, or within 45 days of the public notice if it did not receive any notification. A creditor shall state all matters relevant to its creditor rights in making its claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' general meeting or People's Court for endorsement. The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to shareholding proportion in the case of joint stock companies with

limited liability. The company shall continue to exist during the liquidation period, although it shall not engage in any operating activities that are not related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment is made in accordance with the foregoing provisions.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the People's Court for a declaration for bankruptcy according to laws. Following such declaration, the liquidation committee shall hand over the affairs of the liquidation to the People's Court. Upon completion of the liquidation, the liquidation committee shall prepare and submit a liquidation report at the shareholders' general meeting or to the People's Court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

### **SECURITIES LAW AND REGULATIONS AND REGULATORY REGIMES**

The CSRC is currently responsible for coordinating the drafting of relevant laws and regulations on securities and securities market, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising securities companies, regulating the domestic and overseas public issuance of securities by PRC companies, supervising securities trading, compiling securities-related statistics and conducting research and analysis.

On December 29, 1998, the SCNPC promulgated the Securities Law which came into effect on July 1, 1999. This is the fundamental law comprehensively regulating activities in PRC securities market. The Securities Law was newly amended on August 31, 2014. The Securities Law is applicable to the issuance and trading of shares, company bonds and other securities designated by the State Council in the PRC, and contains provisions of the issuance and transaction of securities, acquisitions of listed companies, and the duties and responsibilities of stock exchanges, security companies and the CSRC.

### **ARBITRATION LAW**

According to the Arbitration Law of PRC (《中華人民共和國仲裁法》) which was approved by the SCNPC on August 31, 1994, and subsequently amended on August 27, 2009 and September 1, 2017, any disputes over contracts and other interests among citizens, legal persons and other organizations with equal status may be settled by arbitration. Both parties shall reach an arbitration agreement voluntarily in order to settle the dispute through arbitration. The arbitration commission shall not accept any application for arbitration from a single party without arbitration agreement. The People's Court shall not accept filing of suit from a single party with arbitration agreement, except for invalid arbitration agreement. Under the Arbitration Law and the PRC Civil Procedure Law, the award of arbitration shall be final and conclusive. Neither the arbitration commission nor the People's Court shall accept any application of arbitration or filing of suit in relation to the same dispute once the award had been made. If the award is revoked or refused execution by the People's Court, the parties may apply for arbitration in accordance with a new mutual arbitration agreement or file a suit at the People's Court.

If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if the arbitration procedure or the formation of the arbitration committee goes beyond the scope of law, or the arbitral award exceeds the scope of arbitral agreement or the jurisdiction of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

Pursuant to Hong Kong Listing Rules and Mandatory Provisions, the articles of association of a PRC company listed in Hong Kong shall contain provisions in relation to arbitration. Disputes in respect of business affairs and rights between overseas listed foreign shareholders and the company, overseas listed foreign shareholders and the Directors, supervisors or senior management of the company, and overseas listed foreign shareholders and other shareholders, shall be settled by arbitration. Applicant may determine to refer the arbitration to China International Economic and Trade Arbitration Commission according to its arbitration rules or Hong Kong International Arbitration Centre according to its securities arbitration rules. Once the applicant refers a dispute or claim to arbitration, the other party must submit to the arbitral body determined by the applicant. If the applicant determines to arbitrate at Hong Kong International Arbitration Centre, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of Hong Kong International Arbitration Centre.

In the 18th meeting of the 6th SCNPC on December 2, 1986, China agreed to enter into the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") signed on June 10, 1958 at the United Nations conference on international commercial arbitration. According to the New York Convention, any party shall recognize and enforce arbitral awards of other parties with certain reciprocity reservation. Upon entering into the convention, SCNPC stated that China only recognized and enforced arbitral awards from overseas on a mutual beneficial basis, and the New York Convention shall be applicable only to any dispute over contractual and non-contractual business laws under the laws of PRC.

According to the Arrangement Concerning Mutual Enforcement of Arbitral Awards Between the Mainland and Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》) which was promulgated by the Supreme People's Court on June 18, 1999 and came into effect on February 1, 2000, the Courts in Hong Kong agree to enforce any awards made by the arbitral authorities in PRC pursuant to the Arbitration Law of the PRC, while the People's Courts in PRC agree to enforce any awards made pursuant to the Arbitration Ordinance of Hong Kong in Hong Kong.



**SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock company with limited liability established in the PRC that is seeking a listing of shares on the Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock company with limited liability incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

**Corporate existence**

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock company with limited liability may be incorporated by promotion or subscription. The latest amended PRC Company Law removed the general provisions on statutory minimum registered capital, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital in which case the company should follow such provisions.

**Share capital**

Under the new Companies Ordinance, the concept of the nominal value of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) canceling its shares. The concept of authorized capital no longer applies to a Hong Kong company formed on or after 3 March 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares.

The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisal must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

### **Restrictions on shareholding and transfer of shares**

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. In addition, pursuant to the “Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect” (《關於開展滬港股票市場交易互聯互通機制試點的公告》) (“**Shanghai-Hong Kong Stock Connect Notice**”), qualified PRC investors could buy specified overseas listed shares through systems such as Shanghai-Hong Kong Stock Connect.

Under the Company Law, shares in a joint stock company with limited liability held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares held by them, and the shares of the company held by such person cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person has left office. The articles of association may set other restrictive requirements on the transfer of the company’s shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company’s issue of shares and the 12-month lockup on controlling shareholders’ disposal of shares.

### **Financial assistance for acquisition of shares**

The PRC Company Law does not prohibit or restrict a joint stock company with limited liability or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance for acquisition of shares similar to those under the Hong Kong company law.

**Variation of class rights**

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled “Appendix VI — Summary of the Articles of Association” to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

**Directors**

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors’ interests in material contracts, restrictions on directors’ authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors’ liability and prohibitions against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

**Pre-emptive rights**

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required to the extent that the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and foreign shares as at the date of the passing of the relevant special resolution, or such shares are issued as part of the company’s plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee or such other competent state council securities regulatory authorities.

**Supervisory committee**

Under the PRC Company Law, a joint stock company with limited liability's directors and managers are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**Derivative action by minority shareholders**

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

The PRC Company Law provides shareholders of a joint stock company with limited liability with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock company with limited liability is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

**Protection of minorities**

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

**Notice of shareholders' meetings**

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of a general meeting, where convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

**Quorum for shareholders' meetings**

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

**Voting**

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

**Financial information disclosure**

Under the PRC Company Law, a joint stock company with limited liability is required to make available at the company for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexure 20 days before its shareholders' annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial position.

The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock company with limited liability is required under the PRC law to prepare its financial statements in accordance with the PRC General Accepted Accounting Principals as known as the Accounting Standards for Business Enterprises (《企業會計準則》) (the "ASBE").

The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC ASBE, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the material differences (if any) from the financial statements prepared in accordance with the PRC ASBE.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**Information on Directors and Shareholders**

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

**Receiving agent**

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (《香港受託人條例》) (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

**Corporate reorganization**

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock company with limited liability has to be approved by shareholders in general meeting.

**Dispute arbitration**

In Hong Kong, disputes between shareholders on one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre (the “HKIAC”) or the China International Economic and Trade Arbitration Commission, at the claimant’s choice.

**Fiduciary duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

**Mandatory deductions**

Under the PRC Company Law, a joint stock company with limited liability is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

**Remedies of the Company**

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies’ articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

**OVERVIEW**

Set out below is a summary of the principal provisions of the Articles of Association which were adopted at a general meeting of the Company held on June 7, 2016 and amended on November 8, 2016, November 24, 2017 and June 4, 2018. A copy of the full Chinese texts of the Articles of Association is available for inspection as mentioned in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VIII to this prospectus.

**DIRECTORS AND SENIOR MANAGEMENT****Limited power to dispose of the assets of the Company or any subsidiary**

The Board shall be responsible for the general meeting.

The Board shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet placed before the shareholders in general meeting.

For the purposes of the above paragraph, disposition of fixed assets includes an act involving the transfer of an interest in assets but does not include the provision of fixed asset by way of security.

The validity of a disposition by the Company of fixed assets shall not be impaired by the breach of the above paragraph.

**Remuneration and compensation and payments for loss of office**

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or Supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as Director, Supervisor or senior management of the Company;
- (2) emoluments in respect of his service as director, supervisor or senior management of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office or retirement from office.



No proceedings may be brought by a Director or Supervisor against the Company for any interest due to him in respect of the matters mentioned above except pursuant to a contract which has been entered into in the foregoing manner.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Directors and Supervisors shall, subject to the prior approval of shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purpose of this paragraph, a “takeover of the Company” includes any of the following:

- (1) an acquisition offer made by any person to all shareholders;
- (2) an acquisition offer made by any person with a view to the offeror becoming a “controlling shareholder” within the meaning set out in Article 58 of the Articles of Association.

If the relevant Director or Supervisor does not comply with the foregoing paragraph, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing that sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not be paid out of that sum.

#### **Loans to Directors, Supervisors and other senior management**

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a Director, Supervisor, general manager or other senior management of the Company or of holding company of the Company or any of their respective associates.

Any person who receives funds from a loan which has been made by the Company acting in breach of the foregoing provision shall, irrespective of the terms of the loan, forthwith repay such funds immediately.

#### **Financial assistance for the acquisition of shares in the Company or any of its subsidiaries**

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or is proposing to acquire shares in the Company. This includes any person who directly or indirectly assumes any obligations as a result of the acquisition of shares in the Company (the “**Obligor**”).

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to the Obligor for the purposes of reducing or discharging the obligations assumed by such person.

The following activities are not prohibited:

- (1) the provision of financial assistance by the Company where the financial assistance given in good faith in the interests of the Company, and the principal purpose of which is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;
- (2) the lawful distribution of the Company's assets as dividends;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganization of share capital structure of the Company effected in accordance with the Articles of Association;
- (5) the lending of money by the Company within its scope of business and in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- (6) contributions made by the Company to the employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For the purposes of the foregoing provisions,

- (a) "Financial assistance" includes (without limitation):
  - (1) gift;
  - (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the Obligor), compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;
  - (3) the provision of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement, or a change in the parties to, or the assignment of rights under, such a loan or other agreement; or
  - (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

- (b) “Assumption of obligation” include the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons) or by any other means which results in a change in his financial position.

### **Remuneration**

The emoluments of a Director shall be approved by shareholders in general meeting, please see “Remuneration and compensation and payments for loss of office” in this section for further details.

### **Retirement, appointment and removal**

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

The Directors shall be elected and dismissed by the shareholders in general meeting.

A Director is not required to hold any share in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A person may not serve as a Director, Supervisor, general manager or other senior management of the Company if such person:

- (i) has no civil capacity or has limited civil capacity;
- (ii) was sentenced for the offense of corruption, bribery, expropriation, misappropriation of property or for disrupting the social and economic order, and less than five years has elapsed since the sentence was served, or who has been deprived of political rights due to such crimes, where less than five years has elapsed since the deprivation was completed;
- (iii) was a former director, factory manager or general manager of a company or enterprise which has been bankrupted or put into liquidation on the ground of maladministration and was personally liable for the winding up of such company or enterprise, and less than three years has elapsed since the date of completion of the bankruptcy and liquidation of the Company or enterprise;
- (iv) was a former legal representative of a company or an enterprise which has had its business licence revoked for violating the laws, and was personally liable for that revocation, and less than three years has elapsed since the date of revocation;
- (v) has comparatively large amount of individual debts that have become overdue and have not been settled;

- (vi) has been currently under investigation for criminal offense and which investigation is not yet concluded;
- (vii) is prohibited from acting as leader of an enterprise by virtue of any laws and administrative regulations;
- (viii) is not a natural person;
- (ix) has been convicted by relevant competent authorities for violation of securities-related laws and regulations, where such violation involved fraudulent or dishonest acts, and less than five years has elapsed since the date of such conviction.

The validity of an act by a Director, general manager or other senior management to bona fide third party shall not be affected by any irregularity in his appointment, election or eligibility.

The board shall consist of five to 19 members, which must include at least three independent non-executive Directors accounting for one third of the board members according to the Listing Rules. Members of the board shall have a chairman and three independent non-executive directors. The chairman should be elected and removed by over half of the entire members of the board.

#### **Notice and minutes of Board meetings**

Board meetings shall be held at least four times every year. Board meetings shall be convened by way of a notice served to all Directors not less than 14 days. Upon requisition by the shareholders representing more than one-tenth of the voting shares, one-third or more Directors or supervisors or general manager, an extraordinary meeting of the board may be held. The chairman of the board shall convene and preside the meetings by way of notice served to all Directors and supervisors not less than 3 days before the date of the meeting. The board shall keep minutes of board resolutions and the attending Directors and the person taking the minutes shall sign the board minutes.

Board meetings shall be held only if more than one-half of the Directors are present.

Each Director shall have one vote. Resolutions of the Board require the approval of more than half of all the Directors.

Where the numbers of votes voting for and against a resolution are equal, the chairman of the Board shall have a casting vote.

**Duties**

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, general managers or other senior management of the Company breaches the duties which he owes to the Company, the Company has a right:

- (1) to demand such Director, Supervisor, general managers or other senior management to compensate it for losses sustained by the Company as a result of such breach;
- (2) to rescind any contract or transaction which has been entered into between the Company and such Director, Supervisor, general managers, or other senior management or between the Company and a third party (where such third party knows or should have known that such Director, Supervisor, general managers or other senior management representing the Company has breached his duties owed to the Company);
- (3) to demand such Director, Supervisor, general managers or other senior management to account for profits made as a result of the breach of his duties;
- (4) to recover any monies which should have been received by the Company and which were received by such Director, Supervisor, general managers or other senior management instead, including (without limitation) commissions; and
- (5) to demand repayment of interest earned or which may have been earned by such Director, Supervisor, general managers or other senior management on monies that should have been paid to the Company.

**BORROWING POWERS**

The Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- (i) provisions which authorize the Board to formulate proposals for the issuance of bonds or other marketable securities and the listing of our Company; and
- (ii) provisions which provide that the issuance of bonds or other marketable securities and listing of our Company shall be approved by the Shareholders' general meeting by a special resolution.

**ALTERATIONS TO CONSTITUTIONAL DOCUMENTS**

Pursuant to the provisions of law, administrative regulations and the Articles of Association, the Company can amend the Articles of Association.

The amendments to the Articles of Association involving the contents of Mandatory Provisions shall become effective upon approvals by the companies approving department and securities regulatory authority authorized by the State Council and by the CSRC. If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with relevant law.

The Board shall amend the Article of Association in accordance with the resolution duly passed and authorized by the Shareholders.

**VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES**

Any proposal by the Company to vary or abrogate the rights conferred on any class of shareholders (“**class right**”) must be approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (1) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or allocation rights or privileges equal or superior to the shares of that class;
- (2) to exchange all or part of the shares of that class for shares of another class or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
- (3) to remove, or reduce rights to accrued dividends or rights to cumulative dividends attached to share of that class;
- (4) to reduce or remove preferential rights to receive dividends or to the distribution of assets in the event that the Company is liquidated attached to shares of that class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;

- (7) to create a new class of shares having voting or allocation rights or privileges equal or superior to those of the shares of that class;
- (8) to restrict the transfer or ownership of the shares of that class or to increase the types of restrictions attaching thereto;
- (9) to allot and issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders; and
- (12) to vary or abrogate the provisions in Chapter 4 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings shall nevertheless have the right to vote at class meetings in respect of matters concerning (2) to (8) and (11) to (12) above, but interested shareholder(s) shall not be entitled to vote at class meetings.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

- (a) in the case of a repurchase of Share by way of a repurchase offer to all shareholders on the same pro-rata basis or by way of public dealing on a stock exchange pursuant to the Articles of Association, a "controlling shareholder" within the meaning of the Articles of Association;
- (b) in the case of a repurchase of Shares by an off-market contract pursuant to the Articles of Association, a holder of the Shares to which the proposed contract relates; and
- (c) in the case of a restructuring proposal of the Company, a shareholder within a class who bears a relatively lower proportion of obligation compared with that imposed on that class of shareholders under the proposed restructuring or who has an interest in the proposed restructuring different from the general interest of other shareholders of that class.

Resolutions of a class of shareholders shall be passed by votes representing more than two-third of the voting rights of shareholders of that class present at the relevant meeting who, according to the Articles of Association, are entitled to vote thereat.

Written notice of a class meeting shall be given to all shareholders who are registered as holders of that class in the register of shareholders 45 days before the date of the class meeting. Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting.

Notice of class meetings are only required to be served on shareholders entitled to vote at the class meeting. Class meetings shall be conducted, as far as is possible, in the same manner as shareholders' general meetings. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any class meeting of shareholders.

Apart from other classes of Shareholders, the Shareholders of domestic shares and overseas listed shares are deemed to be Shareholders of different classes.

The special procedures for approval by a class of shareholders shall not apply in the following circumstances:

- (a) where the Company issues, upon approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued domestic shares and overseas-listed foreign-invested shares; or
- (b) where the Company's plan to issue domestic shares and overseas-listed foreign invested shares at the time of its incorporation is completed within fifteen months from the date of approval by the CSRC; or
- (c) where the Company's unlisted shares may be converted into foreign shares for listing and trading on an overseas stock exchange, subject to the approval of CSRC.

#### **ORDINARY AND SPECIAL RESOLUTIONS – MAJORITY REQUIRED**

Resolutions of shareholders general meetings shall be classified into ordinary resolutions and special resolutions.

An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

A special resolution must be passed by votes representing two-thirds or more of the voting rights represented by the shareholders (including proxies) present at the meeting.

#### **VOTING RIGHTS (GENERALLY, ON A POLL AND RIGHT TO DEMAND A POLL)**

The shareholders have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote in proportion to their shareholdings thereat.



A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one vote.

A poll demanded on the election of the chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs. On a poll taken at a meeting, a shareholder (including a proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall have a casting vote.

### **REQUIREMENTS FOR ANNUAL GENERAL MEETINGS**

The Board shall convene a shareholders' annual general meeting once each year within six months of the end of the preceding financial year.

### **ACCOUNTS AND AUDIT**

The Company shall formulate its own financial and accounting system and internal audit system in accordance with the relevant requirements of PRC laws, administrative regulations and PRC accounting standards formulated by the financial department of the State Council.

The Company shall prepare financial statements at the end of each fiscal year. Such statements shall be audited and examined under the requirements of laws. The board shall place before the shareholders at every annual general meeting such financial statements prepared by the Company in accordance with relevant laws, administrative regulations or directives promulgated by competent local and central governmental authorities.

The financial reports of the Company shall be made available for shareholders' inspections at the Company not less than 20 days before the annual general meeting. Each shareholder of the Company shall be entitled to obtain a copy of the financial reports.

The Company shall send the printed copies of the abovementioned financial reports together with the directors' report to each Shareholder by mail at least 21 days before the annual general meeting. The service address shall be the address recorded in the register of shareholders.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the overseas place where the Shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in a note to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim and quarterly results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place of where the Shares are listed.

The appointment, dismissal or termination of the office of the auditors shall be determined at shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove the Company's auditors before their term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditors. Any right of the auditors to claim against the Company in connection with their removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of the auditors, such auditors who are to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditors shall have the right to present their views at the following shareholders' general meetings:

- (i) the shareholders' general meeting at which their term of office would otherwise have expired;
- (ii) any shareholders' general meeting at which it is proposed to fill the casual vacancy caused by their removal; or
- (iii) any shareholders' general meeting convened on their resignation.

The Company shall publish two financial reports every financial year, and interim report shall be published within 60 days after the expiry of the first six month period of the financial year. The annual financial report will be published within 120 days after the expiry of the financial year.

#### **NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT**

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers according to law.

The Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person (other than a Director, Supervisor, general manager or other senior management) pursuant to which such person shall be responsible for the management and administration of the whole or any substantial part of the Company's business.

Shareholders' general meetings can be annual general meetings or extraordinary general meetings. Shareholders' meetings shall be convened by the board.

The board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following circumstances:

- (1) where the number of Directors is less than the number stipulated in the Company Law of PRC or two-thirds of the number specified in the Articles of Association;
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) where shareholder(s) holding 10% or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing for the convening of an extraordinary general meeting;
- (4) whenever the Board considers necessary or the supervisory committee so requests.

When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given 45 days (the day on which the notice is issued shall not be counted while the day of meeting shall be counted in the notice period) before the date of the meeting to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning the attendance at such meeting to the Company 20 days (exclusive of the date of meeting) before the date of the meeting.

The shareholders holding over and including 3%, representing three percent, of the total shares of the Company by oneself or in total may put forward interim proposals and submit such to the board in written 10 days before the meeting. The Company shall submit such proposals to the shareholders' general meeting for discussion.

An extraordinary general meeting shall not decide on matters not stated in the notice of meeting.

The Company shall, based on the written notice which it replies receives 20 days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amount to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall within five days notify the shareholders again by way of public announcement the matters to be considered at, the place and date for, the meeting. The Company may then hold the meeting after such announcement.

Notice of general meeting of shareholders shall:

- (a) be in writing;
- (b) specify the venue, date and time of the meeting;
- (c) state the matters to be discussed at the meeting;
- (d) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another to repurchase shares of the Company, to reorganize the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (e) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, general manager or other senior management in the proposed transaction and the effect of the proposed transaction on such Director, Supervisor, general manager or other senior management in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (f) contain the full text of any special resolution to be proposed at the meeting;
- (g) contain a clear statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one or more proxies to attend and vote at such meeting on his behalf and that a proxy need not be a shareholder;
- (h) specify the time and place for lodging the proxy form for the relevant meeting;
- (i) specify the registration date of shares of shareholders to attend; and
- (j) contain the mobile phone number of the standing liaison.

For the holders of domestic shares, notice of the meetings may also be issued by way of public announcement. The public announcement referred to shall be published in one or more national newspapers designated by the CSRC within the interval between 45 days and 50 days before the date of the meeting. After the publication of such announcement, the holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

For the holders of H shares, under the permission expressly given by the shareholder and in accordance with the Listing Rules of the Stock Exchange, that the notice of shareholder's general meeting, inform letter and other documents could be issued by way of online announcement on website of the Company and the Stock Exchange.

The following matters shall be resolved by way of ordinary resolution at the general meeting:

- (a) working reports of the board and the supervisory committee;
- (b) profit distribution proposals and proposals for making up losses formulated by the board;
- (c) dismissal of members of the board and members of the supervisory committee who are not employee representatives as well as their remuneration and manner of payment;
- (d) annual preliminary and final budgets, balance sheets, profit and loss accounts and other financial statements;
- (e) engagement or dismissal or cessation of engagement of accounting firms; and
- (f) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by way of special resolution of the shareholders' general meeting:

- (a) increase or reduction of the Company's share capital and the issuance of shares of any class, warrants and other similar securities;
- (b) issue of debentures of the company;
- (c) the separation, merger, change of corporate form, dissolution or liquidation of the Company;
- (d) amendment of the Articles of Association;
- (e) where the Company purchases or sells any important assets, or provides a guaranty of which the amount exceeds 30% of its latest audited total assets;
- (f) any other matters which should be adopted by a special resolution as required by laws, administrative regulations and the Articles of Association or as considered to be material to the company under the ordinary resolution passed in the shareholders' meeting.

**TRANSFER OF SHARES**

Fully paid overseas listed foreign shares listed in Hong Kong shall be transferred freely in accordance with the provisions set forth in the Articles of Associations. However, the Board may refuse to recognize any instrument of transfer without giving any reason, unless:

- (1) a fee as provided by, from time to time, the Stock Exchange Listing Rules has been paid to the Company for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the Shares;
- (2) The share transfer document only involves the overseas listed foreign shares listed in Hong Kong;
- (3) Stamp duty has been paid in respect of the share transfer document;
- (4) Relevant share certificates and such other evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer have been produced;
- (5) the document of transfer shall use standard transfer form stipulated by Stock Exchange;
- (6) If the shares are transferred to joint holders, the number of joint holders shall not exceed four;
- (7) The shares are free from any lien in favor of any company.

**REGISTER OF SHAREHOLDERS**

The Company shall keep a complete register of shareholders which shall contain the following particulars:

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the quantity and the class of shares held by each shareholder;
- (3) the amount paid-up on or agreed to be paid-up on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each shareholder was entered in the register as a shareholder;
- (6) the date on which any shareholder ceased to be a shareholder;

Unless there is evidence to the contrary, the register of shareholders shall be sufficient and evidence of the shareholders' shareholdings in the Company.

The register of shareholders shall comprise the following parts:

- (1) the register of shareholders which is maintained at the Company's residence (other than those share registers which are described in subparagraphs (2) and (3) below);
- (2) the register of shareholders in respect of the holders of overseas-listed foreign-invested Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed; and
- (3) the register of shareholders which are maintained in such other place as the board may consider necessary for the purposes of listing of the Company's shares.

The Company may, in accordance with the mutual understanding and agreements made between the CSRC and overseas securities regulatory organizations, maintain the register of shareholders of overseas-listed foreign-invested shares overseas and appoint overseas agent(s) to manage such share register. The original share register for holders of H Shares shall be maintained in Hong Kong.

A duplicate of the register of shareholders for holders of overseas-listed foreign invested shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times. If there is any inconsistency between the original and the duplicate register of shareholders for holders of overseas-listed foreign invested shares, the original register of shareholders shall prevail.

Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

Amendments or rectification of the register of shareholders shall be made in accordance with the laws of the place where the register of shareholders is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends.

**POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES AND REDUCE ITS SHARE CAPITAL**

Subject to the provisions of the Articles of Association, the Company may reduce its registered capital.

The Company may, in accordance with the procedures set out in the Articles of Association and with the approval of the competent authority of PRC, repurchase its own issued shares under the following circumstances:

- (1) cancelation of shares for the purpose of reducing its share capital;
- (2) merging with another company that holds shares in the Company;
- (3) to award the employees of the Company with shares;
- (4) it is requested by any shareholder to purchase his shares because this shareholder raises any objection to the Company's resolution on merger or demerger made at the shareholders' general meeting; or
- (5) other circumstances as permitted by law and administrative regulations.

Where a company needs to purchase its own shares for any of the reasons as mentioned in items (1) through (3) of the preceding paragraph, it shall be subject to a resolution of the shareholders' general meeting. After the Company purchases its own shares pursuant to the provisions of the preceding paragraph, such Shares shall, under the circumstance as mentioned in item (1), be canceled within 10 days; while under either circumstance as mentioned in item (2) or (4), such Shares shall be transferred or canceled within 6 months.

The shares purchased by the Company in accordance with item (3) of the preceding paragraph shall not exceed 5% of the total shares already issued by the Company. The fund used for the share acquisition shall be paid from the after-tax profits of the Company. The shares purchased by the Company shall be transferred to the employees within 1 year after the purchase.

The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of PRC:

- (1) by making a general offer for the repurchase of shares to all its shareholders on the same pro rata basis;
- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement.



The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in the Articles of Association) before it can repurchase shares outside of the stock exchange by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in general meeting (in the same manner), release, vary or waive its rights under an agreement which has been so entered into.

An agreement for the repurchase shares referred to in the preceding paragraph includes (without limitation) an agreement to become liable to repurchase shares or an agreement to have the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

As for the cancelation of repurchased shares pursuant to the Articles of Association, the Company shall apply to the companies registration authority for registration of the change of its registered capital.

The aggregate par value of the canceled shares shall be deducted from the Company's registered share capital.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of shares made for the purpose of repurchase of old shares;
- (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for the purpose of repurchase of old shares. Payment of the portion in excess of the par value shall be effected as follows:
  - (i) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
  - (ii) if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for the purpose of repurchase of old shares, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's premium account (or if applicable, capital reserve fund account, including the premiums on the new issue) at the time of the repurchase.

The Company shall make the following payments out of the Company's distributable profits:

- (i) payment for the acquisition of the right to repurchase its own shares;
- (ii) payment for variation of any contract for the repurchase of its shares;
- (iii) payment for the release of its obligation(s) under any contract for the repurchase of shares;

After the Company's registered capital has been reduced by the aggregate par value of the canceled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital reserve fund account.

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice in a newspaper within 30 days thereof. Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice and the creditors who have not received the notice shall have the right within 45 days from the date the notice was published in the newspaper, to require the Company to settle the debt or to provide corresponding security in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of registered capital.

#### **DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION**

The Company may distribute dividends in the following forms:

- (a) cash; or
- (b) shares.

The Company shall appoint receiving agents for holders of the overseas-listed foreign invested shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of overseas-listed foreign-invested shares on such shareholders' behalf.

The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place at which the stock exchange on which the Company's shares are listed or the relevant regulations of such stock exchange.

**PROXIES**

Any shareholder who is entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxy or proxies to attend and vote on his behalf, and a proxy so appointed shall:

- (1) have the same rights as the shareholder to speak at the meeting;
- (2) have the right to demand or join in demanding a poll; and
- (3) have the right to vote by hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing, or if the appointor is legal person, under the hand of the authorized representative or his attorney duly authorized. The instrument appointing a proxy shall be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting not less than 24 hours prior to the time for holding the meeting at which the proxy propose to vote or the time specified for the passing of the resolution. If such instrument is signed by another person under a power of attorney or other authorization documents given by the appointor, such power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization document shall, together with the instrument appointing the voting proxy, be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting.

If the appointor is a legal person, its legal representative or such person as is authorized by resolution of its board of directors or other governing body may attend at any meeting of shareholders of the Company as a representative of the appointor.

Any form issued to a shareholder by the board for use by the shareholder for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favor of or against each resolution dealing with the business to be transacted at the meeting. Such a form shall contain a statement to the effect that, in the absence of such instructions by the shareholder, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid have been received by the Company before the commencement of the meeting.

**SHAREHOLDERS' RIGHTS TO INFORMATION**

The holders of ordinary shares of the Company shall enjoy the following rights:

- (1) to receive dividends and other forms of profit distributions in proportion to the number of Shares held;
- (2) to demand, convene, preside, attend or appoint a proxy to attend shareholders' general meetings on his behalf and to vote thereat in accordance with laws;
- (3) to supervise the business operations of the Company and to present proposals or to raise enquiries;
- (4) to transfer, give away or pledge shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- (5) to obtain relevant information in accordance with the Articles of Association including:
  - (a) the right to a copy of the Articles of Association at cost;
  - (b) the right to inspect and copy upon paying reasonable charges:
    - (i) all parts of the register of shareholders;
    - (ii) personal particulars of each of the Directors, Supervisors, general managers and other senior management including:
      - (aa) present and former name and alias;
      - (bb) principal residential address;
      - (cc) nationality;
      - (dd) primary and all other part-time occupations and duties;
      - (ee) identification documents and their numbers;
    - (iii) report on the State of the Company's share capital;
    - (iv) reports showing the aggregate number and par value of Shares repurchased by the Company since the end of the last accounting year, the aggregate amount paid by the Company for the Shares repurchased and the maximum and minimum price paid in respect of each class of Shares repurchased;

- (v) minutes of Shareholder's general meetings; and
  - (vi) resolution on report of the board of directors and report of the supervisory committee.
- (6) receipts of the Company Bond;
  - (7) fiscal and accounting report;
  - (8) in the event of the termination or liquidation of the Company to participate, in the distribution of surplus assets of the Company in accordance with the number of Shares held; and
  - (9) other rights conferred by laws, administrative regulations and the Articles of Association.

#### **QUORUM FOR GENERAL MEETINGS AND CLASS MEETINGS**

The Company may convene a shareholders' general meeting where the number of voting shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting is more than one-half of the Company's total number of voting shares; or, if not, the Company shall within five days publicly announce to the shareholders the agenda, the date and venue of the meeting. Having made announcement by way of notice, the Company may convene shareholder's general meeting.

The Company may convene a class meeting where the number of voting shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting is more than one-half of the total number of voting shares of that class; or, if not, the Company shall within five days publicly announce to the shareholders the agenda, the date and venue of the meeting. Having made announcement by way of notice, the Company may convene shareholders' class meetings.

#### **RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION**

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which H Shares of the Company are listed, a Controlling Shareholder (as defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the shareholders of the Company in respect of the following matters:

- (a) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;

- (b) to approve the expropriations by a Director or Supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including without limitation, opportunities beneficial to the Company; or
- (c) to approve the expropriations by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including without limitation, rights to distributions and voting rights except pursuant to a restructuring of the Company which has been submitted to the shareholders for approval in a general meeting in accordance with the Articles of Association.

For these purposes, a "Controlling Shareholder" means a person who satisfies any one of the following conditions:

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;
- (ii) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he alone or acting in concert with others holds 30% or more of the issued shares; or
- (iv) he alone or acting in concert with others in any other manner is in de facto control of the Company.

### **PROCEDURES ON LIQUIDATION**

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (1) when the term of operation is expired or other dissolution events stipulated in the Articles of the Association occur;
- (2) where the shareholders' general meeting resolves that the Company should be dissolved;
- (3) where dissolution is necessary as a result of the merger or division of the Company;
- (4) where the Company is declared insolvent according to the law because it is unable to pay its debts as they fall due;

- (5) when the Company is ordered to be closed down by reason of its violation of laws or administrative regulations; or
- (6) when the Company is experiencing material difficulties in operations, and its continual operator will lead to substantial loss to the benefits of the shareholders and no other solutions to resolve the matters, the shareholders, who aggregately hold more than 10% of total voting shares of the Company, can appeal to the court for dissolution of the Company.

A liquidation committee shall be set up within 15 days of the Company being dissolved pursuant to sub-paragraphs (1), (2), (5) and (6) of the preceding paragraph to carry out a liquidation. The liquidation committee shall comprise people as determined by the shareholder's general meeting as ordinary resolution.

Where the Company is dissolved under sub-paragraphs (4) of the preceding paragraph, the People's Court shall in accordance with the provisions of relevant laws organize the shareholders, relevant organizations and relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the board proposes to liquidate the Company due to reasons other than where the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

## **OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS**

### **General provision**

The Company is a joint stock company with limited liability whose term of operation is long-term.

From the date on which the Articles of Association come into effect, the Articles of Association shall constitute a legally binding public document regulating the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

**Share capital**

The Company may, based on its operating and development needs, increase its share capital pursuant to the Articles of Association.

The Company may increase its capital in the following ways:

- (i) by public offering of shares;
- (ii) by non-public offering of shares;
- (iii) by placing new shares to its existing shareholders;
- (iv) by allotting bonus shares to its existing shareholders;
- (v) by transferring capital reserve funds to increase capital;
- (vi) by any other means which is permitted by laws and administrative regulations.

After the Company's increase of share capital by means of the issuance of new shares has been approved in accordance with the provision of the Articles of Association, the issuance thereof should be made in accordance with procedures set out in the relevant laws and administrative regulations.

**Shareholders' obligations**

The ordinary shareholders of the Company shall assume the following obligations:

- (i) to comply with laws and regulations and the Articles of Association;
- (ii) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (iii) unless otherwise stated in laws or regulations, no withdrawal shall be sustained;
- (iv) impairing interests of the Company or other shareholders via abuse of shareholders' right is not permitted, where there is aforesaid damage caused, there is a legal duty of compensation of the shareholder;
- (v) shareholder, who has severely damaged interests of Company's creditor by abuse of the independent personality of the Company and the limited liability of shareholders, shall be held jointly liable for debts of the Company;
- (vi) other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make further contribution to the share capital other than as agreed by the subscriber of the relevant shares at the time of subscription.



**Board**

The board is accountable to the shareholders' general meeting and exercises the following powers:

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions passed by the shareholders in general meetings;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate proposals for the increase or reduction of the Company's registered capital, and for the issuance of the Company's debentures;
- (7) to draw up plans for the merger, division, change of the Company form or dissolution of the Company;
- (8) to decide on the Company's internal management structure;
- (9) to appoint or remove the Company's general manager and, decide on the appointment or removal of the deputy general manager based on the recommendations of the general manager, financial controller and other senior executives and their respective remuneration, bonus and disciplinary actions;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendment of the Articles of Association;
- (12) to propose in shareholder's general meetings to engage or replace the firm which undertakes auditing work of the Company;
- (13) to exercise any other powers conferred by the shareholders in general meeting or the Articles of Association

Except the Board's resolutions in respect of the matters specified in subparagraphs (6), (7) and (11) above and other significant matters clearly provided in laws, administrative regulations, department rules or the Articles of Association and the shareholders' general meeting which shall be passed by the affirmative vote of more than two-thirds of all the Directors the Board's resolutions in respect of all other matters may be passed by the affirmative vote of more than half of the Directors.

Meetings of the Board of Directors shall be held only if more than half of the Directors are present.

Each Director shall have one vote.

Where a Director is interested in any resolution proposed at a Board meeting, such Director shall have no right to vote nor may vote on behalf of any other person, and shall not attend such part of the meeting where his interested transaction is discussed.

The meeting of the board shall not be held unless more than half of the disinterested directors are present at the meeting. A resolution of the board shall be adopted by more than half of the disinterested directors. If the number of disinterested directors in person is less than 3 persons, the matter shall be submitted to the shareholders' general meeting for deliberation.

Where there is an equality of votes cast both for and against a resolution, the chairman of the board shall have a casting vote.

### **Supervisory committee**

The Company shall have a supervisory committee.

The Directors, general managers and other senior managements shall not act concurrently as Supervisors.

The supervisory committee shall be composed of three Supervisors. One of the members of the supervisory committee shall be the chairman. Each Supervisor shall serve for a term of three years, which term is renewable upon re-election and re-appointment.

The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee.

The supervisory committee shall comprise two representatives nominated by the shareholders and one representative nominated by the staff. The representatives of the shareholders shall be elected and removed by shareholder's general meeting while the representatives of staff shall be elected and removed by the staff of the Company democratically.

The supervisory committee shall be accountable to the shareholders in general meeting and shall exercise the following functions and powers in accordance with law:

- (1) to monitor financial situations of the Company;
- (2) supervising the related acts of any of the Directors, general managers and other senior management who violates any laws, administrative regulations or the Articles of Association;

- (3) to demand any Director, general managers, any other senior management who acts in a manner which is detrimental to the Company's interest to rectify such behavior;
- (4) to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board to the shareholders' general meetings and to authorize, in the Company's name, publicly certified and practicing accountants to assist in the reexamination of such information should any doubt arise in respect thereof;
- (5) to propose to convene an extraordinary general meeting;
- (6) to represent the Company in negotiations with or in bringing actions against a Director; and
- (7) other functions and powers specified in any law administrative regulation the Articles of Association.

The supervisors may attend the meetings of the board.

### **General manager**

The Company shall have one general manager, who shall be appointed and dismissed by the Board.

The general manager shall be accountable to the Board and shall exercise the following powers:

- (i) to be in charge of the Company's operation and management and to implement the resolutions of the board;
- (ii) to formulate and implement the Company's annual business plan and investment plan;
- (iii) to formulate the Company's internal management structure;
- (iv) to formulate the Company's concrete bylaws;
- (v) to draft the basic management scheme of the Company;
- (vi) to propose the appointment or dismissal of out company's deputy managers, financial controllers;
- (vii) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board;
- (viii) to exercise other powers conferred by the Articles of Association and the board.

The general manager shall be present at meetings of the board, but shall have no voting rights at the meetings if it is not a Director.

The general manager, in performing its functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and the Articles of Association.

### **Accounts and audit**

#### ***Appointment of an auditor***

The Company shall appoint an independent firm of certified public accountants (“CPA”) which is qualified under the relevant regulations of PRC to audit the Company’s annual financial reports and review the Company’s other financial reports.

The first auditor of the Company could be appointed by the founding meeting before the first general meeting of shareholders and the term of the office of the first auditor shall be terminated before the first general meeting of shareholders. The Board could officiate the right aforesaid where the founding meeting fails to do so.

The term of office of an auditor shall commence from the conclusion of the annual general meeting of shareholders at which the appointment is made and end at the conclusion of the next annual general meeting of shareholders.

If there is a vacancy of the position of the auditors of the Company, the Board may appoint a CPA firm to fill such vacancy before the convening of the shareholders’ general meeting. Any other CPA firm which has been appointed by the Company may continue to act during the period during which a vacancy arises.

The shareholders in general meeting may by ordinary resolution remove an auditor before the expiration of its term of office, irrespective of any terms in the contract between the Company and the auditors. However, the auditors’ right to claim for damages which arise from its removal shall not be affected thereby.

The remuneration of auditors or the manner in which such auditor is to be remunerated shall be determined by the shareholders in general meeting. The remuneration of an accountant appointed by the board shall be determined by the board.

*Change and removal of an accounting firm*

The Company's appointment of, removal of and non-reappointment of a certified public accountants' firm shall be resolved by shareholders in general meeting. The relevant resolution of the shareholders' general meeting shall be filed with the competent securities authority of the State Council.

Where a resolution is proposed to be passed at a general meeting of shareholders to appoint as auditor a person other than an incumbent auditor, to fill a casual vacancy in the office of auditor, to reappoint as auditor a retiring auditor who was appointed by the board to fill a casual vacancy, or to remove an auditor before the expiration of his term of office, the following provisions shall apply:

- (1) A copy of the proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post (leaving includes leaving by removal, resignation and retirement) before notice of meeting is given to the shareholders.
- (2) If the auditor leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late) take the following measures:
  - (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
  - (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.
- (3) if the paragraph, the auditor may (in addition to its right to be heard) require that the representations be read out at the shareholders' general meeting and may lodge further complaints.
- (4) An auditor which is leaving its post shall be entitled to attend:
  - (i) the shareholders' general meeting at which its term of office would otherwise have expired;
  - (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (iii) any shareholders' general meeting convened on its resignation; and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former auditor of the Company.

***Resignation of an auditor***

A CPA firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within 14 days deliver a copy of the notice to the relevant governing authorities. If the notice contains a statement under the preceding paragraph (2), a copy of the notice shall be kept at the Company, for the inspection of the shareholders. The Company shall also send a copy of the notice to every shareholder of the overseas-listed foreign shares who is entitled to receive a report on its financial situation at the address registered in the register of shareholders.

Where the auditor's notice of resignation contains a statement in respect of the above, it may require the board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

**Dispute resolution**

The Company shall abide by the following principles for dispute resolution:

- (1) Whenever any disputes or claims arising between holders of the overseas listed foreign invested Shares and the Company, holders of the overseas listed foreign-invested Shares and the Company's Directors, Supervisors, general manager or other senior management officers, or holders of the overseas listed foreign-invested Shares and holders of domestic invested Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's shareholder, Director, Supervisor, general manager, deputy general manager or other senior management officers. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

- (2) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Ningbo in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (3) If any disputes or claims of rights mentioned in the first paragraph of this section are referred to arbitration, the laws of PRC shall apply, save as otherwise provided in laws and administrative regulations.
- (4) The award of an arbitration body shall be final and conclusive and binding on all parties.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Establishment of our Company**

Our predecessor Shanshan Garment Brand was established in the PRC as a limited liability company on August 23, 2011 and was converted to a joint stock company with limited liability under the Company Law on May 18, 2016. Our Company has established a place of business in Hong Kong at 31/F., 148 Electric Road, North Point, Hong Kong, and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on December 8, 2016. Mr. Kwok Siu Man has been appointed as our agent for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix VI to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix V to this prospectus.

**2. Changes in the share capital of our Company**

As of the date of our establishment, our registered capital was RMB50 million, which has been fully paid up. On May 18, 2016, when our Company was converted into a joint stock company with limited liability, our registered share capital was increased to RMB100 million divided into 100,000,000 Shares with nominal value of RMB1.00 each, comprising 100,000,000 Domestic Shares.

Assuming the Over-allotment Option is not exercised, upon completion of the Global Offering, our registered share capital will be increased to RMB133,400,000, made up of 100,000,000 Domestic Shares and 33,400,000 H Shares fully paid up or credited as fully paid up, representing approximately 75% and 25% of our registered share capital, respectively. Save as aforesaid, there has been no alteration in our share capital since our establishment.

**3. Restriction of share repurchase**

For details of the restrictions on the share repurchase by our Company, please see “Summary of Articles of Association” in Appendix VI to this prospectus.

**4. Resolutions of our Shareholders passed at our Company’s extraordinary general meeting held on November 24, 2017**

At an extraordinary general meeting of our Company held on November 24, 2017, among other things, the following resolutions were passed by our Shareholders:

- (a) the issue by our Company of such number of H Shares with a nominal value of RMB1.00 each not less than 25% and not exceeding 30% of the entire share capital after such issue as enlarged by the issue of H Shares and such H Shares be listed on the Main Board of the Stock Exchange;



- (b) subject to the completion of the Global Offering, the amendment to our Articles of Association with effect from the Listing Date be and was thereby been approved and adopted, and the Board be authorized to amend our Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities; and
- (c) our Board be and was thereby authorized to handle all relevant matters relating to, among other things, the implementation of issue of H Shares and the Listing.

## **5. Corporate Reorganization**

We underwent the Reorganization, for details, please see “History, Reorganization and Corporate Structure” in this prospectus. As confirmed by our PRC Legal Advisers, we have obtained all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Reorganization.

## **6. Changes in the registered capital of subsidiaries**

Our Company’s subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

There has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

## **B. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:














- (a) an equity purchase agreement dated March 26, 2018 entered into between Forall Confezioni, Fashion Brand, Shanshan HK and Mr. Wang Qin (王沁) pursuant to which Forall Confezioni, Fashion Brand and Shanshan HK agreed to transfer their respective 35%, 55% and 10% equity interests in JIC Garments to Mr. Wang Qin (王沁) at a consideration of EUR1.00, EUR0.85 and EUR0.15, respectively (including any withholding tax that may be required under the PRC law);
- (b) the Deed of Indemnity;
- (c) the Non-Competition Agreement; and
- (d) the Hong Kong Underwriting Agreement.

## 2. Intellectual property rights of our Group

### (a) Trademarks

As of the Latest Practicable Date, the following trademarks which, in the opinion of our Directors, are material to our business, were licensed to our Group:

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
<b>FIRS</b>	9596761	25	Shanshan	PRC	July 21, 2013	July 20, 2023
<b>杉杉</b>	9596785	25	Shanshan	PRC	July 14, 2012	July 13, 2022
	831664	25	Shanshan	PRC	April 14, 1996	April 13, 2026
<b>FIRS</b>	985770	25	Shanshan	PRC	April 21, 1997	April 20, 2027
<b>杉杉</b>	1064765	25	Shanshan	PRC	July 28, 1997	July 27, 2027
<b>FIRS</b> <i>kids</i>	11335995	25	Shanshan	PRC	January 14, 2014	January 13, 2024
	9596725	25	Shanshan	PRC	July 28, 2014	July 27, 2024
<b>SHANSHAN</b>	20982629	25	Shanshan	PRC	October 7, 2017	October 6, 2027
<b>SHAN SHAN</b>	20982648	25	Shanshan	PRC	October 7, 2017	October 6, 2027
	863390	26	Shanshan	PRC	August 14, 1996	August 13, 2026

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	9596883	26	Shanshan	PRC	August 7, 2012	August 6, 2022
	9596864	26	Shanshan	PRC	August 7, 2012	August 6, 2022
	9596849	26	Shanshan	PRC	August 7, 2012	August 6, 2022
	9596835	26	Shanshan	PRC	November 14, 2002	November 13, 2022
	20982038	26	Shanshan	PRC	October 7, 2017	October 6, 2027
	20982067	26	Shanshan	PRC	October 7, 2017	October 6, 2027
	20981989	26	Shanshan	PRC	October 7, 2017	October 6, 2027
	3096384	25	Shanshan	PRC	June 28, 2003	June 27, 2023
	905542	25	Shanshan	PRC	November 28, 1996	November 27, 2026
	949536	25	Shanshan	PRC	February 21, 1997	February 20, 2027
	1258618	25	Shanshan	PRC	March 28, 1999	March 27, 2019
	4729641	18	Shanshan Group	PRC	February 28, 2009	February 27, 2019
	4729642	18	Shanshan Group	PRC	February 7, 2009	February 6, 2019

<u>Trademark</u>	<u>Registration Number</u>	<u>Class</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
FIRS	9593253	18	Shanshan Group	PRC	July 14, 2012	July 13, 2022
杉杉	9593272	18	Shanshan Group	PRC	July 14, 2012	July 13, 2022
 FIRS杉杉	9593236	18	Shanshan Group	PRC	July 14, 2012	July 13, 2022
	9593259	18	Shanshan Group	PRC	July 14, 2012	July 13, 2022
 SHANSHAN 杉杉	21082659	18	Shanshan Group	PRC	October 28, 2017	October 27, 2027
Luigi Bianchi Mantova'	G698845	25	Lubiam Moda per L'Uomo	PRC	September 7, 2008	September 7, 2018
LUBIAM	G697736	25	Lubiam Moda per L'Uomo	PRC	July 1, 2008	July 1, 2018
L.B.M. 1911	G882523	25	Lubiam Moda per L'Uomo	PRC	April 10, 2016	April 10, 2026

**(b) Domain name**

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain name which, in the opinion of our Directors, are material to our business:

<u>Domain Name</u>	<u>Name of Registered Proprietor</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
www.chinafirs.com	Company	August 14, 2013	August 14, 2020

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

(a) *Interests and short positions of the Directors, Supervisors and the chief executive of our Company in the registered capital of our Company and its associated corporations*

Immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the interests or short positions of Directors, Supervisors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”), to be notified to our Company once the H Shares are listed will be as follows:

*Interest in Shares of our Company*

Name	Nature of Interest	Shares held in the relevant class of Shares immediately following the completion of the Global Offering <sup>(1)</sup>		Shares held in the total issued share capital of our Company immediately following the completion of the Global Offering <sup>(1)(2)</sup>	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Mr. Luo <sup>(3)</sup>	Interest of controlled corporation	10,000,000 Domestic Shares (L)	10%	10,000,000 Domestic Shares (L)	7.5%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) The calculation is based on the total number of 100,000,000 Domestic Shares in issue immediately after the completion of the Global Offering, assuming no exercise of the Over-allotment Option.
- (3) The 10,000,000 Domestic Shares are held by Shaanxi Maoye, which is in turn owned as to 80% by Mr. Luo and 20% by Ms. Zhou YM, the spouse of Mr. Luo. By virtue of the SFO, Mr. Luo is deemed to be interested in the Domestic Shares held by Shaanxi Maoye.

*(b) Substantial Shareholders*

So far as is known to our Directors, immediately following the completion of the Global Offering, the following persons, (not being the Directors, Supervisors or chief executive of our Company) would have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

Name of Shareholder	Nature of Interest	Shares held in the relevant class of Shares immediately following the completion of the Global Offering <sup>(1)</sup>		Shares held in the total issued share capital of our Company immediately following the completion of the Global Offering <sup>(1)</sup>	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Shanshan <sup>(2)</sup>	Beneficial owner	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Shanshan Group <sup>(3)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Ningbo Yonggang <sup>(4)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Shanshan Holding <sup>(5)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Qinggang Investment <sup>(6)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Mr. Zheng <sup>(7)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Ms. Zhou <sup>(7)</sup>	Interest of a controlled corporation	90,000,000 Domestic Shares (L)	90%	90,000,000 Domestic Shares (L)	67.5%
Shaanxi Maoye <sup>(8)</sup>	Beneficial owner	10,000,000 Domestic Shares (L)	10%	10,000,000 Domestic Shares (L)	7.5%

Name of Shareholder	Nature of Interest	Shares held in the relevant class of Shares immediately following the completion of the Global Offering <sup>(1)</sup>		Shares held in the total issued share capital of our Company immediately following the completion of the Global Offering <sup>(1)</sup>	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Ms. Zhou YM <sup>(8)</sup>	Interest of spouse	10,000,000	10%	10,000,000	7.5%
		Domestic Shares (L)		Domestic Shares (L)	

*Notes:*

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Shanshan is a joint stock company with limited liability established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 600884) which is owned as to approximately 23.79% by Shanshan Group, approximately 16.09% by Shanshan Holding, approximately 0.04% by Mr. Zheng and approximately 60.08% by other public shareholders.
- (3) Shanshan Group is interested in approximately 23.79% of the registered share capital of, and (together with Shanshan Holding) controls the majority of the board of directors of Shanshan. By virtue of the SFO, Shanshan Group is deemed to be interested in the Domestic Shares held by Shanshan.
- (4) Ningbo Yonggang is interested in approximately 12.96% of the registered capital of Shanshan Group, which (together with Shanshan Holding) controls the majority of the board of directors of Shanshan. By virtue of the SFO, Ningbo Yonggang is deemed to be interested in the Domestic Shares held by Shanshan.
- (5) Shanshan Holding is directly interested in approximately 16.09% of the registered share capital of Shanshan and indirectly interested in approximately 23.79% of the registered share capital of Shanshan through (i) Ningbo Yonggang (a corporation of which Shanshan Holding is interested in approximately 96.93% of its registered capital), and (ii) Shanshan Group (a corporation of which Shanshan Holding is directly interested in approximately 67.14% and indirectly interested in approximately 12.96% through Ningbo Yonggang). By virtue of the SFO, Shanshan Holding is deemed to be interested in the Domestic Shares held by Shanshan.
- (6) Qinggang Investment is interested in approximately 61.81% of the registered capital of Shanshan Holding. By virtue of the SFO, Qinggang Investment is deemed to be interested in the Domestic Shares held by Shanshan.
- (7) Qinggang Investment is owned as to 51% by Mr. Zheng and 49% by Ms. Zhou. By virtue of the SFO, both Mr. Zheng and Ms. Zhou are deemed to be interested in the Domestic Shares held by Shanshan.
- (8) Shaanxi Maoye is owned as to 80% by Mr. Luo and 20% by Ms. Zhou YM, the spouse of Mr. Luo. By virtue of the SFO, Ms. Zhou YM is deemed to be interested in the Domestic Shares held by Mr. Luo.

So far as is known to our Directors, immediately following completion of the Global Offering, the following persons will be, directly or indirectly, interested in 10% or more of the issued voting shares of any members of our Group other than our Company.

<b>Name of our Group member</b>	<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Approximate percentage of shareholding</b>
Lubiam Apparel	Lubiam Moda per L'Uomo	Beneficial owner	40%

## 2. Further information about our Directors and Supervisors

### (a) *Particulars of Directors' and Supervisors' service contracts*

Each of our Directors and Supervisors entered into a service contract with our Company. The principal particulars of these service contracts comprise, among others, a term of three years commencing from the date on which their respective appointments were approved by our Shareholders, subject to termination in accordance with their respective terms and an arbitration provision. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules and regulations.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

### (b) *Others*

- (i) None of our Directors, Supervisors, or any past Directors of any members of our Group has been paid any sum of money for the years ended December 31, 2015, 2016 and 2017 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (ii) There has been no arrangement under which a Director or Supervisor has waived or agreed to waive any remuneration or benefits in kind for the years ended December 31, 2015, 2016 and 2017.



- (iii) Save and except that Mr. Luo directly holds 80% equity interest and, by virtue of the SFO, he is deemed to be interested in the remaining 20% equity interest held by his spouse in Shaanxi Maoye and all Shares held by Shaanxi Maoye, one of our promoters, none of our Directors or Supervisors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director or a Supervisor, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

### **3. Agency fees or commissions received**

Save as disclosed in this prospectus, none of our Directors, Supervisors or any of the persons whose names are listed under “Other Information — Consents of Experts” in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

### **4. Directors’ and Supervisors’ remuneration**

For the years ended December 31, 2015, 2016 and 2017, the aggregate amount of salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) granted by us to each of the directors and supervisors of our Company during the Track Record Period were approximately RMB0.4 million, RMB2.0 million and RMB2.0 million, respectively.

Under the current arrangements, our Directors and Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2018 under arrangement in force as of the date of this prospectus which is expected to be approximately RMB2.2 million in aggregate.

### **5. Disclaimers**

Save as disclosed in this prospectus:

- (i) none of the Directors, Supervisors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our H Shares are listed;

- (ii) none of our Directors or Supervisors nor any of the parties listed in “Other Information — Consents of Experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (iii) none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange;
- (iv) none of our Directors or Supervisors nor any of the parties listed in “Other Information — Consents of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (v) save for the Underwriting Agreements, none of the parties listed in “Other Information — Consents of Experts” in this Appendix (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group;
- (vi) so far as is known to our Directors, as of the Latest Practicable Date, none of the Directors, Supervisors, their respective associates or Shareholders of our Company (who is interested in more than 5% of the issued share capital of our Company) has any interests in any of our top five suppliers and top five customers; and
- (vii) none of the Directors is interested in any business (other than the business of our Group) which competes or is likely to compete, directly or indirectly, with our business.

## **D. OTHER INFORMATION**

### **1. Estate duty, tax and indemnities**

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in the paragraph headed “B. Further Information about Our Business — 1. Summary of Material Contracts” in this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profit or gains earned, accrued or received, any claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional and penalty and monetary damages as a result of the non-compliance incidents as detailed in the section headed “Business — Legal proceedings and Compliance — Non-compliance incidents” in this prospectus.

**2. Litigation**

Save as disclosed in this prospectus, as of the Latest Practicable Date, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against us that may have a material adverse effect on our business, financial condition or results of operations.

**3. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the H Shares to be issued pursuant to the Global Offering.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee is HK\$5.0 million and is payable by our Company.

**4. Preliminary expenses**

Our Company has not incurred any preliminary expenses.

**5. Promoters**

The promoters of our Company are Shanshan and Shaanxi Maoye.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

## 6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Dongxing Securities (Hong Kong) Company Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
Shu Jin Law Firm	Legal advisers of our Company as to PRC laws
China Insights Consultancy Limited	Industry consultant
Cushman & Wakefield Limited	Property valuer
Baker Tilly Hong Kong Risk Assurance Limited	Internal control consultant

## 7. Consents of experts

Each of the experts named in paragraph 6 of this Appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this prospectus the form and context in which it is respectively included.

## 8. Interests of experts in our Company

None of the persons named in paragraph 6 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

## 9. Compliance adviser

Our Company has appointed Dongxing Securities (Hong Kong) Company Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

## 10. Taxation of holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate chargeable on each of the seller and purchaser is HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

**11. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**12. No material adverse change**

Save for (i) the Final Award as disclosed in “Summary — Recent development and no material adverse change” in this prospectus; (ii) the estimated non-recurring listing expenses as disclosed in “Financial Information – Listing expenses” in this prospectus; and (iii) the disposal of MARCO AZZALI operations as disclosed in “Business — Our brands and products — Brand portfolio — Our historical MARCO AZZALI brand” in this prospectus, our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since December 31, 2017 (being the date to which the latest audited financial information of our Company were made up).

**13. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
  - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Our Directors confirm that:
  - (i) Save as disclosed in this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared); and
  - (ii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (c) Save as disclosed in the prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries.

- (d) All necessary arrangements have been made to enable our H Shares to be admitted into CCASS for clearing and settlement.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) Save as disclosed in the prospectus, our Company has no outstanding convertible debt securities or debentures.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.
- (h) None of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (i) Except for Lubiam Apparel, there is no subsidiary in our Group which is a sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture.
- (j) We currently do not intend to apply for the status of a sino-foreign investment joint stock company with limited liability and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

#### **14. Bilingual prospectus**

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption from Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents, please see “Statutory and General Information — Other Information — Consents of experts” in Appendix VII to this prospectus; and
- (c) a copy of each of the material contracts, please see “Statutory and General Information — Further Information About Our Business — Summary of material contracts” in Appendix VII to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Sidley Austin at Level 39, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the Accountants’ Report from BDO Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report from BDO Limited in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the years ended December 31, 2015, 2016 and 2017;
- (e) the material contracts, please see “Statutory and General Information — Further Information about Our Business — Summary of material contracts” in Appendix VII to this prospectus;
- (f) the service contracts, please see “Statutory and General Information — Further Information about Our Directors, Supervisors and Substantial Shareholders — Particulars of Directors’ and Supervisors’ service contracts” in Appendix VII to this prospectus;
- (g) the legal opinions issued by Shu Jin Law Firm, our PRC legal advisers in respect of our Group’s business operations and property interests in the PRC;
- (h) the written consents, please see “Statutory and General Information — Other information — Consents of experts” in Appendix VII to this prospectus;

- (i) the PRC Company Law, the PRC Securities Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translation;
- (j) the report issued by China Insights Consultancy Limited;
- (k) the report issued by Cushman & Wakefield Limited; and
- (l) the report issued by Baker Tilly Hong Kong Risk Assurance Limited.



**杉杉品牌運營股份有限公司**  
Shanshan Brand Management Co., Ltd.