

La Chapelle

Xinjiang La Chapelle Fashion Co., Ltd.



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

INTERIM REPORT 2021

(Stock Code: 06116)



La Chapelle

CONTENTS

Corporate Information	7
Financial Highlights	8
Management Discussion and Analysis	9
Other Information	20
Interim Consolidated Balance Sheet	26
Interim Company Balance Sheet	29
Interim Consolidated Income Statements	32
Interim Company Income Statements	34
Interim Consolidated Cash Flow Statements	36
Interim Company Cash Flow Statements	38
Interim Consolidated Statement of Changes in Shareholders' Equity	40
Interim Company Statement of Changes in Shareholders' Equity	44
Notes to the Interim Financial Statements	48



Puella





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CORPORATE INFORMATION

REGISTERED CHINESE NAME

新疆拉夏貝爾服飾股份有限公司

ENGLISH NAME

Xinjiang La Chapelle Fashion Co., Ltd.

HEADQUARTERS

Building 4 No. 50, Lane 2700,
South Lianhua Road
Minhang District, Shanghai, PRC

REGISTERED OFFICE IN THE PRC

Room 2008, 20/F, Tower D,
Chuangxin Square,
Si Ping Road, Xin Shi District,
Urumqi, Xinjiang, RPC

PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre,
No. 248 Queen's Road East Wanchai,
Hong Kong

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTORS

Executive Directors

Mr. Zhang Xin (*Chairman*)
Ms. Zhang Ying (*President*)

Non-executive Directors

Mr. Yang Heng
Mr. Zhao Jinwen

Independent Non-executive Directors

Mr. Xing Jiangze
Ms. Chow Yue Hwa Jade
Mr. Zhu Xiaozhe

AUDIT COMMITTEE

Mr. Xing Jiangze (*Chairman*)
Mr. Zhao Jinwen
Ms. Chow Yue Hwa Jade

NOMINATION COMMITTEE

Mr. Zhu Xiaozhe (*Chairman*)
Ms. Zhang Ying
Mr. Xing Jiangze

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Xing Jiangze (*Chairman*)
Mr. Zhang Xin
Mr. Zhu Xiaozhe

BUDGET COMMITTEE

Ms. Zhang Ying (*Chairman*)
Mr. Zhang Xin
Mr. Yang Heng
Mr. Xing Jiangze
Ms. Chow Yue Hwa Jade

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Zhang Xin (*Chairman*)
Ms. Zhang Ying
Mr. Yang Heng
Ms. Chow Yue Hwa Jade
Mr. Zhu Xiaozhe

SUPERVISORS

Mr. Gu Zhenguang (*Chairman*)
Mr. Sun Bin
Mr. Wang Jiajie

COMPANY SECRETARY

Ms. Wong Wai Ling (*ACS, ACIS*)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Xin (*appointed on 10 June 2021*)
Ms. Wong Wai Ling

LEGAL ADVISERS

Grandall Law Firm (Shanghai) (*as to PRC Law*)
Herbert Smith Freehills (*as to Hong Kong Law*)

AUDITOR

Da Hua Certified Public Accountants (Special General Partnership)

H SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Everbright Bank Co., Ltd.
Bank of Communications Co., Ltd.

STOCK CODE

6116

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	Increase/ (decrease) %
Financial highlights			
Revenue	277,887	1,362,227	(79.60)
Gross profit	160,963	656,123	(75.47)
Operating loss	(236,890)	(896,220)	(73.57)
Loss before income tax	(242,837)	(900,824)	(73.04)
Income tax expenses	(6,996)	(177,157)	(96.05)
Net loss	(235,841)	(723,667)	(67.41)
Basic and diluted losses per share (RMB)	(0.44)	(1.32)	(66.67)

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)	Increase/ (decrease) %
Total assets	2,972,327	3,485,780	(14.73)
Total equity attributable to shareholders of the Company	(844,803)	(607,856)	(38.98)

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Financial Ratios		
Gross profit margin	57.92%	48.17%
Operating loss margin	(85.25%)	(65.79%)
Loss margin for the period	(84.87%)	(53.12%)

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2021, China's economy experienced a stable positive development trend, the recovery momentum of the consumer market continued to increase, the recovery of contact-based consumption accelerated, and the operation of physical retail shops continuously improved. In the first half of the year, total retail sales of consumer goods amounted to RMB21.2 trillion, representing a cumulative year-on-year increase of 23% and an increase of 10.9% compared with the same period in 2019, and an average increase of 4.4% over the past two years. In particular, the online retail sales of physical goods was RMB5,026.3 billion, representing an increase of 18.7% and an average increase of 16.5% over the past two years, and accounting for 23.7% of the total retail sales of consumer goods, showing that online retail continued to grow rapidly; by retail segments, in the retail sales of stores above designated size in the first half of the year, the retail sales of convenience stores, supermarkets and specialty shops grew by 17.4%, 6.2% and 24.6% year-on-year respectively, with an average growth of 6.3%, 5.0% and 3.5% over the past two years respectively.

In the first half of 2021, the Company achieved an operating revenue of RMB278 million, representing a decrease of RMB1,084 million or 79.6% compared with the operating revenue of RMB1,362 million in the corresponding period of last year, which was mainly due to the decrease in the number of the Company's existing stores during the Reporting Period compared with the corresponding period of last year, the shift of the online business to a licensed business model, and the reduction in the purchase of goods as a result of the the Company's tight cash flow. During the Reporting Period, the Company achieved a net loss attributable to shareholders of the Company of approximately RMB240 million, representing a year-on-year decrease of RMB470 million. The main reasons for the loss during the Reporting Period were: (1) The Company's operating revenue decreased by 79.6% year-on-year, despite a year-on-year decrease of 80.4% in the three cost items including operating costs, management expenses and selling expenses,

because the offline channels were still being closed. As a result of the expenses in respect of operating losses from closed stores and one-off recognition of expenses such as amortisation of renovation expenses, as well as the pressure on fixed costs remained high, the relevant expenses remained at a relatively high level. (2) During the Reporting Period, the Company's financial interest expenses amounted to approximately RMB105 million, representing an increase of RMB12 million as compared with the same period of last year, which was mainly due to the penalty interest arising from overdue debts from financial institutions and the accrual of overdue interest in respect of litigation cases that had been settled but not yet executed at the end of the Reporting Period. (3) The aging of past-season products in the Company's inventory structure at the end of the period significantly increased, and the provision for inventory depreciation resulted in a loss of approximately RMB90 million. (4) During the Reporting Period, the Company made a provision for credit impairment loss of approximately RMB23 million, representing a decrease of approximately RMB75 million as compared with the corresponding period of last year. This was mainly due to a decrease in the balance of receivables as the Company tightened its credit terms and increased its collection efforts on receivables in order to accelerate the return of funds. (5) During the Reporting Period, the Company actively negotiated with its creditors on debt restructuring proposals and realised debt restructuring proceeds through the settlement of debts with goods and partial debt waivers, which had a positive impact on net profit of approximately RMB70 million.

FINANCIAL REVIEW

For the six months ended 30 June 2021, the Group's revenue and operating loss reached RMB277.9 million and RMB236.9 million respectively, representing a decrease of 79.6% from its revenue and a loss decrease of 73.6% from its operating loss, respectively, as compared with the corresponding period of last year. The net loss for the first half of 2021 amounted to RMB235.8 million, representing a loss decrease of 67.4% as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The revenue of the Group in the first half of 2021 decreased from RMB1,362.2 million in the first half of 2020 to RMB277.9 million, representing a decrease of 79.6%.

The decrease in revenue was mainly due to (1) the decrease in the number of the Company's existing stores during the Reporting Period compared with the corresponding period of the previous year; the number of retail points of the Group in China decreased by 532 from 959 as at 31 December 2020 to 427 as at 30 June 2021, representing a decrease of 55.5%; (2) the Company's transfer to licensing business model; and (3) the decrease in the quantity of goods purchased during the Reporting Period as a result of the tight cash flow of the Company and the corresponding decrease in sales revenue..

Revenue by distribution channel

The following table sets out the revenue breakdown by type of retail points for the Reporting Period and the corresponding period of last year:

	Six months ended 30 June					
	2021			2020		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
Concessionaire counters	64,064	23.1	60.8	473,011	34.7	8.5
Standalone retail outlets	54,489	19.6	59.1	459,544	33.7	12.1
Online platform	7,879	2.8	63.8	265,498	19.5	20.1
Franchise/Associates	23,362	8.4	45.1	154,792	11.4	1.0
Licensing	64,797	23.3	100.0	–	–	–
Others	63,296	22.8	14.9	9,382	0.7	(75.5)
Total	277,887	100	57.9	1,362,227	100	9.8

The revenue from concessionaire counters decreased from RMB473.0 million in the first half of 2020 to RMB64.1 million in the first half of 2021, representing a decrease of 86.5%. The revenue from retail outlets decreased from RMB459.5 million in the first half of 2020 to RMB54.5 million in the first half of 2021, representing a decrease of 88.1%. Due to the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for online business, and the decrease in product purchases during the Reporting Period, the revenue from concessionaire counters, standalone retail outlets, franchise/associates and online platform decreased significantly. In the Reporting Period, there was revenue from new licensing business of the Company, and the revenue from licensing business accounted for 23.3% of the total revenue of the Group in the first half of 2021.

Note 1: "Others" mainly refers to the revenue from the leasing business of RMB36.23 million and labour services (RMB43.32 million in total) and from wholesale of RMB19.98 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue by brand

The following table sets out the revenue breakdown by brand for the Reporting Period and the corresponding period of last year:

	Six months ended 30 June					
	2021			2020		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
La Chapelle	89,305	32.1	66.6	268,307	19.7	11.7
Puella	32,172	11.6	52.6	211,530	15.6	0.8
7 Modifier	27,570	9.9	51.7	190,841	14.0	4.2
La Babité	30,572	11.0	45.1	172,303	12.6	(1.7)
Candie's	22,700	8.2	52.0	130,125	9.6	–
Men's wear brands	17,451	6.3	70.6	44,180	3.2	57.7
8ém	3,602	1.3	66.2	28,752	2.1	18.8
Other brands	8,091	2.9	(0.9)	26,311	1.9	9.8
Others	46,424	16.7	64.8	9,306	0.7	(26.8)
Naf Naf	–	–	–	280,572	20.6	(48.1)
Total	277,887	100	57.9	1,362,227	100	9.8

Note:

1. Menswear brands comprise JACK WALK, Pote and MARC ECKŌ brands; Other brands comprise Siastella and UlifeStyle brands; "Others" mainly refers to the revenue from the leasing business of RMB36.23 million and the revenue from labour services.
2. Due to the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for online business, and the decrease in product purchases during the Reporting Period, the revenue from each brand recorded a significant decrease.
3. Due to the transformation to the licensing business model whose gross profit was higher during the Reporting Period and the increased efforts to sell aged inventory at a higher value than the net value, the gross profit of certain brands of the Company recorded an increase.

MANAGEMENT DISCUSSION AND ANALYSIS

As affected by the decrease in the number of retail outlets and the decrease in same store revenue, the revenue of the Group for the first half of 2021 had an overall decrease of 79.6%. The revenue from each of the major brands decreased: in particular, the revenue from women's wear brands decreased by 79.2%, and that from men's wear brands decreased by 60.5%. At the same time, due to the increase in the proportion of licensing revenue in the overall revenue, and the increase in the sale of aged inventory at a value higher than the net value, the overall gross profit margin of the Group recorded an increase.

Revenue by tier of cities

The following table sets out the revenue breakdown by tier of cities (including revenue from online platform) for the Reporting Period and the corresponding period of last year:

	Six months ended 30 June					
	2021			2020		
	Revenue	% of total	Gross Profit Margin	Revenue	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
	(RMB'000)			(RMB'000)		
First-tier cities	27,374	9.8	19.2	116,965	8.6	(28.8)
Second-tier cities	89,063	32.1	36.2	462,222	33.9	(9.3)
Third-tier cities	63,837	23.0	61.1	268,145	19.7	9.3
Other cities	32,816	11.8	60.0	234,323	17.2	10.6
Overseas region	–	–	–	280,572	20.6	(48.1)
Licensing	64,797	23.3	100.0	–	–	–
Total	277,887	100	57.9	1,362,227	100.0	9.8

Note:

- For the classification of domestic cities into various tiers, please refer to the prospectus of the Company dated 24 September 2014.

In the first half of 2021, the Group's revenue in all tiers of cities decreased, mainly due to the decline in the number of retail outlets and the decrease in product purchases.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue by product type

The following table sets out the revenue breakdown by product type (including revenue from online platform) for the Reporting Period and the corresponding period of last year:

	Six months ended 30 June			2020		
	2021					Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	
Tops	114,332	41.2	37.1	926,852	68.0	(8.8)
Bottoms	16,484	5.9	48.7	126,492	9.3	(5.1)
Dresses	36,486	13.1	46.7	298,485	21.9	(5.0)
Accessories	2,469	0.9	68.4	1,092	0.1	147.5
Others	108,116	38.9	84.9	9,306	0.7	(6.7)
Total	227,887	100	57.9	1,362,227	100.0	9.8

Note:

1. "Others" refers to the revenue from the licensing business of RMB64.797 million, and other revenue of RMB43.319 million.

In the first half of 2021, revenue of the Group from sales recorded a decrease across tops, bottoms, and dresses, which was attributed to the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for online business, and the decrease in product purchases during the Reporting Period. In respect of the revenue contribution of each product type compared with the same period of last year, revenue contribution from sales of tops decreased by 26.8%, that from sales of bottoms decreased by 3.4% and that from sales of dresses decreased by 8.8%.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

The cost of sales of the Group decreased by 83.4% from RMB706.1 million in the first half of 2020 to RMB116.9 million in the first half of 2021.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB656.1 million in the first half of 2020 to RMB161.0 million in the first half of 2021, representing a decrease of 75.5%, mainly attributable to a period-on-period decrease in revenue.

The overall gross profit margin of the Group increased to 57.9% in the first half of 2021 from 48.2% in the first half of 2020, mainly due to the increase in the proportion of revenue from the licensing business and increased efforts to sell aged inventory at a higher value than the net value, resulting in a slight period-on-period increase in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in the first half of 2021 amounted to RMB170.6 million (the first half of 2020: RMB1,026.3 million), consisting primarily of sales staff salaries and benefits, concession expenses relating to retail points and online stores, depreciation of store lease assets, amortisation of store decoration expenses and rental expenses. Expressed as a percentage, selling and distribution expenses in the first half of 2021 as a percentage of total revenue in the first half of 2021 was 61.4% (the first half of 2020: 75.3%), representing a significant decrease compared with the same period last year, which was mainly due to the Company's closure of loss-making and inefficient stores and cost-reduction measures, resulting in a significant drop in staff costs, concession expenses relating to shopping malls and online stores, depreciation of right-of-use assets and amortisation of long-term deferred expenses. But overall the ratio of selling and distribution expenses to revenue was still at a high level. General and administrative expenses in the first half of 2021 amounted to RMB81.3 million (the first half of 2020: RMB148.5 million), consisting primarily of administrative employee salaries and benefit expenses, depreciation of fixed assets and consulting service fees. Expressed as a percentage, general and administrative expenses as a percentage of total revenue in the first half of 2021 were 29.3% (the first half of 2020: 10.9%). The contribution of administrative staff salaries and benefits and that of depreciation of fixed assets to our revenue for the Reporting Period increased from the corresponding period of last year.

Asset Impairment Loss

The asset impairment loss for the first half of 2021 was RMB93.5 million (the first half of 2020: RMB173.6 million), which was provided for impairment of inventories.

Other Income – Net

The Group's other income amounted to RMB62.5 million in the first half of 2021 (the first half of 2020: RMB7.4 million), mainly due to the debt restructuring income generated by the settlement of debts in the Reporting Period.

Finance Expenses/Income – Net

The Group's net finance expenses were RMB97.3 million in the first half of 2021 (the first half of 2020: RMB91.1 million). The increase in the net financial expenses was mainly a result of the penalty interest arising from overdue debts from financial institutions and the accrual of overdue interest in respect of litigation cases that had been settled but not yet executed at the end of the Reporting Period.

Loss before Income Tax

Loss before income tax of the Group decreased from RMB900.8 million in the first half of 2020 to a loss before income tax of RMB242.8 million in the first half of 2021, representing a decrease of 73.0% from the corresponding period of last year. The decrease in loss before income tax was mainly due to the business contraction strategy implemented by the Company and the decrease in fixed costs and expenses.

Income Tax Expense

Income tax expense amounted to RMB-7.0 million in the first half of 2021 (the first half of 2020: RMB-177.2 million). The effective income tax rate in the first half of 2021 was 2.9% (the first half of 2020: 19.7%).

Loss and Loss Margin for the Reporting Period

As a result of the foregoing, net loss of the Group in the first half of 2021 amounted to RMB235.8 million, representing a decrease by 67.4% from the net loss of RMB723.7 million in the first half of 2020. In particular, net loss for the period attributable to the shareholders of the Company was RMB236.9 million, representing a decrease by 67.0% from the net loss of RMB718.8 million in the first half of 2020. Loss margin of the Group was 84.9% in the first half of 2021, compared to a loss margin of 53.1% in the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. In the first half of 2021, the capital expenditure incurred by the Group was RMB6.9 million (the first half of 2020: RMB6.7 million).

Cash and Cash Flow

In the first half of 2021, net cash generated from operating activities amounted to an inflow of RMB20.9 million (first half of 2020: inflow of RMB181.1 million). The decrease in the net cash inflow from operating activities was mainly due to the decrease in revenue.

In the first half of 2021, net cash used in investing activities amounted to a net cash inflow of RMB10.5 million (the first half of 2020: net outflow of RMB82.3 million). In particular, the major investment activities in the first half of 2021 were for: 1) the net cash inflow of RMB15.1 million for the disposal of subsidiaries; 2) the net cash inflow of RMB2.2 million for the disposal of fixed assets, intangible assets and other long-term assets; and 3) the net cash outflow of RMB6.9 million to acquire fixed assets, intangible assets and other long-term assets.

In the first half of 2021, net cash used in financing activities amounted to an outflow of RMB18.9 million (the first half of 2020: net outflow of RMB211.9 million). Major financing activities in the first half of 2021 were: 1) cash payments for distribution of dividends, profits or interest expenses resulting in a net cash outflow of RMB3.6 million; 2) repayment of bank loans and interests resulting in a net cash outflow of RMB6.5 million; and 3) payment relating to other financing activities resulting in a net cash outflow of RMB8.8 million.

As at 30 June 2021, the Group held cash and cash equivalents in the total amount of RMB36.8 million (31 December 2020: RMB62.1 million), mainly due to the decrease in net cash flow from operating activities compared with the corresponding period of last year.

In the first half of 2021, the average inventory turnover of the Group was 416 days (the first half of 2020: 336 days), and the average receivables turnover was 158 days for the first half of 2021 (the first half of 2020: 54 days). The period-on-period decrease in inventory turnover rate was mainly due to the higher proportion of aged inventories and the decrease in revenue.

As at 30 June 2021, net current liabilities of the Group amounted to RMB2,698.2 million (31 December 2020: net current liabilities of the Group amounted to RMB2,571.7 million). Total assets less current liabilities amounted to RMB-519.4 million (31 December 2020: total assets less current liabilities amounted to RMB-277.7 million). The gearing ratio (formula used: total liabilities/total assets) was 131.0% (31 December 2020: 119.7%).

Most transactions of the Group carried out in mainland China are settled in Renminbi. The Group also pays dividends to holders of H Shares in Hong Kong dollars. As of 30 June 2021, the Group did not enter any forward exchange contracts nor currency swap contracts. The Group was no foreign currency financial asset.

Bank loans and other borrowings

As at 30 June 2021, bank borrowings of the Group amounted to RMB1160.9 million (31 December 2020: RMB1167.4 million for balance of borrowings), which was mainly mortgage, pledge and guarantee loans due within one year. The annual interest rates of the above borrowings range from 4.55% to 7.00%.

Pledge of assets

- (a) As at 30 June 2021, houses and buildings with a book value of RMB1,517.4 million (31 December 2020: RMB1,581.5 million) were pledged to secure bank borrowings.
- (b) As at 30 June 2021, construction in progress with a book value of RMB68.2 million (31 December 2020: RMB68.5 million) was pledged to secure bank borrowings.
- (c) As at 30 June 2021, the land use right with a book value of RMB145.6 million (31 December 2020: RMB147.3 million) were pledged to secure bank borrowings; the amortization amount of the land use right in the first half of 2021 was RMB1.7 million (31 December 2020: RMB3.4 million).

Total equity attributable to shareholders of the Company

As at 30 June 2021, total equity attributable to shareholders of the Company was RMB-844.8 million (as at 31 December 2020: RMB-607.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

In May 2019, the Company pledged 100% of its equity interest in a former wholly-owned subsidiary LaCha Fashion I Limited ("**LaCha Fashion I**"), 100% of its equity interest in LaCha Apparel II Sàrl ("**LaCha Apparel II**"), and 100% of its equity interest in Naf Naf SAS to HTI Advisory Company Limited (海通國際諮詢有限公司) for a loan of EUR37.4million to fund the consideration for acquiring 60% equity interest in Naf Naf SAS. The Company accepted joint and several liability for the loan. Subsequently, due to the Company's liquidity difficulties and the deterioration of Naf Naf SAS's operating conditions, the Company failed to repay the loan on time.

On 25 February 2020, HTI Advisory Company Limited took over LaCha Fashion I. As a result, the Company was unable to control or exert any influence on it, and therefore lost actual control of it, thereby also losing control over LaCha Fashion I's subsidiaries, i.e. APPAREL I, APPAREL II and Naf Naf SAS. HTI Advisory Company Limited has commenced proceedings in order that the Company and its subsidiaries be ordered to be jointly and severally liable for the repayment of the loan. This dispute is still under legal proceedings. For details, please refer to the Company's announcement dated 25 September 2020.

As the Company may be jointly and severally liable for repayment of the loan, an estimated liability of RMB372.6 million was accrued.

BUSINESS REVIEW

Retail Network

For the six months ended 30 June 2021, the number of domestic retail outlets of the Group was 427, decreasing from 959 as at 31 December 2020, which were situated at approximately 220 physical locations. The number of retail points was counted on the basis used for that as at 31 December 2015.

The table below sets out the distribution of the Group's retail points as at 30 June 2021 and as at 31 December 2020 by tier of cities in the PRC:

	As at 30 June 2021		As at 31 December 2020	
	Number of retail points	% of total	Number of retail points	% of total
First-tier cities	18	4.3	50	5.2
Second-tier cities	184	43.1	408	42.5
Third-tier cities	95	22.2	204	21.3
Other cities	130	30.4	297	31.0
Total	427	100	959	100

Note:

1. In respect of the classification of the tier of cities, please refer to the prospectus of the Company dated 24 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2021 and as at 31 December 2020 by types of retail points:

	As at 30 June 2021		As at 31 December 2020	
	Number of retail points	% of total	Number of retail points	% of total
Concessionaire counters	179	41.9	561	58.5
Standalone retail outlets	63	14.8	331	34.5
Franchise/Associate	185	43.3	67	7.0
Total	427	100.0	959	100.0

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2021 and as at 31 December 2020 by brands:

	As at 30 June 2021		As at 31 December 2020	
	Number of retail points	% of total	Number of retail points	% of total
La Chapelle	178	41.6	253	26.3
Puella	72	16.9	202	21.1
7 Modifier	67	15.7	176	18.4
La Babité	58	13.6	154	16.1
Candie's	52	12.2	142	14.8
Menswear	–	–	21	2.2
8ém	–	–	5	0.5
Naf Naf	–	–	–	–
Other brands	–	–	6	0.6
Total	427	100.0	959	100.0

Note:

1. The number of stores of the Company is calculated based on the number of outlets, that is, if multiple brands are included in the same collection store, the collection store is counted as multiple terminal outlets. The Company continued improving the offline terminal channels as well as closed and adjusted more lossmaking and low-efficiency outlets during the Reporting Period.
2. Other brands comprise UlifeStyle and Siastella.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the distribution of the Group's net retail points closure in the PRC in the first half of 2021 by brands:

	For the six months ended 30 June 2021	
	Number of net retail points closure	% of total
La Chapelle	75	14.1
Puella	130	24.5
7 Modifier	109	20.6
La Babité	96	18.0
Candie's	90	16.9
Menswear	21	3.9
8ém	5	0.9
Other brands	6	1.1
Total	532	100.0

In the first half of 2021, the number of retail outlets of the Group's major brands declined.

REVIEW AND FUTURE OUTLOOK

In the first half of 2021, the Company continued to face difficulties including greater liquidity pressure, heavier operating and financial burdens and a continued decline in revenue. As at the end of the Reporting Period, the aggregate amount of litigation cases involving the Company that had been adjudicated but had not been executed was approximately RMB2,000 million and that of litigation cases involving the Company that were pending was approximately RMB600 million. As at 30 August 2021, the Company has received enforcement notices from the relevant courts in respect of the financial loan disputes between the Company and China Everbright Bank Co., Ltd.* (中國光大銀行股份有限公司), China CITIC Bank Corporation Limited* (中信銀行股份有限公司), and Urumqi High-tech Investment Development Group Co., Ltd.* (烏魯木齊高新投資發展集團有限公司) respectively. At this stage, the Company is still facing greater cash flow pressure and the risk of concentrated debts repayments. In view of the above situation, under the leadership of the Board of Directors and with the concerted efforts of all staff including the management, the Company continued to adhere to its business strategy of "down-scaling and focusing, reducing costs and increasing efficiency and innovative development", and did its best to alleviate the pressure on the Company's liquidity and focus on ensuring the stability of its production and operation and core business.

1. The Company actively negotiated with the courts, creditors and financial institutions to secure a certain percentage of debt discount or payment by instalments so as to avoid uncertainty arising from new litigation cases posed to the Company. According to the Company's communication with some of its creditors, they were willing to support the Company's sustainable development through debt discounts and waivers (the percentage of discount that can be offered by different creditors varies depending on the nature of the debt, the amount of debt and the circumstances faced by the creditors). At the same time, the Company was actively seeking to bring in new investors and external financing to leverage on the resources and advantages of its substantial shareholder, Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ("Shanghai Wensheng"), in terms of financing credit, capital strength and professional capabilities, so as to seek incremental capital to enable more debt restructuring to be achieved, reduce the debt burden faced by the Company and enhance the Company's credit and financing capabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

2. The Company promoted the leasing or sale of inefficient property assets and sought to achieve timely sale at the maximum premium to improve liquidity and asset structure. In the first half of 2021, the Company's income from the leasing of real estate amounted to approximately RMB36 million, which effectively improved the efficiency of the use of the Company's assets and reduced operating costs. The Company will continue to negotiate with creditors and the courts on the disposal of relevant assets, including the sale, realisation and auction of real properties and equity interests in relevant companies, in order to "remove its heavy burden and move forward with light gear" as soon as possible.
3. During the Reporting Period, the Company continued to inspect its existing inventories and adopt measures such as identification by style, quality screening, bundling and matching channels, to encourage all regions and partners to facilitate the disposal of the inventories of the Company in accordance with a unified policy. The Company has also carried out in-depth business cooperation with e-commerce platforms such as Aikucun* (愛庫存), Vip.com* (唯品會), and TikTok. These measures effectively reduced the inventory level of old products and accelerated the return of funds to the Company. In addition, the Company also actively negotiated with its creditors on the settlement of debts by means of inventory to revitalise the Company's aged inventory and reduce the risk of potential losses of assets; during the Reporting Period, the Company realised a gain of approximately RMB60 million from debt restructuring by way of settlement of debts by goods.
4. During the Reporting Period, the Company continued to expand the brands, categories and platform channels covered by its licensing business to improve its business turnaround and profitability through better utilisation of external resources. In the first half of 2021, the Company's licensing business achieved an operating revenue of approximately RMB65 million, which became a major profit growth point for the Company's operating business. The Company has set up a dedicated licensing team and plans to focus on expanding its live e-commerce channel and actively laying out its licensing business on short video platforms such as Tiktok and Kuaishou.

During the Reporting Period, 186,800,000 A shares of the Company held by Mr. Xing Jiaying, the former controlling shareholder of the Company, and Shanghai Hexia, the party acting in concert with Mr. Xing Jiaying, were put up for judicial auction, of which Shanghai Qijin Enterprise Management Partnership LLP* (上海其錦企業管理合夥企業(有限合夥)) ("**Shanghai Qijin**") and Shanghai Wensheng, the party acting in concert with Shanghai Qijin acquired a total of 106,800,000 A shares of the Company, representing 19.50% of the total issued share capital of the Company, thereby becoming the largest shareholder of the Company; Haitong Securities Asset Management Co., Ltd.* (上海海通證券資產管理有限公司) acquired 80,000,000 A shares of the Company, representing 14.66% of the total issued share capital of the Company. As a result, there was a change in the effective control of the Company.

In the second half of the year, the Company will further strengthen its internal control management and standardise operations, improve its control points and functions of each department, maintain a stable management team that is in tune with the current business development. The Company will strive to reduce the Company's debt and operating burden, improve its financial position and profitability, enhance its sustainable operation and safeguard the interests of its shareholders as a whole by promoting the disposal of non-core assets, actively expanding its brand licensing business and improving the level of refinement and management of its offline channels to ensure a balanced cash flow and a stable team, so as to reduce the debt and operating burden faced by the Company.

OTHER INFORMATION

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2021, none of the Directors, Supervisors and the chief executives of the Company have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code").

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2021, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2021, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of interest and capacity	Number of Shares interested ⁶	Approximate percentage shareholding in the relevant class of Shares as at 30 June 2021	Approximate percentage shareholding in the total issued Shares as at 30 June 2021
Shanghai Qijin Enterprise Management Partnership LLP* (上海其錦企業管理合夥企業(有限合夥)) ¹	Beneficial owner	85,200,000 A Shares (L)	25.59%	15.56%
Hangzhou Wensheng Lijin Asset Management Co., Ltd. * (杭州文盛勵錦資產管理有限公司) ¹	Interest in controlled corporation	85,200,000 A Shares (L)	25.59%	15.56%
Hangzhou Wensheng Xiangwen Asset Management Co., Ltd. * (杭州文盛祥文資產管理有限公司) ¹	Interest in controlled corporation	85,200,000 A Shares (L)	25.59%	15.56%

OTHER INFORMATION

Name of Shareholder	Nature of interest and capacity	Number of Shares interested ⁶	Approximate percentage shareholding in the relevant class of Shares as at 30 June 2021	Approximate percentage shareholding in the total issued Shares as at 30 June 2021
Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ¹	Interest in controlled corporation Beneficial owner	85,200,000 A Shares (L) 21,600,000 A Shares (L)	25.59% 6.49%	15.56% 3.94%
Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of the Series Supporting Private Enterprises on behalf of the Securities Industry* (證券行業支持民企系列) ^{1,2}	Others	80,000,000 A Shares (L)	24.03%	14.61%
China Merchants Asset Management, Construction and Investment Overseas No. 1 Overseas Single Asset Management Plan* (招商資管建設海外1號海外單一資產管理計劃)	Others	11,400,000 H Shares (L)	5.31%	2.08%
China Cinda Asset Management Co., Ltd. ³	Interest in controlled corporation	49,597,132 H Shares (L)	23.09%	9.06%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)* (寧波梅山保稅港區金信昌泰投資有限合夥) ⁴	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%
Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司) ⁵	Interest in controlled corporation	22,236,800 H Shares (L)	10.35%	4.06%
Senda International Capital Limited ⁵	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%

Note:

- As disclosed in the announcements of the Company dated 12 July 2020, 16 July 2020, 24 September 2020 and 10 November 2020, a total of 187,078,815 A Shares (comprising 141,874,425 A Shares held by Mr. Xing Jiaying and 45,204,390 A Shares held by Shanghai Hexia Investment Co., Ltd.), which represented 34.16% of the total issued share capital of the Company and 56.20% of the total A Share capital of the Company as at 31 December 2020, are subject to the Freezing Order(s) as Mr. Xing Jiaying ("**Mr. Xing**") and Shanghai Hexia Investment Co., Ltd. ("**Shanghai Hexia**") did not repurchase such respective A Shares pledged by them respectively to Haitong Securities Co., Ltd. ("**Haitong Securities**") and CITIC Securities Company Limited ("**CITIC Securities**"), or adopt security measures, as a result of which Haitong Securities and CITIC Securities applied to the Shanghai Financial Court for the Freezing Order(s) over such A Shares. The Shanghai Financial Court issued the Enforcement Ruling (2020) Hu 74 Zhi one of No. 216 and (2020) Hu 74 Zhi one of No. 425 *《執行裁定書》(2020) 滬74執216號之一、(2020) 滬74執425號之一), pursuant to which the Shanghai Financial Court proposed to auction or sell the Pledged Shares.

OTHER INFORMATION

As disclosed in the announcement of the Company dated 31 January 2021, the Shanghai Financial Court issued the Notice of Judicial Disposal of Shares (2020) Hu 74 Zhi No. 425 *《(司法處置股票公告)(2020) 滬74執425號》, pursuant to which the Shanghai Financial Court made a ruling for the compulsory auction of the 141,600,000 A Shares held by Mr. Xing.

As disclosed in the announcement of the Company dated 1 March 2021, the Shanghai Financial Court issued the Notice of Judicial Disposal of Shares (2020) Hu 74 Zhi No. 216 *《(司法處置股票公告)(2020) 滬74執216號》, pursuant to which the Shanghai Financial Court made a ruling for the compulsory auction of the 45,200,000 A Shares held by Shanghai Hexia.

As disclosed in the announcements of the Company dated 7 March 2021, 22 March 2021, 23 March 2021, 25 March 2021, 28 March 2021, 21 April 2021, 28 April 2021 and 29 April 2021, the Shanghai Financial Court auctioned the 141,600,000 A Shares held by Mr. Xing successfully on the Judicial Execution Platform; the Company received the execution rulings from Shanghai Wensheng Asset Management Co., Ltd. ("**Shanghai Wensheng**") and Shanghai Qijin Enterprise Management Partnership LLP. ("**Shanghai Qijin**") in respect of 61,600,000 A Shares bid by them; the Company received another execution ruling from Mr. Xing in respect of 80,000,000 A Shares bid by three other successful bidders who failed to complete their corresponding transaction; the transfers in respect of 61,600,000 A Shares held by Mr. Xing was completed; the Shanghai Financial Court auctioned the 45,200,000 A Shares held by Shanghai Hexia; the Company received a notice of forced auction in respect of the 80,000,000 A Shares held by Mr. Xing from the Shanghai Financial Court; the Shanghai Financial Court successfully auctioned the 80,000,000 A Shares held by Mr. Xing on 16 April 2021; the Company received an execution ruling from Shanghai Qijin in respect of the 45,200,000 A Shares held by Shanghai Hexia; the transfer in respect of 45,200,000 of the A Shares held was completed; and the Company received an execution ruling from the Shanghai Financial Court in respect of the 80,000,000 A Shares held by Mr. Xing; the transfer in respect of 80,000,000 of the A Shares held by Mr. Xing was completed. As a result of the aforesaid change in shareholding, Shanghai Hexia individually has ceased to be a substantial shareholder of the Company since 21 April 2021, and Shanghai Hexia and Mr. Xing have collectively ceased to be a substantial shareholder of the Company since 29 April 2021.

Shanghai Wensheng was beneficially interested in 21,600,000 A Shares and deemed to be interested in 85,200,000 A Shares held by Shanghai Qijin. Shanghai Wensheng indirectly holds 100% of Shanghai Qijin through its wholly-owned subsidiaries of Hangzhou Wensheng Xiangwen Asset Management Co., Ltd. and Hangzhou Wensheng Lijin Asset Management Co., Ltd..

2. Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of the Series Supporting Private Enterprises on behalf of the Securities Industry* (證券行業支持民企系列) managed by Haitong Securities Asset Management Co., Ltd.* (上海海通證券資產管理有限公司) directly holds 80,000,000 A Shares.
3. China Cinda Asset Management Co., Ltd. was deemed to be interested in an aggregate of 49,597,132 H shares of the Company by virtue of the SFO. Those interests are held through Cinda Investment Co., Ltd., Hainan Jianxin Investment Management Co., Ltd. and Jinxin Changtai Investment Partnership in Meishan Bonded Port Area, Ningbo (Limited Partnership).
4. Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership) invested in H Shares of the Company as an asset principal through China Merchants Asset Management, Construction and Investment Overseas No. 1 Single Asset Management Plan.
5. These H Shares were held by Senda International Capital Limited and Well Prospering Limited, being wholly-owned subsidiaries of Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司), which held 16,630,800 H Shares and 5,606,000 H Shares respectively.
6. The letter "L" denotes the person's or entity's long position in Shares.

Other than as disclosed above, as at 30 June 2021, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. For the six months ended 30 June 2020, the Company repurchased 1,691,400 A shares of the Company on the Shanghai Stock Exchange for a total consideration of RMB9,844,599 (before transaction cost). Such shares have not been cancelled completely as at 30 June 2021. For details, please refer to the announcement of the Company dated 28 August 2020 and the Company's 2020 annual report.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any significant investments held or material acquisitions or disposals of subsidiaries during the period under review, and no plans have been authorised by the Board for any material investments or additions of capital assets as at the date of this interim report.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the six months ended 30 June 2021 and as at the latest practicable date before printing this report, save as to the deviation from the Code Provision A.1.8.

Under Code Provision A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Currently, the Company does not have insurance cover for legal action against its Directors as the Board considers that no director liability insurance on the market can provide sufficient protection for its Directors at a reasonable insurance premium. Therefore, benefits to be derived from taking out insurance may not outweigh the costs.

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules for the six months ended 30 June 2021.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, supervisors (the "Supervisor(s)") and relevant employees on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the six months ended 30 June 2021.

CHANGE IN INFORMATION REGARDING DIRECTORS AND SUPERVISORS ACCORDING TO RULE 13.51B (1) OF THE LISTING RULES

Mr. Yin Xinzai tendered his resignation as the non-executive Director with effect from 30 April 2021.

Mr. Wu Jinying tendered his resignation as the chairman of the Board and the executive Director, and Ms. Wong Sze Wing tendered her resignation as the independent non-executive Director, with effect from 10 June 2021. On 10 June 2021, Mr. Zhang Xin and Mr. Zhao Jinwen were appointed as the executive Director and the non-executive director respectively, and Ms. Chow Yue Hwa Jade was appointed as the independent non-executive Director. Ms. Zhang Danling tendered her resignation as the executive Director, with effect from 10 June 2021. Mr. Yang Heng was appointed as the non-executive Director with effect from 6 July 2021.

OTHER INFORMATION

Mr. Ma Yuanbin tendered his resignation as an employee representative supervisor and the chairman of the supervisory committee of the Company (the **"Supervisory Committee"**) with effect from 10 June 2021. On 10 June 2021, Mr. Wang Jiajie was elected and appointed as an employee representative supervisor, and Mr. Gu Zhenguang was elected as the chairman of Supervisory Committee.

Save as disclosed above, in accordance with Rule 13.51B(1) of the Listing Rules, there is no change in the personal information regarding Directors and Supervisors, which are the consistent with the information set out in the 2020 annual report.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the **"Audit Committee"**) has reviewed the unaudited interim results of the Group for the six months ended 30 June 2021 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee currently comprises one non-executive Director, namely Mr. Zhao Jinwen, and two independent non-executive Directors, namely Mr. Xing Jiangze and Ms. Chow Yue Hwa Jade.

EVENTS AFTER REPORTING PERIOD

(1) The Company published its 2020 annual report (the **"A Share 2020 Annual Report"**) and the first quarterly report for the three months ended 31 March 2021 on the website of the Shanghai Stock Exchange (the **"SSE"**) on 30 April 2021. After subsequent review, it was found that there were filling errors and accounting errors in the A Share 2020 Annual Report, which led to disclosure errors. Since the data in the 2020 annual report needs to be corrected, the data in the first quarterly report for the three months ended 31 March 2021 shall be corrected accordingly. The announcement dated 20 July 2021 of the Company discloses the rectification of certain errors in the A Share 2020 Annual Report and the corresponding errors in the 2020 annual report published on the website of The Stock Exchange of Hong Kong Limited (the **"H Share 2020 Annual Report"**, together with the A Share 2020 Annual Report, the **"2020 Annual Reports"**) and the first quarterly report for the three months ended 31 March 2021 published under the requirements of the SSE. For details, please refer to the announcement dated 20 July 2021.

(2) As a result of the Group's involvement in litigation and arbitration cases, some of the Group's bank accounts have been frozen. As at 27 August 2021, an aggregate of 103 bank accounts of the Group have been frozen, involving an aggregate frozen amount of approximately RMB119 million. As at 27 August 2021, as a result of factors such as the Group's involvement in litigation cases, the Company's equity interest in 17 of its subsidiaries have been frozen, involving an aggregate frozen amount of approximately RMB673 million. The freezing of the Company's equity interest mentioned above has not substantively affected the normal operation of the Company and the relevant subsidiaries. However, there is a risk that the equity interest may be judicially disposed of. The Company will proactively communicate with the relevant courts and creditors in order to properly resolve the freezing of the equity interest and maintain the stability of the Company's business.

As at 27 August 2021, as a result of the Company's involvement in a total of 24 litigation cases arising from such disputes as disputes over loan agreements and construction agreements, 4 real properties of the Company (with an aggregate book value of approximately RMB1.714 billion as at 31 July 2021) have been seized. The seizure has caused restriction to rights and there is a risk that the real properties may be judicially auctioned. The Company will proactively engage with the relevant parties in order to properly resolve the seizure of the real properties, and actively negotiate and conciliate with the applicants for the freezing order to release the real properties from right restrictions and restore them to normal conditions as soon as possible. For details, please refer to the announcement dated 27 August 2021.

- (3) The Company discovered through internal investigation that, Shanghai Hexia Investment Co., Ltd., a person acting in concert with Mr. Xing Jiaying, the former controlling shareholder of the Company and the former de facto controller of the Company, appropriated funds of RMB9.5 million of the Company. As of 15 September 2021, the above appropriated funds have not been returned. For details, please refer to the announcement dated 15 September 2021.

Saved as disclosed herein, there was no other material event that may possibly affect the Group since the end of the Reporting Period.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers and staff for their continued support to the Group.

By Order of the Board
Xinjiang La Chapelle Fashion Co., Ltd.
Mr. Zhang Xin
Chairman

Shanghai, the PRC, 27 September 2021

Interim Consolidated Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Assets	VI	Closing Balance	Opening Balance
Current assets:			
Cash and bank	(I)	166,601	206,477
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable	(II)	886.00	–
Accounts receivable	(III)	217,250	270,637
Accounts receivable financing		–	–
Prepayments	(IV)	24,214	35,582
Other receivables	(V)	93,193	125,636
Including: Interest receivables		–	–
Dividend receivables		–	–
Inventories	(VI)	203,055	438,716
Contract assets		–	–
Held-for-sale assets		–	–
Non-current assets due within one year	(VII)	–	25,844
Other current assets	(VIII)	88,322	88,952
Total current assets		793,521	1,191,844
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables	(IX)	4,447	4,447
Long-term equity investments	(X)	173,107	180,825
Other equity instruments	(XI)	4,741	4,741
Other non-current financial assets	(XII)	94,050	94,050
Investment properties		–	–
Fixed assets	(XIII)	1,570,263	1,624,902
Construction in progress	(XIV)	70,308	69,054
Productive biological assets		–	–
Right-of-use assets	(XV)	18,086	47,846
Intangible assets	(XVI)	160,885	166,856
Development expenditure		–	–
Goodwill	(XVII)	78,231	78,231
Long-term prepaid expenses	(XVIII)	4,688	22,984
Deferred tax assets	(XIX)	–	–
Other non-current assets	(XX)	–	–
Total non-current assets		2,178,806	2,293,936
Total assets		2,972,327	3,485,780

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Liability and Equity	VI	Closing Balance	Opening Balance
Current liabilities:			
Short-term borrowings	(XXI)	1,160,900	1,167,400
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		–	–
Accounts payable	(XXII)	940,603	1,134,586
Advance from customers	(XXIII)	1,805	1,428
Contract liabilities	(XXIV)	10,072	7,330
Employee benefits payable	(XXV)	38,588	65,636
Tax payables	(XXVI)	200,053	163,914
Other payables	(XXVII)	785,952	854,555
Including: Interest payables		135,822	58,830
Dividend payables		–	–
Held-for-sale liabilities		–	–
Non-current liability due within one year	(XXVIII)	353,710	368,670
Other current liabilities		–	–
Total current liabilities		3,491,683	3,763,519
Non-current liabilities:			
Long-term borrowings	(XXVIII)	–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Lease liabilities	(XXX)	15,321	36,263
Long-term payables		–	–
Long-term employee benefits payable		–	–
Accrued liabilities	(XXXI)	373,002	350,585
Deferred income		–	–
Deferred tax liabilities	(XVIII)	8,207	13,911
Other non-current liabilities	(XXXII)	6,603	8,150
Total non-current liabilities		403,133	408,909
Total liabilities		3,894,816	4,172,428

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Liability and Equity	VI	Closing Balance	Opening Balance
Equity:			
Share capital	(XXXIII)	547,672	547,672
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Capital reserves	(XXXIV)	1,910,806	1,910,806
Less: Treasury share	(XXXV)	20,010	20,010
Other comprehensive income	(XXXVI)	(38,866)	(38,866)
Special reserves		–	–
Surplus reserve	(XXXVII)	246,788	246,788
Undistributed profits	(XXXVIII)	(3,491,193)	(3,254,246)
Equity attributable to Shareholders of the Company		(844,803)	(607,856)
Non-controlling interests		(77,686)	(78,792)
Total equity		(922,489)	(686,648)
Total liabilities and equity		2,972,327	3,485,780

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Assets	XV	Closing Balance	Opening Balance
Current assets:			
Cash and bank		85,888	146,321
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable		–	–
Accounts receivable	(I)	2,795,465	2,606,863
Accounts receivable financing		–	–
Prepayments		16,474	24,473
Other receivables	(II)	163,029	413,944
Including: Interest receivables		–	–
Dividend receivables		–	–
Inventories		186,141	399,261
Contract assets		–	–
Held-for-sale assets		–	–
Non-current assets due within one year		–	25,844
Other current assets		14,299	15,039
Total current assets		3,261,296	3,631,745
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		53	53
Long-term equity investments	(III)	642,420	645,539
Other equity instruments		–	–
Other non-current financial assets		27,032	27,032
Investment properties		–	–
Fixed assets		7,715	11,871
Construction in progress		–	–
Productive biological assets		–	–
Oil and Gas assets		–	–
Right-of-use assets		179	130
Intangible assets		13,652	17,725
Development expenditure		–	–
Goodwill		–	–
Long-term prepaid expenses		20,807	25,597
Deferred tax assets		–	–
Other non-current assets		–	–
Total non-current assets		711,858	727,947
Total assets		3,973,154	4,359,692

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Liability and Equity	XV	Closing Balance	Opening Balance
Current liabilities:			
Short-term borrowings		610,900	617,400
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		–	–
Accounts payable		1,285,217	1,379,620
Advance from customers		–	–
Contract liabilities		–	–
Employee benefits payable		7,628	13,862
Tax payables		86,263	66,615
Other payables		1,173,474	1,360,665
Including: Interest payables		–	11,829
Dividend payables		–	–
Held-for-sale liabilities		–	–
Non-current liability due within one year		179	2,985
Other current liabilities		–	–
Total current liabilities		3,163,661	3,441,147
Non-current liabilities:			
Long-term borrowings		–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Lease liabilities		–	–
Long-term payables		–	–
Long-term employee benefits payable		–	–
Accrued liabilities		240	1
Deferred income		–	–
Deferred tax liabilities		2,370	2,240
Other non-current liabilities		–	–
Total non-current liabilities		2,610	2,241
Total liabilities		3,166,271	3,443,388

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Balance Sheet

As at 30 June 2021

(All amounts in RMB'000 unless otherwise stated)

Liability and Equity	XV	Closing Balance	Opening Balance
Equity:			
Share capital		547,672	547,672
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Capital reserves		1,897,270	1,897,270
Less: Treasury share		20,010	20,010
Other comprehensive income		–	–
Special reserves		–	–
Surplus reserve		246,788	246,788
Undistributed profits		(1,864,837)	(1,755,416)
Total equity		806,883	916,304
Total liabilities and equity		3,973,154	4,359,692

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Income Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	VI	2021	2020
1. Revenue	(XVIII)	277,887	1,362,227
Less: Costs of sales	(XVIII)	116,924	706,104
Taxes and surcharges	(XL)	12,431	15,691
Selling and distribution expenses	(XLI)	170,625	1,026,322
General and administrative expenses	(XLII)	81,304	148,541
Research and development expenses		–	–
Finance expenses	(XLIII)	97,317	91,129
Including: Interest expenses		104,821	92,625
Interest income		7,711	4,651
Add: Other income	(XLIV)	62,506	7,398
Investment income	(XLV)	3,390	(13,704)
Including: Investment income from associates and joint ventures		(316)	(170)
Derecognition of financial assets at amortised cost		–	–
Gain/(Loss) from net exposure hedging		–	–
Gain/(Loss) on fair value changes	(XLVI)	–	(4,044)
Credit impairment losses	(XLVII)	(22,765)	(97,421)
Asset impairment losses	(XLVIII)	(93,486)	(173,561)
Gain/(Loss) on disposal of assets	(XLIX)	14,179	10,672
2. Operating profit		(236,890)	(896,220)
Add: Non-operating income	(L)	526	1,179
Less: Non-operating expenses	(LI)	6,473	5,783
3. Profit before tax		(242,837)	(900,824)
Less: Income tax expenses	(LII)	(6,996)	(177,157)
4. Net profit		(235,841)	(723,667)
Including: Net profit realised before business combinations under common control		–	–
I. Classified by continuity of operations		–	–
Net profit from continuing operations		(235,841)	(668,815)
Net profit from discontinuing operations		–	(54,852)
II. Classified by ownership of the equity		–	–
Net profit attributable to shareholders of the parent company		(236,947)	(718,788)
Net profit attributable to non-controlling interests		1,106	(4,879)

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Income Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	VI	2021	2020
5. Other comprehensive income, net of tax		–	7,998
Other comprehensive income after tax attributable to parent company		–	7,998
I. Items of other comprehensive income that cannot be reclassified into profit and loss		–	26,088
1. Changes in remeasurement of defined benefit plans		–	–
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method		–	–
3. Changes in fair value of investments in equity instruments		–	26,088
4. Changes in fair value of the Company's own credit risk		–	–
5. Others		–	–
II. Items of other comprehensive income reclassified to profit or loss		–	(18,090)
1. Other comprehensive income that can be transferred to profit or loss under the equity method		–	–
2. Changes in fair value of other debt investments		–	–
3. Amount of financial assets reclassified into other comprehensive income		–	–
4. Provisions for credit impairment of other debt investments		–	–
5. The effective portion of gains or losses arising from cash flow hedging		–	–
6. Translation differences on translation of foreign currency financial statement		–	(18,090)
7. Income from investments in subsidiaries before loss of control		–	–
8. Investment properties at fair value converted from other assets		–	–
9. Others		–	–
Other comprehensive income attributable to non-controlling interests after tax		–	–
6. Total comprehensive income		(235,841)	(715,669)
Attributable to shareholders of the company		(236,947)	(710,790)
Attributable to non-controlling interests		1,106	(4,879)
7. Earnings per share			
I. Basic earnings per share		(0.44)	(1.32)
II. Diluted earnings per share		(0.44)	(1.32)

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Income Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	XV	2021	2020
1. Revenue	(IV)	142,281	563,542
Less: Costs of sales	(IV)	102,994	500,750
Taxes and surcharges		3,571	4,351
Selling and distribution expenses		35,254	177,907
General and administrative expenses		20,282	52,242
Research and development expenses		–	–
Finance expenses		33,175	9,093
Including: Interest expenses		22,603	13,363
Interest income		8,272	5,494
Add: Other income		54,761	1,585
Investment income	(V)	3,931	(8,068)
Including: Investment income from associates and joint ventures		–	–
Derecognition of financial assets at amortised cost		–	–
Gain/(Loss) from net exposure hedging		–	–
Gain/(Loss) on fair value changes		–	–
Credit impairment losses		(23,676)	(180)
Asset impairment losses		(85,231)	(167,038)
Gain/(Loss) on disposal of assets		128	(317)
2. Operating profit		(103,082)	(354,819)
Add: Non-operating income		2	23
Less: Non-operating expenses		6,211	2,000
3. Profit before tax		(109,291)	(356,796)
Less: Income tax expenses		130	(89,074)
4. Net profit		(109,421)	(267,722)
I. Net profit from continuing operations		(109,421)	(267,722)
II. Net profit from discontinuing operations		–	–

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Income Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	XV	2021	2020
5. Other comprehensive income, net of tax		-	-
I. Items of other comprehensive income that cannot be reclassified into profit and loss		-	-
1. Remeasurement of net change in defined benefit plans		-	-
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method		-	-
3. Changes in fair value of investments in other equity instruments		-	-
4. Changes in fair value of an enterprise's own credit risk		-	-
5. Others		-	-
II. Items of other comprehensive income reclassified to profit or loss		-	-
1. Other comprehensive income that can be transferred to profit or loss under the equity method		-	-
2. Changes in fair value of other debt investments		-	-
3. Reclassification of financial assets to other comprehensive income		-	-
4. Provision for credit impairment of other debt investments		-	-
5. Cash flow hedge reserve		-	-
6. Foreign currency translation differences		-	-
7. Gain on investment arising from the package disposal of subsidiary prior to the loss of control		-	-
8. Conversion of other properties to investment properties measured by the fair value model		-	-
9. Others		-	-
6. Total comprehensive income		(109,421)	(267,722)
7. Earnings per share			
1. Basic earnings per share		-	-
2. Diluted earnings per share		-	-

Legal representative:
Zhang Xin

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Cash Flow Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	VI	2021	2020
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		307,302	1,518,174
Tax and surcharge refunds		–	–
Cash received relating to other operating activities	(LIII)	41,298	56,987
Total cash inflows from operating activities		348,600	1,575,161
Cash paid for goods and services		115,096	856,170
Cash paid to and for employees		102,341	331,540
Taxes and surcharges paid		21,107	83,747
Other cash payments related to operating activities	(LIII)	89,150	122,623
Total cash outflows from operating activities		327,694	1,394,080
Net cash flows from operating activities		20,906	181,081
2. Cash flows from investing activities			
Cash received from return on investments		–	–
Cash received from gain on investment		–	–
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		2,214	567
Net cash received from disposal of subsidiaries and other business units		15,124	3,120
Cash received relating to other investing activities	(LIII)	–	–
Total cash inflows from investing activities		17,338	3,687
Cash paid for fixed assets, intangible assets and other long-term assets		6,852	63,682
Cash paid for investments		–	–
Net cash paid for acquiring subsidiaries and other business units		–	8,449
Cash paid relating to other investing activities	(LIII)	–	13,875
Total cash outflows from investing activities		6,852	86,006
Net cash flows from investing activities		10,486	(82,319)

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Cash Flow Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	VI	2021	2020
3. Cash flows from financing activities			
Cash received from investments by others		–	–
Including: Cash received by subsidiaries from non-controlling investors		–	–
Cash received from borrowings		–	270,000
Other cash receipts related to other financing activities		–	–
Total cash inflows from financing activities		–	270,000
Cash repayments of borrowings		6,500	233,864
Cash payments for distribution of dividends, profits or interest expenses		3,557	55,805
Including: Dividends or profit paid by subsidiaries to non-controlling investors		–	–
Other cash payments related to financing activities	(LIII)	8,806	192,269
Total cash outflows from financing activities		18,863	481,938
Net cash flows from financing activities		(18,863)	(211,938)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		–	(283)
5. Net increase in cash and cash equivalents		12,529	(113,459)
Add: Opening balance of cash and cash equivalents		24,319	175,549
6. Closing balance of cash and cash equivalents	(LIV)	36,848	62,090

Legal representative:
Zhang Xin

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Cash Flow Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	XV	2021	2020
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		82,457	558,313
Tax and surcharge refunds		–	–
Cash received relating to other operating activities		17,199	25,268
Total cash inflows from operating activities		99,656	583,581
Cash paid for goods and services		8,026	236,779
Cash paid to and for employees		17,226	104,571
Taxes and surcharges paid		6,452	30,795
Other cash payments related to operating activities		70,014	44,660
Total cash outflows from operating activities		101,718	416,805
Net cash flows from operating activities		(2,062)	166,776
2. Cash flows from investing activities			
Cash received from return on investments		–	–
Cash received from gain on investment		–	–
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		728	213
Net cash received from disposal of subsidiaries and other business units		15,124	–
Cash received relating to other investing activities		–	–
Total cash inflows from investing activities		15,852	213
Cash paid for fixed assets, intangible assets and other long-term assets		2,232	13,397
Cash paid for investments		–	–
Net cash paid for acquiring subsidiaries and other business units		–	–
Cash paid relating to other investing activities		–	3,661
Total cash outflows from investing activities		2,232	17,058
Net cash flows from investing activities		13,620	(16,845)

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Cash Flow Statements

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	XV	2021	2020
3. Cash flows from financing activities			
Cash received from investments by others		–	–
Cash received from borrowings		–	120,000
Other cash receipts related to other financing activities		–	–
Total cash inflows from financing activities		–	120,000
Cash repayments of borrowings		6,500	227,000
Cash payments for distribution of dividends, profits or interest expenses		4,573	13,656
Other cash payments related to financing activities		215	25,312
Total cash outflows from financing activities		11,288	265,968
Net cash flows from financing activities		(11,288)	(145,968)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		–	3
5. Net increase in cash and cash equivalents		270	3,966
Add: Opening balance of cash and cash equivalents		10	175,549
6. Closing balance of cash and cash equivalents		280	179,515

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Prepared by: Xinjiang La Chapelle Fashion Co., Ltd.

Items	2021									
	Equity attributable to parent company									Total equity
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Non-controlling interests	
1. Closing balance of last year	547,672	-	1,910,806	20,010	(38,866)	-	246,788	(3,254,246)	(78,792)	(686,648)
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	1,910,806	20,010	(38,866)	-	246,788	(3,254,246)	(78,792)	(686,648)
3. Increase/decrease for current year	-	-	-	-	-	-	-	(236,947)	1,106	(235,841)
I. Total comprehensive income	-	-	-	-	-	-	-	(236,947)	1,106	(235,841)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-
1. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-
3. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-
2. Distribution to owners	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	2021									
	Equity attributable to parent company								Non-controlling interests	Total equity
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits		
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-
3. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-
1. Appropriated during current year	-	-	-	-	-	-	-	-	-	-
2. Used during current year	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	1,910,806	20,010	(38,866)	-	246,788	(3,491,193)	(77,686)	(922,489)

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Prepared by: Xinjiang La Chapelle Fashion Co., Ltd.

Items	2020									
	Equity attributable to parent company									Total equity
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Non-controlling interests	
1. Closing balance of last year	547,672	-	1,910,800	10,165	(39,958)	-	246,788	(1,414,703)	(114,238)	1,126,196
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	1,910,800	10,165	(39,958)	-	246,788	(1,414,703)	(114,238)	1,126,196
3. Increase/decrease for current year	-	-	3	9,845	7,998	-	-	(718,788)	(4,879)	(725,511)
I. Total comprehensive income	-	-	-	-	7,998	-	-	(718,788)	(4,879)	(715,669)
II. Shareholders invest and reduce capital	-	-	3	9,845	-	-	-	-	-	(9,842)
1. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-
3. Share-based payments to owners' equity	-	-	3	-	-	-	-	-	-	3
4. Others	-	-	-	9,845	-	-	-	-	-	(9,845)
III. Profits distribution	-	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-
2. Distribution to owners	-	-	-	-	-	-	-	-	-	-

(Attached notes to statements are part of the consolidated financial statements)

Interim Consolidated Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	2020									
	Equity attributable to parent company								Non-controlling interests	Total equity
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits		
3. Others	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-
3. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-
1. Appropriated during current year	-	-	-	-	-	-	-	-	-	-
2. Used during current year	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	1,910,803	20,010	(31,960)	-	246,788	(2,133,491)	(119,117)	400,685

Legal representative:
Zhang Xin

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Prepared by: Xinjiang La Chapelle Fashion Co., Ltd.

Items	2021								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
1. Closing balance of last year	547,672	-	1,897,270	20,010	-	-	246,788	(1,755,416)	916,304
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	1,897,270	20,010	-	-	246,788	(1,755,416)	916,304
3. Increase/decrease for current year	-	-	-	-	-	-	-	(109,421)	(109,421)
I. Total comprehensive income	-	-	-	-	-	-	-	(109,421)	(109,421)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-
1. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-
3. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-
2. Distribution to owners	-	-	-	-	-	-	-	-	-

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	2021								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
3. Others	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to paid-in capital	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-
3. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-
1. Appropriated during current year	-	-	-	-	-	-	-	-	-
2. Used during current year	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	1,897,270	20,010	-	-	246,788	(1,864,837)	806,883

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Prepared by: Xinjiang La Chapelle Fashion Co., Ltd.

Items	2020								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
1. Closing balance of last year	547,672	-	1,897,264	10,165	-	-	246,788	(1,068,311)	1,613,248
Add: Increase/decrease due to									
changes in accounting policies	-	-	-	-	-	-	-	-	-
Increase/decrease due to									
corrections of errors in prior period	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	1,897,264	10,165	-	-	246,788	(1,068,311)	1,613,248
3. Increase/decrease for current year	-	-	3	9,845	-	-	-	(267,722)	(277,564)
I. Total comprehensive income	-	-	-	-	-	-	-	(267,722)	(267,722)
II. Shareholders invest and reduce capital	-	-	3	9,845	-	-	-	-	(9,842)
1. Common stock contributed/ paid-in capital by shareholders/ owners	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-
3. Share-based payments to owners' equity	-	-	3	-	-	-	-	-	3
4. Others	-	-	-	9,845	-	-	-	-	(9,845)
III. Profits distribution	-	-	-	-	-	-	-	-	-
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-
2. Distribution to owners	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-

(Attached notes to statements are part of the consolidated financial statements)

Interim Company Statement of Changes in Shareholders' Equity

January 1 to June 30 2021

(All amounts in RMB'000 unless otherwise stated)

Items	2020								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to paid-in capital	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-
3. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-
1. Appropriated during current year	-	-	-	-	-	-	-	-	-
2. Used during current year	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	1,897,267	20,010	-	-	246,788	(1,336,033)	1,355,684

Legal representative:

Zhang Xin

Accountant in charge:

Hu Zhiguo

Accounting Agencies:

Hu Zhiguo

(Attached notes to statements are part of the consolidated financial statements)

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION

(I) Registered address of business license, the type of organization and the address of the headquarter

Xinjiang La Chapelle Fashion Co., Ltd. (the “**Company**”), initially known as Shanghai Xuhui La Chapelle Fashion Limited (上海徐匯拉夏貝爾服飾有限公司), was incorporated in the People’s Republic of China (“**PRC**”) on 14 March 2001 as a limited liability company. On 26 February 2004, the Company changed its name to Shanghai La Chapelle Fashion Limited (上海拉夏貝爾服飾有限公司). On 23 May 2011, the Company was converted into a joint stock company with limited liabilities according to the overall plan approved by the original board of director and the terms in the agreement made by the company’s sponsors. The A-shares of RMB-denominated shares and H-shares of overseas-listed shares issued by the Company were listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”). On 8 July 2020, the Company changed its name to “Xinjiang La Chapelle Fashion Co., Ltd. (新疆拉夏貝爾服飾股份有限公司)”.

The registered office of the Company is at Room 2008, 20/F, Tower D, Chuangxin Square, Si Ping Road, Xin Shi District, Urumqi, Xinjiang, RPC.

(II) Business nature and major activities of the Group

The company and its subsidiaries (“**the Group**”) are principally engaged in designing, marketing and selling apparel products in the PRC.

Industry: The Company is a diversified Group including apparel products and property leasing during the Reporting Period.

During the Reporting Period, the major activities of the Group include apparel selling, brand licensing and property leasing.

(III) Approval of the financial statements

These financial statements were approved by all the Directors of the Group on 30th August 2021.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

II SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

During the period, 26 entities were consolidated in the consolidated financial statements, which were:

Name of subsidiary	Type of subsidiary	Tier	Shareholding percentage (%)	Percentage of voting rights (%)
Shanghai La Chapelle Casual Fashion Co., Ltd. ("LaCha Xiuxian")	Wholly-owned subsidiary	First	100	100
Candie's Shanghai Fashion co., Ltd. ("Shanghai Le'ou")	Controlling subsidiary	First	65	65
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei")	Wholly-owned subsidiary	First	100	100
Beijing La Chapelle Lewei Fashion Co., Ltd. ("Beijing LaCha")	Wholly-owned subsidiary	First	100	100
Chengdu La Chapelle Fashion Co., Ltd. ("Chengdu LaCha")	Wholly-owned subsidiary	First	100	100
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Wholly-owned subsidiary	First	100	100
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Wholly-owned subsidiary	First	100	100
Shanghai Xiawei Fashion Co., Ltd. ("Shanghai Xiawei")	Wholly-owned subsidiary	First	100	100
La Chapelle Fashion (Taicang) Co., Ltd. ("Taicang LaCha")	Wholly-owned subsidiary	First	100	100
La Chapelle Fashion (Tianjin) Co., Ltd. ("Tianjin LaCha")	Wholly-owned subsidiary	First	100	100
Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei")	Wholly-owned subsidiary	First	100	100
Shanghai Chongan Fashion Co., Ltd. ("Shanghai Chong'an")	Controlling subsidiary	First	85	85
Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi")	Wholly-owned subsidiary	First	100	100
Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei")	Wholly-owned subsidiary	First	100	100
Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management")	Wholly-owned subsidiary	First	100	100
Nuoxing (Shanghai) Fashion Co., Ltd. ("Shanghai Nuoxing")	Wholly-owned subsidiary	First	100	100

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

II SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During the period, 26 entities were consolidated in the consolidated financial statements, which were: (continued)

Name of subsidiary	Type of subsidiary	Tier	Shareholding percentage (%)	Percentage of voting rights (%)
Jiatuo (Shanghai) Information Technology Co., Ltd. ("Shanghai Jiatuo")	Wholly-owned subsidiary	First	100	100
Shanghai La Chapelle Naf Fashion Co., Ltd. ("LaCha Naf")	Controlling subsidiary	First	65	65
Guangzhou Xichen Clothing Co., Ltd. ("Guangzhou Xichen")	Controlling subsidiary	First	60	60
Taichang Xiawei Fashion Co., Ltd. ("Taichang Xiawei")	Wholly-owned subsidiary	First	100	100
Xinjiang Tongrong Fashion Co., Ltd. ("Xinjiang Tongrong")	Wholly-owned subsidiary	Second	100	100
Shanghai Pinxi Technology Co., Ltd. ("Shanghai Pinxi")	Wholly-owned subsidiary	Second	100	100
Yixin Retail Co., Ltd. ("Yixin Lingshou")	Wholly-owned subsidiary	Second	100	100
Taichang Jiashang Storage Co., Ltd. ("Taichang Jiashang")	Wholly-owned subsidiary	First	100	100
Taichang Chongan Fashion Co., Ltd. ("Taichang Chongan")	Wholly-owned subsidiary	Second	100	100
Taichang Xiawei Storage Co., Ltd. ("Taichang Xiawei Cangchu")	Wholly-owned subsidiary	First	100	100

In this period, 2 subsidiaries will be subtracted from the scope of consolidation, listed below,

Name of subsidiary	Reasons of changes
Tianjin Xiawei Storage Co., Ltd.	Deregistration on May 19th 2021
Chengdu Xiawei Storage Co., Ltd.	Deregistration on May 8th 2021

Details of the changes are presented in "Part VII Changes in consolidation scope".

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

III BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of Preparation of the Financial Statements

The financial statements of the Group were prepared according to the transactions and matters actually occurred, and recognitions and measurements were made in accordance with the Accounting Standards for Enterprises – Basic Standards published by the Ministry of Finance and specific accounting standards, guidance on application of accounting standards for enterprises, interpretations to accounting standards for enterprises and other relevant regulations (the “Accounting Standards for Enterprises”). On this basis, the financial statements were prepared in conjunction with the provisions of the “Regulations on Information Disclosure and Compilation of Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting” (revised in 2014) issued by the China Securities Regulatory Commission.

(II) Going concern

The net loss of the Group during 2021 from January to June was RMB235,841 thousand and have suffered a consecutive loss for three years. As on 30th June 2021, the Group's current liabilities exceeded its assets by approximately RMB922,489 thousand. The Group is now facing significant litigations due to large number of debts expired but unpaid, which also caused the frozen of its principal bank accounts and shares of subsidiaries and the seize of real estates (Refer to XII/(1), VI/(I), XV/(III)/1, VI/(XIII)/4 respectively). The Company and its representative are presented as defaulter in government's record. These events and conditions, which is contingencies as at the balance sheet date, indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group to continue as a going concern. The board of directors of the Company is taking active measures to ensure the Company's continuous operation ability based on current actual operation situation. The main plans are as follows:

1. Adjusting the current operating strategies and developing ideas. On the one hand, the Company will focus on developing the refinement management level of high-quality boutiques owned, and implement the strategy of “the headquarter takes responsibility of stores directly and each employee takes his or her own duty”. Focusing on developing the effectiveness of both stores and employees, and profitability of each boutique. On the other hand, the Company will continually increase promotion on authorization business, to achieve transformation of business mode into a new mode of light asset, high gross profit and fast turnover. From January to June 2021, the Company has achieved revenue of approximately RMB64,797 thousand through online (not main brand) authorization business. The Company will continue broadening the scope of brands, categories and platforms of online authorization business, to take full advantage of “light asset” operating mode, and to improve the asset turnover and profitability.
2. “Take off the heavies and keep going easily” as soon as possible, the company will promote the lease or sale of current inefficient property assets (including the headquarter region property and logistics asset) and strive to sell at the maximum premium, by withdrawing funds from stripping off assets that do not conform to the company's strategy to improve the liquidity and asset structure of the company to provide financial support for the development of core business.
3. Sorting out the current inventories, by taking measures like identifying by pattern, high-quality selection, group packaging and channel matching, etc., and to encourage regions and partners in different regions to follow a unified policy to help the Company to destock inventories effectively, accelerate the withdrawal of funds, while actively developing new products and improve the performance and image of business terminal.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

III BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(II) Going concern (continued)

4. The Company will continue modifying and optimizing the management system, strengthening overall budget management and cost controlling, and focusing on "cost reducing". In 2021, the Company will pay more attention to the following matters, preparation, controlling and executing of budget, cost controlling from the source, controlling costs and expenditures strictly, making input and output analysis of key expenses, managing and supervising important expenses from each steps, do a monitoring dynamically and process supervision of the overall budget, and to maximize the profitability of main business.
5. For the debt issues that the Company is facing, the company will be responsible to all shareholders and creditors, to negotiate with relevant courts, creditors and financial institutions to reach a centralized solution for debt settlement as soon as possible. By adopting the settlements including but not limited to debt extension, exemption, concession, and reconciliation, release the Company's pressure on debt, and to promote the Company to return to a healthy development track. There are RMB129,753 thousand in frozen in the Company's bank account, the Company will make plans of feasible solutions for debt repayment, to further optimize the asset-liability structure of the Company by Realizing the combination of reducing operating burden and debt restructuring income.
6. The Company will also strive to absorb new investors and external financing while the Company is taking actions to get out of the track. Taking good advantage of the resources of new major shareholders in financing credit, capital strength and professional capability, to restore and enhance the credit and financing ability by optimizing the overall business and seeking incremental funds.

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Accounting principal and cost principal

The Group adopts accrual basis as its accounting principal. Except fair value measurement is applied for other equity instrument, other non-current financial asset, the financial statement is presented based on historical cost model. If there is an asset impairment, provision for impairment shall be made in accordance with relevant accounting policies.

(II) Declaration following Accounting Standards for Business Enterprises

The financial statements prepared by the Group comply with the requirements of the Accounting Standards for Business Enterprises and give a true and complete view of the financial position, results of operations, cash flows and other relevant information of the Company for the reporting period.

(III) Accounting period

The accounting period is from 1 January to 31 December of each calendar year.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IV) Operating cycle

An operating cycle refers to the period required for a business to make initial purchase to produce goods and receive cash and cash equivalents. The Group adopts 12 months as an operating cycle, which is the classification standard of the liquidity of its asset and liability.

(V) Functional currency

The Group adopts Renminbi as its functional currency.

The overseas subsidiaries determine their functional currencies according to the main economic environment where they operate and convert to RMB when preparing financial statements.

(VI) Accounting treatments of business combinations involving enterprises under common control and enterprises not under common control

1. *If the terms, conditions and economic effects of transactions for the purpose of realizing business combination in phases, fall in the following one or more situations, multiple transactions are regarded as a package transaction for accounting treatment:*

- (1) These transactions occurred simultaneously or mutually influence have been considered;
- (2) These deals must be carried out as full transactions in order to achieve complete results;
- (3) The occurrence of a transaction depends on the occurrence of at least one other transaction;
- (4) A separate transaction can be considered uneconomical; however, it can be economical with all transactions taken into consideration.

2. *Business combination involving enterprises under common control*

The assets and liabilities acquired by the Group in business combination shall be measured at the book value of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party at the date of combination. The difference between the book amount of the net assets obtained and the book amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to share premium in capital reserve. If the share premium in capital reserve is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

If there is any contingent consideration required to be recognized as estimated liabilities or assets, capital reserve (capital or share premium) is adjusted by the difference between the amount of such estimated liabilities or assets and the amount of settlement of subsequent contingent consideration; where the capital reserve is insufficient, the retained earnings are adjusted.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Accounting treatments of business combinations involving enterprises under common control and enterprises not under common control (continued)

2. *Business combination involving enterprises under common control (continued)*

For business combination finally realized after multiple transactions, in case of a package transaction, those transactions are accounted as one transaction to acquire the control; in case of non-package transaction, on the date of acquisition of the control, the capital reserve is adjusted by the difference between the initial investment cost of long-term equity investment and the sum of the book value of the long-term equity investment before the combination and the book value of the new payment consideration for further acquisition of shares on the date of combination; where the capital reserve is insufficient, the retained earnings are adjusted. For the equity investment held before the date of combination, the other comprehensive income recognized under equity method or financial instrument recognition and measurement standards are not accounted until the same accounting treatment for direct disposal of relevant assets or liabilities of the investee is adopted for the disposal of such investment; changes in the owners' equity other than the net losses and profits, other comprehensive income and profit distribution in the net assets of the investee that is recognized under the equity method, are not accounted until disposal of such investment is transferred to current profit and losses.

3. *Business combination not under common control*

The acquisition date refers to the date on which the Group actually obtained control over the acquired party, i.e., the date when the acquired party's net assets or the control of production and business decisions were transferred to the Group. At the same time when the following conditions are met, the Group is generally of the view that the transfer of control has been achieved:

- (1) A business merger contract or agreement has been approved by the Group's internal authority.
- (2) Approval for business merger matters that need to be approved by the relevant national competent authority has been obtained.
- (3) The necessary procedures for the transfer of property rights have been completed.
- (4) The Group has paid most of the combination consideration and has the ability and plans to pay the remaining amount.
- (5) The Group has actually controlled the financial and operating policies of the acquired party and enjoyed corresponding benefits and assumed corresponding risks.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Accounting treatments of business combinations involving enterprises under common control and enterprises not under common control (continued)

3. *Business combination not under common control (continued)*

The assets paid and liabilities incurred or committed as a consideration of business combination by the Group were measured at fair value on the date of acquisition and the difference between the fair value and its book value shall be charged to the profit or loss for the period.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, the Group shall recognize such difference as goodwill; where the cost of combination is lower than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to the profit or loss for the current period after verification.

In a business combination involving entities not under common control that is realized in phases through multiple exchange transactions, in case of a package transaction, those transactions are accounted as one transaction to acquire the control; in case of nonpackaged transaction, where the equity investment held before the date of combination is accounted under equity method, the sum of the book value of the equity investment held by the acquiree before the date of acquisition and the cost of new investment on the date of acquisition are recognized as the initial investment cost of such investment; for the other comprehensive income recognized under equity method on the equity investment held before the date of acquisition is accounted on the same basis as used for direct disposal of relevant assets or liabilities of the investee. Where the equity investment held before the date of combination is accounted based on the recognition and measurement standards for financial instruments, the sum of the fair value of such equity investment on the date of combination and the new investment cost are accounted as the initial investment cost on the date of combination. The difference between the fair value of the original equity and its book value and the accumulative fair value changes originally included in the other comprehensive income are transferred to current investment income on the date of combination.

4. *Relevant expenses in relation to combination*

All direct fees for audit, legal, evaluation and consultation occurred for the purpose of business combination are credited in profit or loss in the period when they incurred; trading fees for issue of equity securities, shall be directly charged to equity.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements

1. *Scope of consolidation*

The scope of consolidation of the consolidated financial statements of the Group is determined on the basis of control. All subsidiaries (including individual entities controlled by the Group) are included in the consolidated financial statements.

2. *Consolidated procedure*

The consolidated financial statements shall be prepared by the Group based on the financial statements of the Group and its subsidiaries and other relevant information. When the Group prepares consolidated financial statements, the whole Group is considered as a single accounting entity pursuant to recognition, measurement and presentation requirements of relevant accounting standards and based on the consistent accounting policies to reflect the Group's financial positions, operating results and cashflows.

All subsidiaries within the scope of consolidation of the consolidated financial statements shall adopt accounting policies and financial period consistent with the Group. When there is any inconsistency on the accounting policies or financial period adopted by the subsidiaries and the Group, the financial statements of subsidiaries are adjusted according to the accounting policies or financial period adopted by the Group as necessary.

When consolidating the financial statements, the effects on the consolidated balance sheets, consolidated incomes statements, consolidated cash flow statements and consolidated statements of changes in shareholders' equity due to internal transactions between the Group and its subsidiaries and among the subsidiaries shall be offset. For the consolidated financial statements of the Group, when there is divergence in the recognition of a single transaction by the Group and its subsidiaries, the Group's position shall be taken up for adjustment on such transaction.

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the consolidated balance sheet, the net profit and the total comprehensive income in the consolidated income statement respectively. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest entitled in the shareholders' equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders' interest.

When the subsidiary which was under the same control acquired through business combination, the financial statements should be adjusted based on the carrying amount of its assets and liabilities in the final controlling party's financial statements (including the goodwill caused by the final controlling party's acquisition of the subsidiary).

When the subsidiary which was not under the same control acquired through business combination, the financial statements should be adjusted based on the fair value of the identifiable net assets at the acquisition date.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(1) Addition to subsidiary or business

For acquisition of subsidiaries or business due to business combination involving entities under common control during the reporting period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the consolidated reporting entity had been in existence since the beginning of the control by the final controlling party.

An investor that may impose control over the investee under joint control due to additional investment shall be deemed a party participating in the combination and shall be adjusted at current existence status when the final controlling party begins the control. The equity investment held before gaining the control of the combined party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under joint control and shall be written down to the opening balance of retained earnings or current profit or loss in the comparative reporting period.

For acquisition of subsidiaries or business due to business combination involving entities not under common control during the reporting period, the opening balance of consolidated balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statement.

In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the equity of acquiree held before acquisition date shall be remeasured by the Group at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognized as investment income in current period; if the acquiree's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment income on the date of acquisition in current period, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business

1) General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

Where control of the investee is lost due to partial disposal of the equity investment, or any other reasons, the remaining equity investment is remeasured at fair value at the date in which control is lost by the Group. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the Group's previous share of the subsidiary's net assets continuously calculated on the basis of the original share proportion and the sum of goodwill, is recognized in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in other owner's equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net liabilities and net assets of the investee's defined benefit plan.

2) Disposal of subsidiary achieved by stages

When disposal of equity investment in subsidiaries through multiple transactions until control is lost, generally transactions in stages are treated as a package transaction in accounting if the transaction terms, conditions, and economic impact of all transactions of disposal of the equity investments in subsidiary satisfy one or more of the following:

- A. These transactions are entered at the same time or the mutual effects on each other are considered;
- B. A complete set of commercial results can be achieved with reference to the series of transactions as a whole;
- C. Achieving a transaction depends on at least achieving of one of the other transaction;
- D. One transaction recognized separately is not economical, but it is economical when considered together with other transactions.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business (continued)

2) Disposal of subsidiary achieved by stages (continued)

If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package transaction, these transactions shall be treated as a transaction for disposal of a subsidiary and losing control of a subsidiary. However, the differences between the amount received each time for disposal before the control is lost and the Group's share in the subsidiary's net assets corresponding to the investment disposal shall be recognized in other comprehensive income in the consolidated financial statements and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not considered as a package transaction, relevant accounting policies for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be applied.

(3) Acquisition of minority interest of subsidiary

The Group shall adjust the share premium in the capital reserve of the consolidated balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the Group continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination), and adjust the retained earnings in case the share premium in the capital reserve is insufficient for offsetting.

(4) Partial disposal of equity investment in subsidiary without losing control

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets continuously calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the consolidated balance sheet. Adjustments shall be made to retained earnings in the event that the share premium in the capital reserve is not sufficient for offsetting.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VIII) Classification of joint arrangements and accounting treatment method for joint operations

1. *Classification of joint venture arrangements*

The Group classifies the joint venture arrangements into joint venture and joint operation according to the structure, legal form of joint venture arrangement, the terms agreed in the arrangement, other relevant matters and situations.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation. Any joint venture arrangement that is achieved by a separate entity shall be generally classified as a joint venture. But if a joint venture arrangement is conclusively proved to meet any of the following conditions and meets the provisions of relevant laws and regulations, it shall be classified as joint operation:

- (1) its legal form shows the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- (2) contract terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- (3) other relevant facts and situations show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' supports.

2. *Accounting treatment method for joint operation*

The Group recognizes the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with relevant accounting standards for business enterprises:

- (1) assets it solely holds and its share of jointly held assets based on its percentage;
- (2) liabilities it solely assumes and its share of jointly assumed liabilities based on its percentage;
- (3) incomes from sale of output enjoyed by it from the joint operation;
- (4) incomes from sale of output from the joint operation based on its percentage;
- (5) separate costs and costs for the joint operation based on its percentage.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VIII) Classification of joint arrangements and accounting treatment method for joint operations (continued)

2. *Accounting treatment method for joint operation (continued)*

When the Group invests or sells assets and others in or to the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Group shall recognize such loss in full.

When the Group purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognized before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Group shall recognize its part of such loss based on its percentage.

The Group has no joint control over a joint operation. If the Group enjoys and assumes relevant assets and liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant accounting standards for business enterprises.

(IX) Determination of cash and cash equivalent

When preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Group are recognized as cash. The short-term (usually due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of change in value are recognized as cash equivalents.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Foreign currency transactions and translation of foreign financial statements

1. *Translations involving foreign currencies*

In initial recognition, foreign currency transactions shall be converted into RMB at the spot exchange rate on the day when the transactions occurred.

On the balance sheet date, monetary items denominated in foreign currency are converted using the spot exchange rate on the balance sheet date. Exchange differences shall be recorded into profit or loss for the current period, except for those arising from specific borrowings denominated in foreign currency related to the purchase of assets qualified for capitalization. Translation of non-monetary items denominated in foreign currency and measured at historical cost shall continue to be based on the spot exchange rate on the date of transaction, without changing the amount in its functional currency.

Non-monetary items in foreign currency carried at fair value are converted using the spot exchange rate prevailing on the date when such fair value was determined, and any exchange difference arising therefrom is recognized in profit or loss for the period. In case of non-monetary items in foreign currency available for sales, the exchange difference arising therefrom is included in the other comprehensive income.

2. *Translation of foreign currency financial statements*

All assets and liabilities items in balance sheet are translated based on spot exchange rate on the balance sheet date; owner's equity items other than "undistributed profit" are translated at spot exchange rate when occurred. Revenue and expense items in the income statement are converted at spot exchange rate at the transaction occurrence date. The conversion differences of foreign currency financial statements arising from the above-mentioned currency conversions are included in other comprehensive income.

When disposing of an overseas operation, the foreign currency conversion difference for items under the other comprehensive income in the balance sheet that are related to such overseas operation are transferred from the other comprehensive income to profit or loss for the period; when there is decrease in holding ratio of overseas operation without losing control as a result of partial disposal of overseas equity investment or other reasons, the foreign currency conversion difference related to the disposal of overseas operation is transferred to minority interests but not profit or loss for the period. When disposing equity interests in foreign associate or joint venture, the foreign currency translation difference related to such overseas operation is transferred to profit or loss from disposal for the period in a proportionate share.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to a financial instrument contract.

The effective interest rate method refers to the method of calculating the amortized cost of financial assets or financial liabilities and amortizing interest income or interest expenses into each accounting period.

The effective interest rate refers to the interest rate used to discount the estimated future cash flow of a financial asset or financial liability over the expected useful life to the book value of the financial asset or the amortized cost of the financial liability. When determining the effective interest rate, the expected cash flow is estimated on the basis of considering all contractual terms of financial assets or financial liabilities (such as early repayment, rollovers, call options or other similar options, etc.), but the expected credit losses are not considered.

The amortized cost of a financial asset or a financial liability is the amount of a financial asset, or a financial liability initially recognized minus the repaid principal, plus or less the cumulative amortized amount arising from amortization of the difference between the amount initially recognized and the amount at the maturity date using the effective interest method, minus cumulative loss provision (only applicable to financial assets).

1. *Classification and measurement of financial instruments*

The Group classifies financial assets into the following 3 categories based on the business model of the financial assets under management and the contractual cash flow characteristics of financial assets:

- (1) financial assets measured at amortized cost.
- (2) financial assets measured at fair value through other comprehensive income.
- (3) financial assets measured at fair value through profit or loss.

Financial assets are measured at fair value at initial recognition, but if the accounts receivable or bills receivable due to the sale of goods or the provision of services do not contain a significant financing component or do not consider financing components not exceeding one year, the transaction price will be used for initial measurement.

For financial assets that are measured at fair value through current profit or loss, the related transaction costs are directly included in the current profit or loss, and other types of financial assets related transaction costs are included in the initial recognition amount.

The subsequent measurement of financial assets depends on their classification, and all affected financial assets are reclassified if and only if the Group changes the management of business model of financial assets.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. *Classification and measurement of financial instruments (continued)*

(1) *Classified as financial assets measured at amortized cost*

The contractual provisions of the financial assets stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the outstanding principal amount, and the goal of the business model for managing the financial asset is to collect contractual cash flow, the Group classifies the financial assets as financial assets measured at amortized cost. The Group classifies financial assets measured at amortized cost including monetary funds, notes receivable and accounts receivable, other receivables, long-term receivables and debt investment.

The Group uses the effective interest rate method to recognize interest income for such financial assets, and then performs subsequent measurement based on amortized cost. The gains or losses arising from the impairment or termination of recognition and modification are included in the current profit and loss. Except for the following circumstances, the Group calculates and determines interest income based on the financial asset's book balance multiplied by the effective interest rate:

- 1) For financial assets purchased or originated that have suffered credit impairment, the Group has calculated and determined its interest income based on the amortized cost of the financial asset and the credit-adjusted effective interest rate since initial recognition.
- 2) For the financial assets purchased or originated without credit impairment, but become credit impaired in the subsequent period, the Group will calculate and determine the interest income based on the amortized cost of the financial asset and the effective interest rate in the subsequent period. If the financial instrument has no credit impairment due to the improvement of its credit risk in the subsequent period, the Group will use the effective interest rate multiplied by the financial asset's book balance to calculate and determine the interest income.

(2) *Financial assets classified as measured at fair value through other comprehensive income*

The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the amount of the outstanding principal, and the business model for managing the financial asset is to both targets to collect the contractual cash flow and to sell such financial asset, the Group classifies the financial asset as a financial asset that is measured at fair value and its changes are included in other comprehensive income.

The Group uses the effective interest rate method to recognize interest income for such financial assets. Except for interest income, impairment losses and exchange differences recognized as current profits and losses, the remaining changes in fair value are included in other comprehensive income. When the financial asset is derecognized, the cumulative gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in the current profit and loss. °

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. *Classification and measurement of financial instruments (continued)*

(2) *Financial assets classified as measured at fair value through other comprehensive income (continued)*

Notes receivable and accounts receivable that are measured at fair value and whose changes are included in other comprehensive income are reported as receivable financing, and other such financial assets are reported as other debt investments, including: other debt investments due within the year are reported as non-current assets due within one year, and other debt investments with original maturity within one year are reported as other current assets.

(3) *Financial assets designated to be measured at fair value through other comprehensive income*

The Group may irrevocably designate non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income on the basis of individual financial assets.

Changes in the fair value of such financial assets are included in other comprehensive income, and no impairment provision is required. When the financial asset is derecognized, the cumulative gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in retained earnings. During the period when the Group holds the equity instrument investment, the Group's right to receive dividends has been established, and the economic benefits related to the dividends are likely to flow into the Group, and when the amount of dividends can be reliably measured, the dividend income is recognized and included in the current profit and loss. The Group reports the following investment items of such financial assets in other equity instruments °

Equity instrument investment that meets one of the following conditions is a financial asset measured at fair value through profit or loss: the purpose of obtaining the financial asset is mainly for recent sale; the initial confirmation is part of the centralized management of the identifiable financial asset instrument portfolio, and there is objective evidence that the short-term profit model actually exists in the near future; is a derivative (except for derivatives that meet the definition of a financial guarantee contract and are designated as effective hedging instruments).

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. *Classification and measurement of financial instruments (continued)*

(4) *Financial assets classified as measured at fair value through profit or loss*

Financial assets that do not meet the requirements for classification as a financial asset measured at amortized cost or measured at fair value through other comprehensive income and are not designated as financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

The Group uses fair value for subsequent measurement of such financial assets, and the gains or losses resulting from changes in fair value and dividends and interest income related to such financial assets are included in the current profit and loss.

The Group presents such financial assets in held-for-trading financial assets and other non-current financial assets based on their liquidity.

(5) *Financial assets designated to be measured at fair value through profit or loss*

At initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the Group may irrevocably designate the financial assets as financial assets measured at fair value through profit or loss on the basis of individual financial assets.

If the hybrid contract includes one or more embedded derivatives and the main contract does not belong to the above financial assets, the Group may designate the whole as a financial instrument measured at fair value through profit or loss. Except in the following cases:

- 1) The embedded derivatives do not materially change the cash flow of a hybrid contract.
- 2) When it is first determined whether a similar hybrid contract needs to be split, there is little need for analysis to make it clear that the embedded derivatives it contains should not be split. If the prepayment right of the embedded loan allows the holder to repay the loan in advance with an amount close to the amortized cost, the prepayment right does not need to be split.

The Group uses fair value for subsequent measurement of such financial assets, and the gains or losses resulting from changes in fair value and dividends and interest income related to such financial assets are included in the current profit and loss.

The Group presents such financial assets in trading financial assets and other non-current financial assets according to their liquidity.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

2. *Classification and measurement of financial liabilities*

Financial instruments issued by the Group are classified into financial liabilities or equity instruments on the basis of the substance of the contractual terms and the economic nature reflected but not only its legal form, together with the definition of financial liability and equity instruments on initial recognition. Financial liabilities are classified at initial recognition as: financial liabilities measured at fair value through profit or loss, other financial liabilities, and derivatives designated as effective hedging instruments.

Financial liabilities are measured at fair value at initial recognition. For financial liabilities that are measured at fair value through profit or loss, the related transaction costs are directly included in the current profit and loss; for other types of financial liabilities, the related transaction costs are included in the initial recognition amount.

Subsequent measurement of financial liabilities depends on their classification:

(1) *Financial liabilities measured at fair value through profit or loss*

This category includes held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as measured at fair value through profit or loss.

Meeting one of the following conditions is a held-for-trading financial liability: the purpose of assuming relevant financial liabilities is mainly to sell or repurchase in the near future; it is part of a centrally managed portfolio of identifiable financial instruments, and there is objective evidence that the Group recently adopted short-term profit model; belongs to derivatives, except for derivatives designated as effective hedging instruments and derivatives that comply with financial guarantee contracts. Held-for-trading financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value. Except for hedge accounting, all changes in fair value are included in the current profit and loss.

In the initial recognition, in order to provide more relevant accounting information, the Group irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities measured at fair value through profit or loss:

- 1) Can eliminate or significantly reduce accounting mismatches.
- 2) Manage and evaluate the financial liability portfolio or financial assets and financial liabilities portfolio based on fair value according to the enterprise risk management or investment strategy specified in the official written documents, and on top of this basis, report to key management personnel.

The Group uses fair value for subsequent measurement of such financial liabilities. Except for changes in fair value caused by changes in the Group's own credit risk, which are included in other comprehensive income, other changes in fair value are included in the current profit and loss. Unless including the fair value changes caused by the Group's own credit risk changes in other comprehensive income will cause or expand the accounting mismatch in profit or loss, the Group will include all fair value changes (including the amount of its own credit risk changes) in the current profit and loss.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

2. *Classification and measurement of financial liabilities (continued)*

(2) *Other financial liabilities*

Except for the following items, the Group classifies financial liabilities as financial liabilities measured at amortized cost, the effective interest rate method is adopted for such financial liabilities, and subsequent measurement is made based on the amortized cost, and the gains or losses arising from derecognition, or amortization are included in the current profit and loss:

- 1) Financial liabilities measured at fair value through profit or loss.
- 2) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement of the transferred financial assets.
- 3) Financial guarantee contracts not classified as those specified in the two preceding items above, and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the item 1) above.

Financial guarantee contract refers to a contract that requires the issuer to pay a specific amount to the contract holder who has suffered a loss when the specific debtor fails to pay the debt in accordance with the original or modified debt instrument terms. For financial guarantee contracts that are not designated as financial liabilities measured at fair value through profit or loss, after the initial recognition, they are measured according to the higher of the provisions for losses and the initially recognized amount after deducting the accumulated amortization amount during the guarantee period.

3. *Derecognition of financial assets and liabilities*

- (1) Financial assets that meet one of the following conditions shall be derecognized, that is to be written off from the accounts and the statement of financial position:
 - 1) The contractual right to receive the cash flow of the financial assets is terminated.
 - 2) The financial assets have been transferred, and the transfer meets the requirements regarding the derecognition of financial assets.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

3. *Derecognition of financial assets and liabilities (continued)*

(2) *Conditions for derecognition of financial liabilities*

If the current obligation of a financial liability (or part of it) has been discharged, the financial liability (or part of the financial liability) is derecognized.

When the Group and the lender enter into an agreement to replace the original financial liabilities with new financial liabilities, and the contract terms of the new financial liabilities and the original financial liabilities are substantially different, or if a substantial change is made to the contractual terms of the original financial liability (or a part thereof), the original financial liabilities are derecognized and new financial liabilities are recognized; and the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognized in the current profit or loss.

If the Group repurchases part of the financial liabilities, the book value of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognition portion on the repurchase date. The difference between the book value assigned to the derecognition portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit and loss.

4. *Recognition basis and measurement method of financial asset transfer*

In the event of transfer of a financial asset, the Group assesses the extent to which it retains the risks and rewards of ownership of financial assets and treats them in the following cases:

- (1) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognized, and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.
- (2) If all the risks and rewards of ownership of financial assets are retained, the financial assets will continue to be recognized.
- (3) There is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (i.e., other than (1), (2)), depending on whether they retain control over financial assets, respectively, the situations are handled as follows:
 - 1) If the control over the financial assets is not retained, the financial assets are derecognized, and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

4. *Recognition basis and measurement method of financial asset transfer (continued)*

(3) (continued)

- 2) If the control over the financial assets is retained, the relevant financial assets shall continue to be recognized according to the extent to which they continue to be involved in the transfer of financial assets, and related liabilities are recognized accordingly. The extent of continuing involvement in the transfer of financial assets refers to the extent to which the Group assumes the risk or reward of changes in the value of the transferred financial assets.

When determining whether the transfer of financial assets satisfies the above-mentioned conditions for derecognition of financial assets, the principle of substance over form is adopted. The Group divides the transfer of financial assets into overall transfer and partial transfer of financial assets:

- (1) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included in the current profit and loss:
 - 1) The book value of the transferred financial assets on the derecognition date.
 - 2) The sum of the consideration received from the transfer of the financial asset and the amount of the corresponding derecognized part in the accumulated changes in fair value previously recorded directly in other comprehensive income (the financial assets involved in the transfer are financial asset measured at fair value through other comprehensive income).
- (2) If the financial assets are partially transferred and the transferred part as a whole meets the conditions for derecognition, the entire carrying amount of the financial asset transferred shall be proportionally amortized between the derecognized portion and the retained portion (in this case, the retained service assets shall be deemed to be part of the continuing recognition of the financial assets) according to their respective relative fair value on the transfer date. Then, the balance between the following two amounts will be included in the current profit and loss:
 - 1) The book value of the derecognition part on the derecognition date.
 - 2) The sum of the consideration received from the derecognized part and the amount corresponding to the derecognized part in the accumulated amount of the fair value change that is previously included in other comprehensive income (the financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income).

If the transfer of financial assets does not meet the conditions for derecognition, the financial assets continue to be recognized and the consideration received is recognized as a financial liability.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

5. *Determination of the fair value of financial assets and financial liabilities*

When the financial assets or financial liabilities are in an active market, the quoted prices in active markets are used to determine their fair values, unless such financial assets have a restricted period. For financial assets which have restricted period, their fair values are determined by the quoted prices in active markets less the compensation amount requested by market players for assuming the risk of not able to sell such financial assets in the public market during the designated period. Quoted prices in active markets include those related assets or liabilities which can be easy and regular to get from the exchange, traders, brokers, industry companies, pricing mechanism or regulatory agencies and can represent the actual and often occur in even bargain basis market transactions.

For financial assets initially obtained or derived or financial liabilities assumed, fair value is determined based on market transaction prices.

For financial assets and financial liabilities that are not in an active market, their fair values are determined using valuation techniques. During valuation, the Group adopts valuation techniques that are available in the current circumstances and are supported by enough available data and other information and choose input value with same features used by market players for transactions of relevant assets or liabilities and managed to preferentially use relevant observable input value. Under the circumstance that is unable to obtain observable input value, or it is infeasible, unobservable input value will be used.

6. *Impairment of financial instruments*

Based on the expected credit losses, the Group conducts impairment accounting treatment and recognizes loss provisions for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, lease receivables, contract assets and financial guaranteed contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate (i.e., the present value of all cash shortfalls). Among them, the financial assets purchased or originated by the Group that have suffered credit impairment should be discounted at the credit adjusted effective interest rate of the financial asset.

For receivables arising from transactions governed by the revenue standards, the Group uses a simplified measurement method to measure the loss provision based on the amount equivalent to the expected credit loss throughout the entire period.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. *Impairment of financial instruments (continued)*

For financial assets purchased or originated that have suffered credit impairment, on the balance sheet date, only the cumulative changes in expected credit losses throughout the useful life since initial recognition are recognized as loss provisions. On each balance sheet date, the amount of change in expected credit losses throughout the useful life is included in the current profit and loss as an impairment loss or gain. Even if the expected credit loss throughout the useful life determined on the balance sheet date is less than the amount of expected credit loss reflected in the estimated cash flow at initial recognition, the favorable change in expected credit loss is recognized as an impairment gain.

In addition to the above-mentioned simplified measurement methods and other financial assets purchased or originated that suffered from credit impairment, on each balance sheet date, the Group assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition, and measure their loss provisions and recognize expected credit losses and their changes according to the following circumstances:

- (1) If the credit risk of the financial instrument has not increased significantly since the initial recognition, it is in the first stage, the loss provision is measured at the amount equivalent to the expected credit loss of the financial instrument in the next 12 months, and the interest income is calculated according to the book balance and the effective interest rate.
- (2) If the credit risk of the financial instrument has increased significantly since the initial recognition, however, if credit impairment has not occurred, it is in the second stage, the loss provision is measured at the amount equivalent to the expected credit loss throughout the useful time of the financial instrument, and the interest income is calculated according to the book balance and the effective interest rate.
- (3) If the financial instrument has suffered credit impairment since its initial recognition, it is in the third stage. The Group measures its loss provisions at an amount equivalent to the expected credit loss throughout the useful life of the financial instrument, and the interest income is calculated at amortized cost and effective interest rate.

The increase or reversal of the credit loss provision for financial instruments is included in the current profit and loss as an impairment loss or gain. Except for financial assets that are classified as measured at fair value through other comprehensive income, credit losses are provided to offset the book balance of financial assets. For financial assets classified as measured at fair value through other comprehensive income, the Group recognizes its credit loss provisions in other comprehensive income and does not reduce the book value of the financial asset listed in the balance sheet.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. *Impairment of financial instruments (continued)*

In the previous accounting period, the Group has measured the loss provisions according to the amount of expected credit losses throughout the useful life of the financial instrument, but on the balance sheet date of the current period, for the financial instrument no longer has a significant increase in credit risk since initial recognition, the Group measures the loss provisions of the financial instrument at the current balance sheet date according to the amount of expected credit losses in the next 12 months, and the resulting reversal amount of the loss provisions is included in the current profit and loss as an impairment gain.

(1) *Credit risk increased significantly*

The Group uses the available, reasonable, and evidence-based forward-looking information to compare the default risk of the financial instruments on the balance sheet date and the default risk of the financial instruments on the initial recognition date to determine whether the credit risk of the financial instrument has significantly increased since initial recognition. For financial guarantee contracts, when the Group applies provisions of impairment of financial instrument, the day when the Group becomes the party making the irrevocable commitment is used as the initial recognition date.

The Group will consider the following factors when assessing whether the credit risk has increased significantly:

- 1) Whether the actual or expected operating results of the debtor have changed significantly;
- 2) Whether the debtor's regulatory, economic or technological environment has undergone significant adverse changes;
- 3) Whether there has been a significant change in the value of the collateral used as debt collateral or the guarantee provided by a third party or the quality of credit enhancement, and these changes are expected to reduce the economic motivation of the debtor to repay the loan within the time limit specified in the contract or affect the probability of default;
- 4) Whether the debtor's expected performance and repayment behavior have changed significantly;
- 5) Whether the Group's credit management methods for financial instruments have changed, etc.

On the balance sheet date, if the Group determines that a financial instrument has a relatively low credit risk, the Group assumes that the credit risk of the financial instrument has not increased significantly since initial recognition. If the default risk of the financial instruments is low, the borrower has a strong ability to fulfil its contractual cash flow obligations in the short term, and even if there are adverse changes in the economic situation and operating environment in a longer period of time, it may not necessarily reduce the borrower's ability to fulfil the contractual cash flow obligation, the financial instrument is considered to have lower credit risk.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. *Impairment of financial instruments (continued)*

(2) *Financial assets with credit impairment*

When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset that has suffered a credit impairment. Evidence that credit losses have occurred in financial assets includes the following observable information:

- 1) significant financial difficulty of the issuer or debtor;
- 2) breach of contract by the debtor: such as delinquency or default in interest and principal payments;
- 3) the creditor(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the creditor(s) would not otherwise consider;
- 4) it becomes probable that the debtor will enter bankruptcy or financial reorganization;
- 5) the disappearance of active markets for that financial asset because of financial difficulties of the issuer or debtor;
- 6) a substantial discount during acquisition or sourcing of a financial asset reflects the fact the occurrence of credit losses.

The credit impairment of financial assets may be caused by the joint impacts of multiple events, which may not be necessarily caused by separate identifiable events.

(3) *Determination of expected credit losses*

The Group assesses the expected credit losses based on an individual and a collective basis. The Group considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions when assessing the expected credit losses.

The Group divides financial instruments into different portfolio based on common credit risk characteristics. The common credit risk characteristics adopted by the Group include types of financial instruments, credit risk ratings, aging portfolios, overdue aging portfolios, contract settlement cycles, and the debtor's industry. For the individual evaluation criteria of the related financial instruments and the characteristics of the credit risk of portfolio, please refer to the accounting policies of the relevant financial instruments.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. *Impairment of financial instruments (continued)*

(3) *Determination of expected credit losses (continued)*

The Group determines the expected credit losses of relevant financial instruments according to the following methods:

- 1) For financial assets, the credit loss is the present value of the difference between the contractual cash flow that the Group should receive and the expected cash flow.
- 2) For a financial guarantee contract, the credit loss is the present value of the difference between the estimated payment to the contract holder by the Group for the credit loss less the expected amount received by the Group from the contract holder, debtor or any other party.
- 3) For a financial asset that is credit-impaired at the balance sheet date, but that is not a purchased or originated credit-impaired financial asset, the credit loss is the present value of the difference between the financial asset's book balance and the estimated future cash flow discounted at the original effective interest rate.

The Group's method of measuring the expected credit loss of financial instruments reflects the following factors: the unbiased probability weighted average amount determined by evaluating a series of possible results; the time value of currency; the availability of reasonable and evidence-based information on the balance sheet date about past events, current conditions, and future economic conditions without spending unnecessary additional costs or efforts.

(4) *Written-off of financial assets*

When the Group no longer reasonably expects that the contractual cash flow of financial assets can be fully or partially recovered, the book value of the financial asset is directly written off. Such write-off constitutes the derecognition of related financial assets.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

7. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented in the balance sheet respectively and are not offset with each other. However, the net value after the offset is presented in the balance sheet when the following conditions are satisfied:

- (1) The Group has the legal right to offset the recognized amount and such right is exercisable;
- (2) The Group plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

(XII) Notes receivable

The Group's determination method and accounting treatment of the expected credit loss of notes receivable are detailed in Note IV/(XI) 6. Impairment of financial instruments.

The Group separately determines the credit loss of single notes receivable with transactions formed under the standards of revenue.

When it is impossible to evaluate the sufficient evidence of expected credit loss at a reasonable cost at the level of a single tool, the Group refers to the historical credit loss experience, combines the current situation and the judgment of the future economic situation, and divides the notes receivable into several portfolios based on the characteristics of credit risk and calculate expected credit losses on a combined basis. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Provision method
Bank acceptance notes portfolio	Acceptance agency	Refer to the historical credit loss experience, combine the current situation and the expected economic situation to measure the bad debt provision.
Commercial acceptance notes portfolio	Acceptor	Refer to the historical credit loss experience, combine the current situation and the prediction of the future economic situation, compile a comparison table of the age of notes receivable and the expected credit loss rate throughout the useful life, and calculate the expected credit loss.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Accounts receivable

For the determination method and accounting treatment of the expected credit loss of the Group's accounts receivable, please refer to Note IV/(XI) 6. Impairment of financial instruments.

The Group separately determines the credit loss of single notes receivable with transactions formed under the standards of revenue.

When it is impossible to assess the sufficient evidence of expected credit loss at a reasonable cost at the level of a single tool, the Group refers to historical credit loss experience, combines the current situation and the judgment of the future economic situation, and divides the accounts receivable into several portfolios based on the characteristics of credit risk, and calculate expected credit losses on a combined basis. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Provision method
Individual provision for expected credit loss portfolio	Individual bad debt for accounts receivable	Refer to the historical credit loss experience, combine the current situation and the prediction of the future economic situation, individually assess predicted credit loss accounts receivable, and classify into related portfolio measure bad debt provision
Age of accounts receivable risk portfolio	Other accounts receivable except for individual bad debt	Refer to the historical credit loss experience, combine the current situation and the prediction of the future economic situation, calculate the predicted credit loss by default risk exposure and life time predicted credit loss rate

(XIV) Receivables financing

Please refer to Note IV/(XI) 6. Impairment of financial instruments for the determination method and accounting treatment of the expected credit losses of the Group's receivables financing.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Other receivables

For the determination method and accounting treatment of the expected credit losses of other receivables of the Group, please refer to Note IV/(XI) 6. Impairment of financial instruments.

The Group shall individually recognize the credit loss of other receivables if it is possible to assess the expected credit loss at a reasonable cost by sufficient evidence at the level of a single tool.

When it is impossible to assess the sufficient evidence of expected credit loss at a reasonable cost at the level of a single tool, the Group refers to historical credit loss experience, combines the current situation and the judgment of the future economic situation, and divides the other receivable into several portfolios based on the characteristics of credit risk, and calculate expected credit losses on a combined basis. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Provision method
Individual provision for expected credit loss portfolio	Individual bad debt for accounts receivable	Refer to the historical credit loss experience, combine the current situation and the prediction of the future economic situation, individually assess predicted credit loss accounts receivable, and classify into related portfolio measure bad debt provision
Age of accounts receivable risk portfolio	Other accounts receivable except for individual bad debt	Refer to the historical credit loss experience, combine the current situation and the prediction of the future economic situation, compile a comparison table of the age of notes receivable in the next 12 months or throughout the useful life, and calculate the expected credit loss.

(XVI) Inventory

1. Classification of inventories

Inventories refer to the completed products or merchandize, semi-finished products under production process, and materials and items consumed during production or provision of labor services which are held for sale by the Group over the course of ordinary activities. These mainly include raw materials, finished goods and low-value consumables, etc.

2. Measurement of inventories

Inventories are initially measured at cost upon acquisition, which includes procurement costs, processing costs and other costs. The value of inventories is calculated using weighted average method at the end of the month when they are delivered, the pricing method of the project cost is priced according to the individual identification method.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Inventory (continued)

3. *Determination criteria for the net realizable value of inventories and provision for inventory impairment*

When a comprehensive count of inventories is done at the end of the period, provision for inventory impairment is allocated or adjusted using the lower of the cost of inventory and the net realizable value. The net realizable value of stock in inventory (including finished products, inventory merchandize and materials for sale) that can be sold directly is determined using the estimated saleable price of such inventory deducted by the cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of material in inventory that requires processing is determined using the estimated saleable price of the finished product deducted by the cost to completion, estimated cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of inventory held for performance of sales contract or labor service contract is determined based on the contractual price; in case the amount of inventory held exceeds the contractual amount, the net realizable value of the excess portion of inventory is calculated using the normal saleable price.

Provision for impairment is made according to individual items of inventories at the end of the period; however, for inventories with large quantity and low unit price, the provision is made by categories; inventories of products that are produced and sold in the same region or with the same or similar purpose or usage and are difficult to be measured separately are combined for provision for impairment.

If the factors causing a previous write-off of inventory value has disappeared, the amount written-off is reversed and the amount provided for inventory impairment is reversed and recognized in profit or loss for the period.

4. *Inventory system*

Adopting the perpetual inventory system.

5. *Amortization method of low-value consumables and packaging materials*

Low-price easily worn materials are amortized by the one-time writing-off method

(XVII) Other debt investment

For the determination method and accounting treatment of the expected credit losses of other debt investment of the Group, please refer to Note IV/(XI) 6. Impairment of financial instruments.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments

1. *Initial determination of investment costs*

- (1) For long-term equity investment formed by business combination, details of accounting policies are set out in "Accounting treatments of business combinations involving entities under common control and entities not under common control" of notes IV/(VI).

(2) *Long-term equity investments obtained through other means.*

Initial investment costs of long-term equity investment obtained through cash payment is determined by the actual consideration paid. The initial investment cost consists of the expenses directly related to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Initial investment costs of long-term equity investment obtained through issuance of equity securities is determined by the fair value of the equity securities issued; trading expenses incurred during insurance or acquisition of equity instrument may be directly deducted from the equity attributable to the equity trade.

The initial investment costs of long-term equity investment obtained in an exchange of nonmonetary assets is determined using the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; the initial investment costs of a long-term equity investment in a nonmonetary asset exchange that cannot satisfy the above conditions is determined by the carrying amount of the asset surrendered and the amount of relevant tax payable.

The initial investment costs of a long-term equity investment obtained through debt restructuring is determined based on the fair value.

2. *Subsequent measurement and profit or loss recognition*

(1) *Cost method*

The Group may adopt the cost method for accounting of the controlling long-term equity investment in the investee, and measure the investment at the initial investment cost, which can be adjusted by addition or recovery of investment.

Except for the price actually paid for obtaining the investment or the cash dividends or profits declared but not yet distributed which is included in the consideration, the Group recognizes cash dividends or profits declared by the investee as current investment gains.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

2. *Subsequent measurement and profit or loss recognition (continued)*

(2) *Equity method*

The Group adopts the equity method for accounting of long-term equity investment in joint ventures and associates; where part of the equity investment of the investing party is indirectly held by venture capital institutions, mutual funds, trust companies or similar subjects including unit-linked insurance fund, the investment is measured at fair value, the changes in which are included in the current profit and loss.

When the initial investment cost of the long-term equity investment exceeds the share of fair value in the identifiable net assets in the investee, the initial investment cost of a long-term equity investment is not adjusted based on such difference. When the initial investment cost is lower than the share of fair value in the identifiable net assets in the investee, such difference is recognized in profit or loss for the period.

After the Group acquires a long-term equity investment, it shall, in accordance with its attributable share of the net profit or loss and other comprehensive income realized by the investee, recognize the investment income and other comprehensive income respectively and simultaneously adjust the book value of the long-term equity investment. The Group shall, in light of the profits or cash dividends that the invested entity declares to distribute, reduce the book value of the long-term equity investment correspondingly. As to any change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution, the Group shall adjust the book value of the long-term equity investment and include such change into the owners' equity.

The Group shall, based on the fair value of identifiable net assets of the invested entity when it obtains the investment, recognize its attributable share of the net profit or loss of the investee after it adjusts the net profit of the investee. The profit or loss of the unrealized internal transaction between the Group and the associates, joint ventures shall be offset with the portion attributable to the Group according to the proportion the Group is entitled to, and the gains or losses on investment shall be recognized on such basis.

Recognition of loss in the investee by the Group shall follow this order: firstly, reduce the carrying amount of the long-term equity investments; secondly, if the carrying amount of long-term equity investments is insufficient for such reduction, continue to recognize such investment loss to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, if the Group still bears additional obligations stipulated under the investment contract or agreement, the estimated obligations assumed are recognized as estimated obligations and recognized in profit or loss for the period.

If the investee records a profit subsequently, after deducting the attributable loss that is not yet recognized, the treatment by the Group shall be the reverse of the above order: reverse the carrying balance of estimated obligations already recognized, restore the carrying amount which substantively constitutes the long-term interests and long-term equity investment in the investee, and recognize investment gain.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. *Change of measurement at fair value to accounting under equity method*

(1) *Change of measurement at fair value to accounting under equity method*

Where the equity investment held by the Group have no control, joint control or significant impact on the investee and that are accounted according to the financial instrument recognition and measurement criteria can place significant impact or carry out common control but cannot control the investee due to addition of investment, the sum of the fair value of the equity investment originally held determined subject to the Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments and the new investment cost are determined to be the initial investment cost accounted under equity method.

The book value of the long-term equity investment is adjusted by the difference between the fair value shares of the identifiable net assets of the investee on the date of additional investment determined by calculation of the new shareholding proportion after such additional investment and the initial investment cost under equity method and is included in current nonoperating income.

(2) *Change of measurement at fair value or accounting under equity method to cost method*

The equity investment of the investee held by the Group with no control, joint control or significant impact and accounted according to the financial instrument recognition and measurement criteria, or the long-term equity investment in associates or joint venture originally held that can be controlled due to addition of investment, the sum of the book value of the original equity investment and the cost of new investment is changed to be accounted under cost method and recognized as the initial investment cost when preparing individual financial statements.

The other comprehensive income recognized due to the adoption of equity method for the equity investment held before the date of acquisition shall be accounted on the same basis for the disposal of relevant assets or liabilities of the investee during the disposal of such investment.

Equity investment held before the date of acquisition shall be subject to the relevant requirements under the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments and the accumulated fair value changes that were originally included in other comprehensive income shall be included in current profit or loss under cost method.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. *Change of measurement at fair value to accounting under equity method (continued)*

(3) *Change of accounting under equity method to measurement at fair value*

Where the Group loses common control or significant impact over the investee due to disposal of part of the equity investment, the remaining equity after disposal shall be subject to accounting under Accounting Standards for Enterprises No.22- Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the common control or significant impact is lost and the book value is included in current profit or loss.

Other comprehensive income that is recognized due to adoption of the equity method shall be subject to accounting on the same basis for disposal of relevant assets or liabilities of the investee at the time when the equity method is ceased.

(4) *Change of cost method to equity method*

Where the Group loses the control over the investee due to disposal of part of the equity investment, and the remaining equity after disposal can place common control or significant impact over investee, it should be changed to equity method in preparing individual financial statements and the remaining equity shall be adjusted as if the equity method is adopted at the acquisition.

(5) *Change of cost method into measurement at fair value*

Where the Group loses the control over the investee due to disposal of part of the equity investment, and the remaining equity after disposal cannot place common control or significant impact over investee, the accounting should be changed and become subject to relevant requirements under the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments in preparing individual financial statements, and the difference between the fair value on the date when the control is lost and the book value is included in current profit and loss.

4. *Disposal of long-term equity investment*

When disposing long-term equity investment, the difference between its book value and the payment actually acquired shall be included in the current profit or loss. When disposing long-term equity investment measured by employing the equity method, accounting treatment of the portion previously included in other comprehensive income shall be made on the same basis as would be required if the invested entity had directly disposed the assets or liabilities related thereto according to the corresponding proportion.

If the terms, conditions and economic effects of transactions in relation to the disposal of equity investments in subsidiaries fall in the following one or more situations, multiple transactions are regarded as a package transaction for accounting treatment:

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

4. *Disposal of long-term equity investment (continued)*

- (1) these transactions were entered into at the same time or after considering the effects of each other;
- (2) only when regarding these transactions, can it achieve a complete business result;
- (3) the occurrence of one transaction depends on the occurrence of at least one other transaction;
- (4) a transaction is not economical when treated alone but is economical when considered with other transactions.

For subsidiary which has already lost control due to disposal of a portion of the equity investment, or other reasons, which is also not a package deal, a different treatment is made between the individual financial statements and the consolidated financial statements:

- (1) In separate financial statements, for equity disposed, the difference between the book value and the actual payment is included in current profit or loss. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity method is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the book value is included in current profit or loss.
- (2) In consolidated financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will. Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

4. *Disposal of long-term equity investment (continued)*

Transactions in relation to the disposal of equity investments in subsidiaries until control is lost belong to a package transaction, and the accounting treatment shall be differentiated by individual financial statements and consolidated financial statements:

- (1) In separate financial statements, the difference between the book value of the long-term equity investment corresponding to disposal price and equity disposed before the loss of control is recognized as other comprehensive income; and transferred to current profit or loss at the time of loss of control.
- (2) In consolidated financial statements, the difference between the accumulated disposal considerations before control is lost and the share of net assets in the subsidiary is recognized as other comprehensive income and shall be transferred to profit or loss for the period when control was lost.

5. *Criteria for determination of common control and significant impact*

If the Group collectively control certain arrangement with the other participants as agreed, and the decisions on the activities that may have significant impact on the return of arrangement are subject to consistent agreement from participants sharing the control power, then the Group and the other participants are deemed to have common control over certain arrangement, which is joint venture arrangement.

Where the joint venture arrangement is realized through individual entity, it is judged according to relevant agreement that, when the Group is entitled to the rights over the net assets of such entity, the entity is a joint venture and adopts equity method for accounting treatment. If it is judged according to relevant agreement that, the Group has no rights over the net assets of such entity, such entity is joint operation, and the Group recognize the items in relation to the shares in the joint operation and adopts provisions of relevant accounting standards for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of an invested entity, but not to control or jointly control together with other parties over the formulation of these policies. The Group determines, the significant impact is placed on investee in one or more situations as follows after a comprehensive consideration of all facts and situations: (1) dispatching representatives in the board of directors or similar power organ of the investee; (2) participating in the formulation of the financial and operation policies of the investee; (3) having significant deals with the investee; (4) dispatching management personnel to the investee; (5) providing key technical information to investee.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset

1. *Recognition of fixed assets*

Fixed assets refer to tangible assets held for the production of merchandize, provision of labor services, renting or operational management with useful life over one accounting year. Fixed assets are recognized when all the following conditions are met:

- (1) Economic benefits related to such fixed assets are likely to flow into the enterprise;
- (2) Costs of such fixed assets can be reliably measured.

2. *Initial measurement of fixed assets*

The fixed assets of the Group are initially measured at cost.

- (1) The cost of the externally purchased fixed assets include the purchase price, the import duties, and the other expenditure direct attributable to such assets for such assets to be available for its intended use.
- (2) The cost of a self-constructed fixed asset consists of all necessary expenses incurred from the construction for enabling the asset to be available for its intended use.
- (3) The cost invested to a fixed asset by the investor is determined according to the value agreed upon in the investment contract or agreement. Where the valued agreed upon in the said investment contract or agreement is unfair, the said cost will be determined according to the fair value of the asset.
- (4) Where the price for purchase of the fixed assets exceeds the deferred payment on normal credit terms with substantial financing nature, the cost is determined on the basis of the present value of the purchase price. The difference between the actual payment and the purchase price, besides being capitalized, shall be included in current profit or loss during the credit period.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset (continued)

3. Subsequent measurement and disposal of fixed assets

(1) Depreciation of fixed assets

The depreciation of fixed assets is provided within the estimated useful life based on the value carried less the expected net residue. For fixed assets with impairment provided, the depreciation can be determined based on the book value less the provision for impairment in future period and the remaining useful life. No depreciation is provided for still in use but fully depreciated assets.

The Group determines the useful life and estimates residual value of fixed assets based on their nature and use condition. The useful life estimated residual value and method of depreciation of fixed assets are re-assessed at the end of the year, corresponding adjustment is made when any difference from the originally estimated amount is found.

The depreciation method, year of depreciation and annual depreciation ratio of different categories of fixed assets are as follows:

Classification	Depreciation method	Year of depreciation (year)	Net of estimated residual value rate (%)	Annual depreciation rate (%)
Properties and plants	Straight-line method	10 to 20 years	0	5% or 10%
Machinery and equipment	Straight-line method	5 to 10 years	5	9.5% or 19%
Motor equipment	Straight-line method	4 to 5 years	5	19% or 23.75%
Office electronic equipment	Straight-line method	3 to 5 years	5	19% or 31.67%

(2) Subsequent measurements of fixed assets

The subsequent expenditures related to the fixed assets, if satisfies the criteria of capitalization, recognize to the cost of fixed assets. if not, charges to profit or loss when it occurs.

(3) Disposal of fixed assets

A fixed asset is derecognized when the fixed asset is disposed, or the expected use or disposal of such fixed asset cannot create any economic benefits. The disposal income from sale, transfer, retirement or damage of fixed assets is recognized in profit or loss for the period after deducting the carrying amount and relevant taxes.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset (continued)

4. *Recognition basis, measurement, and depreciation method of financing lease in fixed assets*

The leased in fixed assets can be recognized as financing leased in assets if one or more than one following condition can be met:

- (1) Ownership of the lease asset will be transferred to the Group when rental period expires.
- (2) The Group has the purchase option of the lease asset, and if it is reasonable to determine that the option will be exercised on the date it begins.
- (3) Although the ownership of the asset will not transfer, the rental period accounts for most of its useful life.
- (4) The present value of minimum lease payments on the commencement date is almost equivalent to its fair value on that date.
- (5) The lease asset is of special nature, and it can only be used by the Group if not taking big modifications.

Financing leased in fixed assets are recognized at the lower price of fair value of lease asset on the commencement date and present value of the minimum lease payments. The minimum lease payment is the initial book value of long-term payables, and its difference is recognized in unrecognized financing expenses. The expenses directly occurred in the process of contract negotiation and sign shall be attributable to the initial direct expenses, such as charges, lawyer's fee, traveling expenses, stamp duty, etc., are recognized in the value of lease asset. Unrecognized financing expenses are allocated in each period of rental term by using effective interest method.

The depreciation of financing leased in fixed assets takes consistent depreciation policies with self-owned fixed asset. If it is reasonable to determine the ownership of the leased asset at the expiration of the lease term, the Group will depreciate the leased asset in remaining useful life. If it is not reasonable to determine that the leasehold asset can be acquired at the expiration of the lease term, the Group depreciates during the shorter period between the lease term and remaining useful life of the leased assets.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Construction in progress

1. *Initial measurement of construction in process*

The self-constructed constructions in progress of the Group are measured at actual cost, which consist of the necessary expenses required for bringing such constructions to the expected useable conditions including the cost of construction materials, labor costs, relevant taxes, borrowings expenses capitalized and apportioned indirect costs.

2. *Criteria and timing for conversion of construction in progress into fixed asset*

The initial book values of the fixed assets are stated at total expenditures incurred before construction in progress reaching the working condition for their intended use. For construction in progress that has reached working conditions for its intended use but for which the completion of settlement has not been handled, it shall be transferred into fixed assets at the estimated value according to the project budget, construction price or actual cost, etc. from the date when it reaches the working conditions for its intended use. And the fixed assets shall be depreciated in accordance with the Group's policy on fixed asset depreciation. Adjustment shall be made to the originally and provisionally estimated value based on the actual cost after the completion of settlement is handled, but depreciation already provided will not be adjusted.

(XXI) Borrowing costs

1. *Principles of recognizing capitalization of borrowing costs*

The borrowing costs of the Group directly attributable to the construction or production of an asset meeting capitalization conditions are capitalized and recognized in relevant asset costs; other borrowing expenses are recognized as expenses based on the amount incurred and recognized in profit or loss for the period.

An asset that meets the capitalization conditions refers to fixed assets, real estate investments and inventories that require a considerable amount of time for construction or production to reach the expected usable or saleable condition.

Borrowing costs are capitalized when all the following conditions are met:

- (1) The asset expense has occurred, which includes expenses in the form of cash paid, nonmonetary asset transferred, or interest-bearing obligations assumed for the construction or production of an asset that meets capitalization conditions;
- (2) The borrowing expenses have occurred;
- (3) The necessary construction or production activities for bringing the asset to the expected usable or saleable conditions have started.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Borrowing costs (continued)

2. Capitalization period of borrowing costs

Capitalization period refers to the time starting from the borrowing expenses are capitalized to the time capitalization is stopped, except for the period which capitalization of borrowing expenses is suspended.

When the construction or production of an asset meeting capitalization conditions has reached expected useful or saleable conditions, the capitalization of borrowing expenses is stopped.

When a portion of the construction or production of an asset meeting capitalization conditions has completed and can be used individually, the capitalization of borrowing expenses of such portion of asset is stopped.

When portions of the construction or production of an asset have been completed but will only become useful or saleable after the entire asset is completed, the capitalization of borrowing expenses is stopped when the entire asset is completed.

3. Suspension of capitalization period

Capitalization of borrowing expenses is suspended when any abnormal interruption continues for over three months during the construction or production of an asset that meets capitalization conditions. If such interruption is a necessary procedure for the construction or production of the asset that meets capitalization conditions for which to reach expected useful or saleable conditions, the borrowing expenses are continued to be capitalized. The borrowing expenses incurred during the interruption are recognized as profit or loss for the period, and capitalization of borrowing expenses continues when the construction or production activities of the asset resumes.

4. Calculation of capitalization of borrowing cost

Interest expenses of special loans (net of interest income from unutilized loans deposited in bank or investment gain earned from temporary investment) and supplementary expenses incurred for the construction or production of asset that meets capitalization conditions before the asset reaches expected useable or saleable condition are capitalized.

The interest amount that should be capitalized on normal borrowings is calculated based on the weighted average of expenses of the aggregate asset exceeding the expenses of the portion of special loan multiplied by the capitalization ratio of the normal borrowings utilized. Capitalization ratio is calculated based on normal weighted average interest rate.

When there is discount or premium in the loan, the discount or premium to be amortized in each accounting period is determined using effective interest method and the interest amount for each period is adjusted.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease, including: the amount of lease liabilities initially recognized; lease payments made at or before the commencement date less any lease incentives received (if applicable); initial direct costs incurred; the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. The Group calculate the depreciation of the right-of-use asset by adopting straight-line method in the subsequent years. If it is reasonable to determine the ownership of the leased asset at the expiration of the lease term, the Group will depreciate the leased asset in remaining useful life. If it is not reasonable to determine that the leasehold asset can be acquired at the expiration of the lease term, the Group depreciates during the shorter period between the lease term and the remaining useful life of the leased asset.

The Group re-measured the lease liability based on the present value of the changed lease payments and adjusted the carrying amounts of the right-of-use asset accordingly. If the carrying amount of the right-of-use asset has been reduced to zero and the lease liability still needs to be further reduced. The Group accounts for the remaining amount in the current profit and loss.

(XXIII) Intangible assets

Intangible assets refer to the identifiable non-monetary assets owned or controlled by the Group which have no physical form, including land use rights, trademarks, purchased software, brands and favorable contracts.

1. Initial measurement of intangible assets

The cost of externally purchased intangible assets includes the purchase price, relevant taxation and other expenses directly attributable to bringing the asset to expected usage. If payment for the price of intangible assets purchased is delayed beyond normal credit conditions and is in fact financing in nature, the cost of the intangible asset is determined based on the present value of the purchase price.

For intangible asset obtained through debt restructuring for offsetting the debt of the debtor, the entry value of the intangible asset is determined based on its fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible asset used for offsetting the debt is recognized in profit or loss for the period.

The entry value of intangible asset received in an exchange for non-monetary asset is based on the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of nonmonetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and the amount of relevant taxation payable, and no profit or loss is recognized.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets (continued)

1. Initial measurement of intangible assets (continued)

For intangible asset obtained through business absorption or combination of entities under common control, the entry value is determined by the carrying amount of the combined party; for intangible asset obtained through business absorption or merger of entities not under common control, the entry value is determined by the fair value of the intangible asset.

The cost of an internally developed intangible asset include: the materials consumed in developing the intangible asset, labor costs, registration fees, amortization of other patented rights and licensed rights used during the development process, interest expenses meeting capitalization conditions, and other direct costs for bringing the intangible asset to expected usage.

2. Subsequent measurement of intangible assets

The Group determines the useful life of intangible assets on acquisition, which are classified as intangible life with limited life and indefinite life.

(1) Intangible assets with limited useful life

Intangible asset with a limited life is depreciated using straight line method over the term which it brings economic benefit to the Group. The estimated useful life and basis for the intangible assets with a limited life are as follows:

Item	Estimated useful life	Basis
Land use rights	50 years	Land transfer agreement of the Ministry of Land and Resources
Trademark	8-10 years	Benefit period
Purchased software	2-10 years	Benefit period
Brands	8-12 years	Benefit period
Favorable contracts	8 years	Benefit period

The useful life and depreciation method of intangible assets with limited life are reassessed at the end of each period. If the original estimate varies, corresponding adjustments are made. The estimated useful life and amortization method of intangible assets is consistent with prior year's estimation at the end of reporting date after assessment.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Impairment of long-term assets

For the asset impairment excluding inventory, deferred income tax and financial assets, are determined on the following method:

The Group makes a judgment on whether there is any sign of possible long-term assets impairment on the balance sheet date. Where there is any evidence indicating a possible impairment of assets, the Group shall, based on single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets based on the asset group to which the asset belongs.

The estimate of the recoverable amount of the assets are determined at the higher of the net amount of the fair value less the disposal expenses and the present value of the estimated future cash flows.

Where the measurement result of the recoverable amount indicates that the recoverable amount of the long-term asset is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, a provision for the asset impairment shall be made accordingly. Once the asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual service life of the asset.

No matter whether there is any sign of possible assets impairment, the goodwill formed by enterprises combination and intangible assets with uncertain service lives shall be tested for impairment annually.

In conducting the test, the carrying amount of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. When conducting an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the Group shall first conduct an impairment test on the asset groups or combinations of asset groups not containing the goodwill, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss. Then the Group shall conduct an impairment test of the asset groups or combinations of asset groups containing goodwill and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the goodwill apportioned thereto) with the recoverable amount. Impairment loss of the goodwill shall be recognized where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Long-term prepaid expenses

1. Amortization method

Long-term prepaid expenses of the Group refer to expenses that already been spent and the benefit period is one year or more. Long-term prepaid expenses are amortized using the straight-line method in its benefit period.

2. Amortization period

Categories	Amortization periods	Notes
Leasehold improvements of fixed assets	2 to 5 years	Benefit period

(XXVI) Contract liabilities

Contract liabilities refer to the Group's obligation to provide goods to the customer for the consideration received or receivable.

(XXVII) Employee benefits

Employee benefits refer to all forms of consideration or compensation other than share-based payments given by the Group in exchange for services rendered by employees or for termination of employment. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

1. Short-term employee benefits

Short-term employee benefits refer to the employee compensation in addition to postemployment benefits and termination benefits, which are required to be fully paid within 12 months upon the annual reporting period when the employees provide relevant services. During the accounting period when the employees provide services, the Group recognizes the short-term remuneration payable as liabilities and includes them into relevant asset costs and expenses according to benefits from the services provided by employees.

2. Post-employment benefits

Post-employment benefit refers to all kinds of remunerations and benefits other than short-term employee benefit and post-employee benefits that are provided by the Group after the retirement of the employees or termination of labor ration with enterprises in exchange for services provided by employees.

The Group's post-employment benefits are categorized as defined contribution plans and defined benefit plans.

Retirement benefits defined contribution plans are mainly participate in social pension scheme and unemployment insurance managed by the local labor and social security agencies. During the accounting period when the service is rendered by the employees, recognize defined contribution plans as liabilities and included in current profit and asset or cost of related assets.

In addition to regularly paying the above-mentioned monthly deposit fees according to national standards and annuity plans, the Group will no longer bear further payment obligations.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Employee benefits (continued)

3. *Termination benefits*

Termination benefit refers to indemnity provided by enterprises for employees for the purpose of terminating labor relation with the employees before the expiry of the labor contract or encouraging employees to accept downsizing voluntarily. When the earlier of Group cannot unilaterally withdraws the employment relations or cut-down proposals and the date of confirmation of relevant cost and expenses on paying termination benefits, those liabilities arising from the confirmed terminations is charged to profit or loss for the period.

(XXVIII) Lease liabilities

On the commencement date of the lease term, the Group recognized the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and leases of low-value assets. In calculating the present value of lease payments, the Group uses its implicit rate at the lease commencement date as discount rate. If the implicit rate in the lease is not readily determinable, the Group uses its incremental borrowing rate as discount rate. The Group calculates the interest expense of the lease liability in each period of the lease term according to the fixed periodic interest rate, and is included in the current profit and loss, unless otherwise required to be included in the cost of relevant assets. The amount of variable lease payments not included in the measurement of lease liabilities shall be included in the current profits and losses when they are actually incurred, unless otherwise required to be included in relevant costs of assets.

After the commencement date of the lease term, when the actual fixed payment amount changes, the expected amount of the guarantee residual value changes, the index or ratio used to determine the lease payment changes, or the assessment results or actual exercise of the purchase option, the renewal option or the termination option change, the Group re-measures the lease liability based on the present value of the changed lease payments.

(XXIX) Estimated Liabilities

1. *Recognition criteria for estimated liabilities*

The Group shall recognize the obligations related to contingencies as estimated liabilities, when all the following conditions are satisfied:

the obligation is a present obligation of the Group;

it is probable that an outflow of economic benefits will be required to settle the obligation;

the amount of the obligation can be measured reliably.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Estimated Liabilities (continued)

2. *Method of measuring estimated liabilities*

Estimated liabilities shall be initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

The expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value for the range, i.e., the average of the upper and lower limit.

The expenses required does not have a successive range (or band), or although there is a successive range (or band), the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

(XXX) Share-based payments

1. *Classification of share-based payments*

Share-based payment of the Group is classified as either an equity-settled share-based payment or a cash-settled share-based payment.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

2. *Determination of fair value of equity instruments*

Recognize the fair value based on quoted prices in active markets for those options or other equity instruments that have active markets. Recognize the fair value on options pricing model for those options that do not have active market. Following are the factors that need to be considered when choosing the option pricing model: (1) exercise price of the option; (2) validity period of the option; (3) current price of the underlying shares; (4) expected share price volatility rate; (5) expected dividend; (6) risk-free rate in the option validity period.

Take the effect of awards include a market or non-vesting condition into consideration when determine the fair value of equity instrument on the grant date. Where award include a non-vesting condition, service-related cost expenses shall be recognized only if the employee or other parties meet all the non-market conditions in vesting condition.

3. *Basis for recognizing the best estimate on equity instruments expected to vest*

The Group modify the number of equity investment expected to vest on each balance sheet date of the vesting period, which is made based on the latest available information such as the changes in the number of covered employees. On the vesting date, the ultimate number of expected vest equity instrument is consistent with the number actually vest.

4. *Accounting treatment method*

An equity-settled share-based payment in exchange for services received from employees is measured at the fair value of the equity instruments granted to the employees. If such equity-settled share-based payment could vest immediately, related costs or expenses at an amount equal to the fair value on the grant date are recognized, with a corresponding increase in capital reserves; if such equity-settled share-based payment could not vest until the completion of services for a vesting period, or until the achievement of a specified performance condition, the Group at each balance sheet date during the vesting period recognizes the services received for the current period as related costs and expenses, with a corresponding increase in capital reserves, at an amount equal to the fair value of the equity instruments at the grant date, based on the best estimate of the number of equity instruments expected to vest, which is made on the basis of the latest available information such as the changes in the number of covered employees. Related costs or expenses and total amount of shareholders' equity cannot be adjusted after the vesting date.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

4. *Accounting treatment method (continued)*

A cash-settled share-based payment in exchange for shares or other equity instruments is measured at the fair value of the liability. If such cash-settled share-based payment could vest immediately, related costs or expenses at an amount equal to the fair value on the grant date are recognized, with a corresponding increase in liabilities; if such cash-settled share-based payment could not vest until the completion of services for a vesting period, or until the achievement of a specified performance condition, the Group at each balance sheet date during the vesting period recognizes the services received for the current period as related costs and expenses, with a corresponding increase in liabilities, at an amount equal to the fair value of the equity instruments at the grant date, based on the best estimate of the number of equity instruments expected to vest, which is made on the basis of the latest available information such as the changes in the number of covered employees. On each balance sheet date and settlement date, recalculated the fair value of liabilities and take the changes in current profits and losses.

If the equity instrument is cancelled in the vesting period, the Group will cancel the awarded equity instrument and it is treated as if it had vested, taken the amount to be confirmed in remaining waiting period into current profit and loss, with a corresponding increase in capital reserve. The cancelled and new awards are treated if employee or other party that can meet the non-vesting conditions but not ultimately vest in the vesting period.

(XXXI) Revenue

1. *General principles of revenue recognition*

The Group has fulfilled the performance obligations in the contract, that is, when the customer obtains control of the relevant goods or services, the revenue is recognized at the transaction price allocated to the performance obligation.

The performance obligation refers to the commitment of the Group to transfer the goods or services that can be clearly distinguished to the customer in the contract.

Obtaining control of related commodities means being able to lead the use of the commodities and obtain almost all economic benefits from them.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

1. *General principles of revenue recognition (continued)*

The Group evaluates the contract on the contract start date, identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. If one of the following conditions is met, it is a performance obligation performed within a certain period of time. The Group recognizes revenue within a period of time according to the progress of the performance: (1) The customer obtains and consumes the Group's performance office while the Group is performing the contract Economic benefits brought; (2) The customer can control the goods under construction of the Group during the performance of the contract; (3) The goods produced by the Group during the performance of the contract have irreplaceable uses, and the Group has the right to Receiving money for the accumulated performance part that has been completed so far. Otherwise, the Group recognizes revenue when the customer obtains control of the relevant goods or services.

For the performance obligations performed within a certain period of time, the Group uses the output method to determine the appropriate performance progress based on the nature of the goods and services. The output method is to determine the performance progress based on the value of the commodities that have been transferred to the customer. When the performance progress cannot be reasonably determined, if the Group's already incurred costs are expected to be compensated, revenue is recognized according to the amount of costs incurred until the performance progress is reasonably determined.

2. *Accounting treatment principle on the revenue of specific transactions*

(1) *Contracts with sales return clause*

For sales return clauses, according to the new revenue criterion, the enterprise shall confirm the income according to the amount of consideration expected to be entitled to receive due to the transfer of commodities to the customer and confirm the liability according to the amount expected to be returned due to the return on sales when the customer obtains the control right of the relevant commodities. On each balance sheet date, the Group re-estimate the conditions of sales return and re-estimate the above assets and liabilities.

(2) *Reward points program*

The Group will award bonus points to customers while selling goods. Customers can use bonus points to redeem free or discounted products for the Group. The bonus points program provides customers with a significant right, and the Group allocates part of the transaction price to the bonus points as a single performance obligation, based on the relative proportion of the individual selling prices for the quality assurance of goods and services. Revenue is recognized when the points are redeemed for control of the goods or when the points expire.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

2. *Accounting treatment principle on the revenue of specific transactions (continued)*

(3) *Primary responsible/agent*

For the Group's retail model of department store counters, the Group can control the goods before transferring the goods to the customers. Therefore, the Group is the main responsible person and recognizes the revenue according to the total consideration received or receivable.

3. *Specific methods of revenue recognition*

The main revenue of the Group mainly derived from the following businesses:

- (1) retail
- (2) wholesale
- (3) brand authorization
- (4) property rental

Specific principle of recognition of revenue:

Retail: The Group sells products to customers directly in retail, and recognizes revenue when the products have been sold to customers.

Wholesale: The Group sells products to franchisees in various regions. Sales are recognized at the point when products leave the warehouse. The Group provide sales discounts to wholesalers based on sales quantity. The Group estimates discount amount using Expectancy method based on historical experience. Revenue is recognized based on the contract price, net of the estimated sales discounts.

Brand authorization: The brand authorization service business is the business that the Group provides customers with the right to use brands and charges authorization fees. Brand authorization revenue is allocated and recognized within the agreed using period of each brand.

Property rental: the Group recognize revenue in contracts agreed rental period by using straight-line method.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contract costs

1. *Contract performance costs*

The Group's costs incurred for the performance of the contract that are not within the scope of other enterprise accounting standards other than income standards and meet the following conditions at the same time are recognized as an asset as contract performance costs:

- (1) The cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), clear costs borne by the customer, and other costs incurred solely for the contract.
- (2) This cost increases the resources that the company will use to fulfill its performance obligations in the future.
- (3) The cost is expected to be recovered.

The asset is presented in inventory or other non-current assets based on whether the amortization period at the time of initial recognition exceeds a normal business cycle.

2. *Contract acquisition costs*

If the incremental cost of the Group is expected to be recovered, the contract acquisition cost is recognized as an asset. Incremental cost refers to the cost that the Group will not occur without obtaining a contract, such as sales commission. For the amortization period not exceeding one year, it is included in the current profit and loss when it occurs.

3. *Amortization of contract costs*

The Group recognizes the contract performance cost and the contract acquisition cost on the same basis as the commodity income related to the contract cost asset and amortizes it at the time when the performance obligation is performed or in accordance with the performance of the performance obligation, and is included in the current profit and loss.

4. *Impairment of contract costs*

For the above assets related to contract costs, the book value is higher than the difference between the Group's expectation that the goods related to the asset are expected to obtain the remaining consideration and the estimated cost of transferring the relevant goods, and the excess should be depreciated. And confirmed as asset impairment losses.

After the impairment provision is accrued, if the factors of impairment in the previous period change, so that the above two differences are higher than the book value of the asset, the asset impairment provision previously accrued is transferred back to the current profit and loss, but it is transferred the book value of the asset after the return does not exceed the book value of the asset on the date of reversal under the assumption that no impairment provision is made.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants

1. *Classification*

Government grants refer to monetary and non-monetary assets received from the government without compensation. According to the subsidy object stipulated in the documents of relevant government, government subsidies are divided into subsidies related to assets and subsidies related to revenue.

For government grants which do not have clear subsidy objects in the government file, the Group divides them into asset-related government subsidies or income-related government subsidies based on actual subsidies. For details of the relevant judgment basis, please refer to Note VI of this financial statement for notes on deferred income/nonoperating revenue item.

Government grants related to assets are obtained by the Group for the purposes of constructing or forming long-term assets in other ways. Government subsidies related to revenue refer to the government subsidies other than those related to assets.

2. *Recognition of government grants*

Where evidence shows that the Group complies with relevant conditions of policies for financial supports and are expected to receive funds rapidly at the end of the period, the amount receivable is recognized as the government grants. Otherwise, the government grant is recognized upon receipt.

Government grants in the form of monetary assets are stated at the amount received or receivable. Government grants in the form of non-monetary assets are measured at fair value; if fair value cannot be obtained, a nominal amount (RMB1) is used. Government grants that are measured at nominal amount shall be recognized in profit or loss for the period directly.

3. *Accounting treatment method*

According to the essence of economic business, the Group determines that a certain type of government grant business should be accounted for using the gross method. In most cases, the Group adopts one method and use it consistently on the same or similar government grants.

Government grants related to assets shall offset the carrying amount of the relevant assets or be recognized as deferred income. If the government grants related to assets are recognized as deferred income, they shall be included in the profit and loss in installments in a reasonable and systematic manner within the useful life of the assets constructed or purchased.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants (continued)

3. *Accounting treatment method (continued)*

Government grants related to income that are used for compensation for the relevant costs or losses of the Group in subsequent periods are recognized as deferred income and are included in the profit or loss in the current period or offset the relevant costs in the periods in which the relevant costs, expenses or losses are recognized; a grant that are used for compensation for the relevant costs or losses of the Group already incurred shall be directly included in the profit or loss in the current period or offset the related costs.

Government grants related to daily activities of enterprises are included in other incomes or offset relevant costs; government grants that are not related to daily activities of enterprises are included in non-operating income and expenditure.

The government grants related to the discount interest received from policy-related preferential loans offsets the relevant borrowing costs; if the policy-based preferential interest rate loan provided by the lending bank is obtained, the actual borrowing amount received is recognized as the borrowing amount, and the relevant borrowing costs should be calculated based on the loan principal and the preferential policy rate.

When a recognized government grant needs to be returned, if the book value of the relevant asset is offset at the initial recognition, the book value of the asset is adjusted. If there is balance of relevant deferred income, the carrying balance of the relevant deferred income is offset and the excess is recognized in profit and loss in the current period. If the relevant deferred income does not exit, it is directly recognized in profit and loss in the current period.

(XXXIV) Deferred tax assets and deferred tax liabilities

Income tax comprises current and deferred tax. Income tax is recognized as income or expense in profit or loss or recognized directly in shareholder's equity if it arises from goodwill adjustment due to business combination or relates to a transaction or event which is recognized directly in shareholder's equity.

The Group measures a current income tax asset or liability arising from the current and prior period based on the amount of income tax expected to be paid by the Group or returned by the tax authority calculated by related tax laws.

Deferred tax assets and deferred tax liabilities are measured and recognized based on the difference (temporary difference) between the taxable base of assets and liabilities and their book value. On balance sheet date, the deferred tax assets and deferred tax liabilities are measured at the applicable tax rate during the period, when it is expected to recover such assets or repay such liabilities.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIV) Deferred tax assets and deferred tax liabilities (continued)

1. *Criteria for recognition of deferred income tax assets*

The Group recognizes deferred income tax assets arising from deductible temporary difference to the extent it is probably that future taxable amount will be available against which the deductible temporary difference can be utilized. However, the deferred income tax assets arising from the initial recognition of assets or liabilities in transactions are not recognized with the following features: (1) the transaction is not a business combination; (2) neither the accounting profit or the taxable income or deductible losses is affected when the transaction occurs.

For deductible temporary difference in relation to investment in the associates, corresponding deferred income tax assets are recognized in the following conditions: the temporary difference is probably reversed in a foreseeable future, and it is likely that taxable income is obtained for deduction of the deductible temporary difference in the future.

2. *Criteria for recognition of deferred income tax liabilities*

The Group recognizes deferred income tax liabilities on the temporary difference between the taxable but not yet paid taxation in the current and previous periods, excluding:

- (1) temporary difference arising from the initial recognition of goodwill;
- (2) transactions or events arising from non-business combination, and neither the accounting profit or the taxable income (or deductible losses) is affected when the transaction or event occurs;
- (3) for taxable temporary difference in relation to investment in subsidiaries or associates, the time for reversal of the difference can be controlled and the difference is probably not reversed in a foreseeable future.

(XXXV) Lease

1. *Identification of lease*

On the commencement date of the contract, the Group assesses whether the contract is a lease or includes a lease, and if a party to the contract transfers the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract is a lease or includes a lease. In order to determine whether the contract has transferred the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to substantially all the economic benefits arising from the use of the identified assets during the period of use and have the right to lead the use of identified assets during this period of use.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

2. *Separate leases identification*

Where the contract contains multiple separate leases, the Group will split the contract and separate the leases for accounting treatment. The right to use the identified assets constitutes a separate lease in the contract if the following conditions are met:

- (1) The lessee may benefit from using the asset alone or in conjunction with other resources that are readily available;
- (2) The asset is not highly dependent or highly correlated with other assets in the contract.

3. *The split of the leased and non-leased parts*

If the contract contains both the leased and non-leased parts, the Group, as the lessor, shall conduct accounting treatment after splitting the leased and non-leased parts; while the Group will not divide the lease assets as the lessee, and the leased parts and related non-leased parts will be treated into leases as a whole.

4. *Assessment of lease term*

The lease term is the irrevocable period during which the Group has the right to use the lease asset. The Group has the option to renew the lease, that is, it has the right to choose to renew the lease of the asset, and if it is reasonable to determine that the option will be exercised. The lease term also includes the period covered by the option to renew the lease. The Group has the right to terminate the lease of the asset, but if it is reasonable to determine that the option will not be exercised. The lease term includes the period covered by the termination of the lease option. In the event of a major event or change within the Group's controllable range and affecting whether the Group reasonably determines that the corresponding option will be exercised, the Group reassesses whether it is reasonable to determine to exercise the option to renew the lease, purchase option or terminate the lease option.

5. *As lessee*

For the general accounting treatment of the Group as a lessee, please refer to Note IV/(XXII) and (XXVIII).

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

6. *Lease modification*

The lease modifications refer to the change of lease scope, lease consideration, and lease term outside the original contract terms, including the addition or termination of the use right of one or more lease assets. It also includes the extension or shortening of the lease term stipulated in the contract.

If the lease modifications have met the following conditions simultaneously, the Group will account for the lease modifications as a separate lease:

- (1) The lease modifications expand the scope of the lease by adding the rights of use of one or more leased assets;
- (2) The increased consideration and the individual price of the enlarged portion of the lease are equivalent to the amount adjusted for the contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability on the effective date of the lease modification by discounting the revised lease payments using a revised discount rate. When calculating the present value of the lease payment after the modification, revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

The Group distinguishes between the following cases for accounting treatment in view of the above effects of the adjustment of lease liabilities:

- (1) If the lease modifications result in a narrower lease scope or a shorter lease term, the Group reduces the book value of the right-of-use asset to reflect the partial termination or full termination of the lease. The Group recognizes the related gains or losses that partially terminate or completely terminate the leases into the current profits and losses.
- (2) Making a corresponding adjustment to the book value of right-of-use asset for all other lease modifications.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

7. *Short-term lease and low-value asset lease*

The Group recognizes the lease whose lease term is not more than 12 months, and the lease does not include the purchase option on the commencement date of the lease term as a short-term lease. The Group recognizes the lease, that with a value of not more than RMB35 thousand while the single leased asset is a new, as a low value lease. If the Group subleases or expects to sublease the leased assets, the original lease is not recognized as a low-value asset lease. The Group does not recognize the right-of-use assets and lease liabilities for short-term leases and low-value asset leases. During each period of the lease term, the related asset costs or profit or loss for the current period are included by using the straight-line method.

8. *As lessor*

On the commencement date of the lease term, all leases with risks and rewards incident to the ownership of the leased assets are substantially transferred into finance leases, and all other leases are operating leases. When the Group is an intermediate lessor, the sublease is classified with reference to the right-of-use assets arising from the head lease.

(XXXVI) Repurchase of shares

Consideration and transaction costs paid for the repurchase of the Company's own equity instruments are charged against shareholders' equity. The issuance (including refinancing), repurchase, sale or cancellation of its own equity instruments is treated as change in equity.

(XXXVII) Distribution of profits

Cash dividends in this company was recognized as liabilities after the approval of general meeting of shareholders.

(XXXVIII) Fair value measurement

The Group measures its other equity instruments, other non-current financial assets and financial assets held for trading at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the orderly transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVIII) Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstance and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs only under the circumstances where such relevant observable inputs cannot be obtained or practicably obtained.

(XXXIX) Significant accounting judgments and estimates

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 – based on inputs other than inputs within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 – based on input for the asset or liability that is not based on observable market data.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group re-assess them at each balance sheet date to determine whether transfers have occurred between levels in the hierarchy.

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the book value of the assets or liabilities affected in the future.

1. Judgments

In the process of applying the Group's accounting policies, the management has made the following judgments which have significant effect on the amounts recognized in the financial statements.

(1) Business model

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group takes into account the corporate evaluation and ways to report the performance of financial assets to key management personnel, risks affecting the performance of financial assets and their management style, and the manner in which relevant business management personnel are paid. In assessing whether the business model is based on the collection of contractual cash flows, the Group needs to analyze and judge the reasons, timing, frequency and value of the sale of financial assets before the maturity date.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

1. *Judgments (continued)*

(2) *Contractual cash flow characteristics*

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow, and to judge whether the fair value of financial assets with prepayment characteristics is insignificant.

(3) *Lease period – Lease contract with renewal options*

The lease term is the period during which the Group has the right to use the leased asset and is irrevocable. If there is an option to renew the lease and it is reasonably determined that the option will be exercised, the lease term also includes the period covered by the option to renew the lease. Some of the Group's lease contracts have the option to renew the lease. In assessing whether it is reasonable to determine whether the option to renew the lease will be exercised, the Group will consider all relevant facts and circumstances that bring economic benefits to the exercise of the option of renewal of the Group, including the facts and expected changes in the situation from the commencement date of the lease term to the date of exercise of the option. The Group is of the view that, as it is more likely that the conditions associated with the exercise of the renewal option will be fulfilled, the Group can be reasonably certain that the renewal option will be exercised. Hence, the lease term includes the period covered by the renewal option.

(4) *Deferred income tax assets*

Deferred income tax assets shall be recognized for all deductible losses unused within the limit of likely sufficient taxable income available for deduction of deductible losses. It requires the management to use massive judgements to estimate time and amount of taxable income to be obtained in the future and then to determine the value of deferred tax asset in combination with tax planning strategies.

2. *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the book value of assets and liabilities within the future accounting periods, are discussed below.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

2. *Estimation uncertainty (continued)*

(1) *Impairment of financial instruments*

The group uses the expected credit loss model to evaluate the impairment of financial instruments. The application of the expected credit loss model requires a significant judgment and estimation, and all reasonable and valid information, including forward-looking information, should be considered. In making these judgments and estimates. The group deduces the expected changes in the debtor's credit risk based on historical repayment data and combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the provision of impairment, and the provision of impairment may not be equal to the actual amount of impairment losses in the future.

(2) *Impairment of goodwill*

The Group carries out tests for impairment of goodwill on an annual basis, which entails estimation of the present value of future cash flows of the asset groups or asset portfolios to which goodwill is allocated. When estimating the present value of future cash flows, the Group needs to estimate the cash flows generated by the future asset groups or asset portfolios and select the appropriate discount rate to determine the present value of future cash flows.

(3) *The fair value of an unlisted equity investment*

The valuation of unlisted equity investments is the expected future cash flow discounted by the current discount rate of other financial instruments with similar contract terms and risk characteristics. This requires the Group to estimate the projected future cash flow, credit risk, volatility and discount rate, so the valuation of unlisted equity investments is uncertain.

(4) *Sales return*

The Group uses the sales return policy for sales customers and estimates the sales return amount based on the relevant agreements and historical experience of the sales agreement on the balance sheet date.

(5) *Provision for impairment of inventories*

The Group measures the inventories at the lower of cost and net realizable value according to the inventory accounting policy, and makes provision for inventory impairment for inventories with higher than net realizable value and obsolete and slow-moving inventory. The impairment of inventories to net realizable value is based on the assessment of the sales ability of inventories and their net realizable value. Identification of inventory impairment requires management to make judgments and estimates based on factors such as the purpose of holding inventory and the impact of events after the balance sheet date. The difference between the actual result and the original estimate will affect the book value of the inventory and the provision or reversal of the inventory impairment provision during the period in which the estimate is changed.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(6) Estimated useful lives and net residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements)

The estimate of useful lives and net residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements) is based on the historical experience of the actual useful lives and residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements) with similar nature and functions. The Group will increase the depreciation rate, directly dispose or technically update an asset where the useful life or net residual value is less than previous estimation.

(7) Lessee's incremental borrowing rate

For a lease with uncertain interest rate, the Group adopts the lessee's incremental borrowing rate as the discount rate to calculate the present value of the lease payment when determining the incremental borrowing rate, the observable interest rate is used as reference basis according to the economic environment in which it operates. Based on this, the interest rate as reference is adjusted to get applicable incremental borrowing rate, according to its own situation, the underlying asset situation, lease term, the amount of the lease liability and other specific conditions of leasing business.

(8) Long-term impairment losses

On the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of assets. The recoverable amount of assets and asset groups is determined according to the calculation of use value, which requires certain assumptions and estimates.

Management estimates are required as below to assess whether to impair the assets: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business is higher than the net amount of the fair value of the carrying amount of asset less costs of disposal and which is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and the future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Discontinued operation

The Group will satisfy one of the following conditions, and the component has been disposed of or classified as held for sale, and can be separately recognized as a component of discontinued operation:

- (1) the component represents an independent main business or a separate major business area.
- (2) This component is proposed disposal plan on an independent main business or proposed disposal in a separate major business area.
- (3) This component is a subsidiary that is specifically acquired for resale.

Gains or losses on operation and disposal such as impairment losses from discontinued operation and reversal are presented in the income statement as operating profit or loss in discontinued operation.

V TAXATION

(I) The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate	Note
Value added tax ("VAT")	Products (commodity) sales income	13%	
	Real estate lease income	9%	
	Other taxable service income	6%	
	Simplified value-added tax calculation method	3%, 1%	
City maintenance and construction tax	Levied at the turnover tax paid	7%, 5%, 1%	
Enterprise income tax	Taxable income (for domestic company)	25%	
Property tax	Calculate and pay at 70% of the original value of the real estate (or rental income).	1.2% (or 12%)	

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts were in terms of thousand RMB if not otherwise specified. The opening balances are presented on 1 January 2021, all prior period occurrences are from January to June 2020)

(I) Bank and cash

Items	Closing balance	Opening balance
Cash on hand	285	321
Bank deposits	36,563	23,998
Other monetary funds	129,753	182,158
Total	166,601	206,477
Including: total amount of funds abroad	–	2

Of which, details of restricted cash are listed as below:

Items	Closing balance	Opening balance
Bank deposits temporarily blocked or frozen due to the judicial system	129,753	182,158
Bank deposits	–	–
Total	129,753	182,158

(II) Notes receivable

Categories	Closing balance	Opening balance
Trade acceptance notes	886	–
Bank acceptance notes	–	–
Total	886	–

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Accounts receivable

1. Classified disclosure on aging

Accounts receivable with aging since invoice date are analyzed as follows:

Aging	Closing balance	Opening balance
Within 90 days	79,046	221,448
90 days to 1 year	107,873	60,324
1 to 2 years	69,647	21,136
2 to 3 years	14,834	14,098
3 years above	56,580	44,508
Sub-total	327,980	361,514
Less: provision for bad debts	110,730	90,877
Total	217,250	270,637

2. Classified on bad debt provision

Items	Closing balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable subjected to provision for expected credit losses on individual basis	71,334	22	71,334	100	–
Accounts receivable subjected to provision for expected credit losses on portfolio basis	256,646	78	39,396	15	217,250
Including: Provision for bad debts on portfolio	256,646	78	39,396	15	217,250
Total	327,980	100	110,730	33	217,250

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Accounts receivable (continued)

2. Classified on bad debt provision (continued)

Continued:

Items	Opening balance				Book value
	Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable subjected to provision for expected credit losses on individual basis	70,918	20	69,318	98	1,600
Accounts receivable subjected to provision for expected credit losses on portfolio basis	290,596	80	21,559	7	269,037
Including: Provision for bad debts on portfolio	290,596	80	21,559	7	269,037
Total	361,514	100	90,877	25	270,637

3. Accounts receivable subjected to provision for expected credit losses on individual basis

Items	Closing balance			Reason
	Book balance	Bad debt provision	Proportion (%)	
Hongche Industrial (Shanghai) Co., Ltd. ("Hongche Industrial")	4,284	4,284	100	Unable to recover
Accounts receivables from shopping malls	67,050	67,050	100	Unable to recover
total	71,334	71,334	100	–

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Accounts receivable (continued)

4. Accounts receivable subjected to provision for expected credit losses on portfolio basis

1) Bad debt provision on portfolio basis

Aging	Closing balance			Opening balance		
	Carrying amount	Provision for bad debt	Proportion (%)	Carrying amount	Provision for bad debt	Proportion (%)
Within 90 days	78,999	1,767	2	196,834	3,936	2
90 days to 1 year	107,732	5,387	5	60,324	3,016	5
1 to 2 years	45,341	13,602	30	21,136	6,341	30
2 to 3 years	14,834	8,900	60	10,091	6,055	60
3 years above	9,740	9,740	100	2,211	2,211	100
Total	256,646	39,396	15	290,596	21,559	

5. Provision, recovery or reversal of provision for bad debts during the period

Items	Opening balance	Changes				Closing balance
		Provision	Recovered or reversed	Written off	Other changes	
Accounts receivable subjected to provision for expected credit losses on individual basis	69,318	3,828	1,812			71,334
Accounts receivable subjected to provision for expected credit losses on portfolio basis	21,559	18,075	238	0		39,396
Including: Provision for bad debts on portfolio	21,559	18,075	238	0		39,396
Total	90,877	21,903	2,050			110,730

6. There is no written-off account receivable in this period.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Accounts receivable (continued)

7. Particulars of the top five of accounts receivable at the end of the period:

Name of company	Closing balance	Percentage of total accounts receivable balance (%)	Provision for bad debts
Shanghai Feiliang Information Technology Co., Ltd.	17,377	5	589
Shanghai Xiang'an Information Technology Co., Ltd.	14,342	4	1,279
Shanghai Erjing Apparel Co., Ltd.	13,732	4	275
Shenyang Xinglongdatiandi Shopping Mall Co., Ltd.	5,571	2	5,571
High Hope Int'l Group Jiangsu Champion Holdings Ltd	4,530	1	91
Total	55,552	16	7,805

(IV) Prepayment

1. Prepayment classified by aging

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	24,214	100	34,927	98
1 to 2 years	–	–	655	2
Total	24,214	100	35,582	100

2. Total amount of the top five prepayment analyzed as follows:

Name of company	Closing balance	Percentage of total prepayments (%)
Total amount of the top five prepayments	14,524	60

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Other receivables

Items	Closing balance	Opening balance
Interest receivable		–
Other receivables	93,193	125,636
Total	93,193	125,636

(I) Interest receivable

1. Classification of interest receivable

Items	Closing balance	Opening balance
Interest receivable on related party loans	6,725	5,622
Sub-total	6,725	5,622
Less: provision for bad interest	6,725	5,622
Total	–	–

2. Particulars of provision for bad debts of interest receivable

Provision for bad debt	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (no credit impairment occurred)	Stage 3 Lifetime expected credit losses (credit impairment occurred)	Total
Opening balance	–	–	5,622	5,622
Opening balance during the period that:	–	–	5,622	5,622
– transferred to stage II	–	–	–	–
– transferred to stage III	–	–	–	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	–	–	1,103	1,103
Reversal in the current period	–	–	–	–
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	6,725	6,725

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Other receivables (continued)

(II) Other receivables

1. Classified by aging

Aging	Closing balance	Opening balance
Within 1 year	172,358	227,484
1 to 2 years	66,183	31,410
2 to 3 years	9,127	12,776
3 years above	26,439	30,443
Sub-total	274,107	302,113
Less: bad debt provision	180,914	176,477
Total	93,193	125,636

2. Classified by nature

Nature	Closing balance	Opening balance
Deposits	122,263	158,968
Refund of service charges	9,778	13,778
Staff advances	1,589	1,420
Property rental fees	17,254	5,437
Fashion I	117,016	120,315
Others	6,207	2,195
Total	274,107	302,113

3. Disclosure based on the three stages of financial asset impairment

Items	Closing balance			Opening balance		
	Carrying amount	Provision for bad debt	Book value	Carrying amount	Provision for bad debt	Book value
Stage I	93,552	20,028	73,524	166,863	82,681	84,182
Stage II	29,511	9,842	19,669	62,916	21,462	41,454
Stage III	151,044	151,044	-	72,334	72,334	-
Total	274,107	180,914	93,193	302,113	176,477	125,636

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Other receivables (continued)

(II) *Other receivables (continued)*

4. *Particulars of provision for bad debts of other receivables*

Provision for bad debts	Stage I Expected credit loss in the next 12 months	Stage II Expected credit loss for the entire lifetime (no credit impairment occurred)	Stage III Expected credit loss for the entire lifetime (credit impairment occurred)	Total
Opening balance	82,681	21,462	72,334	176,477
Opening balance during the period that:	82,681	21,462	72,334	176,477
– transferred to stage II	(540)	540	–	–
– transferred to stage III	(56,264)	(12,538)	68,802	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	2,741	4,644	11,477	18,862
Reversal in the current period	8,590	4,266	1,569	14,425
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Other changes	–	–	–	–
Closing balance	20,028	9,842	151,044	180,914

5. *There is no other receivable written-off in the current period.*

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Other receivables (continued)

(II) *Other receivables (continued)*

6. *Particulars of the top five of other receivables at the end of the period*

Name of company	Nature	Closing balance	Aging	Percentage of the closing balance of other receivables (%)	Closing balance of provision for bad debts
Fashion I	Others	117,016	1 to 2 years	43	117,016
Shanghai Ice Cocoon Digital Media Co., Ltd	Others	9,778	1 to 2 years	4	2,740
Xingji Industrial (Shanghai) Co., Ltd.	Loan/Rental	2,401	1 to 2 years	1	2,401
Shanghai Kuangzun Information Co., Ltd.	Rental	2,359	Within 1 year	1	221
Beijing Kaide Jiamao Xizhimen Land Property Operation Management Co., Ltd.	Deposit	1,768	Over 3 years	1	1,768
Total		133,322		50	124,146

(VI) Inventories

1. *Classification of inventories*

Items	Closing Balance			Opening Balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	31,331	–	31,331	32,716	–	32,716
Finished goods	494,248	328,154	166,094	760,409	427,346	333,063
Goods in transit	193	–	193	116,403	51,274	65,129
Low value consumables	5,437	–	5,437	7,808	–	7,808
Total	531,209	328,154	203,055	917,336	478,620	438,716

As of June 30th, 2021, the book value of inventory is RMB386,127 thousand lower than opening balance, which was mainly due to the decrease of new product purchase to reduce inventory.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VI) Inventories (continued)

2. Provision for decline in the value of inventories

Items	Opening balance	Increase in the current period		Decrease in the current period			Closing balance
		Provision	Others	Reversal	Write off	Others	
Finished goods	427,346	93,486	–	–	192,678	–	328,154
Goods in transit	51,274	–	–	–	51,274	–	–
Total	478,620	93,486	–	–	243,952	–	328,154

The Group made impairment provision on the basis of storage age, and accrued impairment provision at lower amount of net realizable value and cost on the principle of prudence. The write off in the current period was due to the sold of inventories that had provisions.

3. Other particulars of inventory

Due to the Group's liquidity difficulties and other reasons, the inventory was liened or seized by a third party. The book value of this inventory was RMB12,214 thousand and a provision for inventory impairment of RMB8,692 thousand was made, with a net inventory of RMB3,522 thousand.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VII) Non-current asset due within a year

Items	Closing balance	Opening balance
Equity disposal receivable (Note 1)	–	25,844
Debt investment (Note 2)	7,547	7,547
Less: impairment provision for non-current assets due within one year	7,547	7,547
Total	–	25,844

Note 1: In 2019, the twenty-seventh meeting of the third session of the Board Committee and the 2018 Annual General Meeting of Shareholders have considered and approved that the Company transferred a 54.05% equity interest of Hangzhou Anshe E-Commerce Co., Ltd. ("Hangzhou Anshe") to Hangzhou Yan'er Enterprise Management Consulting Co., Ltd. ("transferee") at a consideration of RMB200,000 thousand. Transferee should pay for the equity interest transfer of RMB200,000 thousand according to the agreement: (1) To pay RMB50,000 thousand on the day or next day of signing of equity interest transfer agreement. (2) To pay RMB30,000 thousand on the day of equity transfer materials accepted by industrial and commercial change registration. (3) To pay RMB30,000 thousand each year before 31 December in 2019 to 2022, and RMB120,000 thousand in total. To guarantee that the above transfer consideration be paid successfully, the transferee guaranty 54.05% equity interest of Hangzhou Anshe and its exclusive right of trademark as collateral. As the only shareholder of transferee, Cao Qing shall bear the joint guarantee responsibility of the obligation of paying the equity transfer consideration. On 3 December 2020, both parties signed supplemental agreement agreed to adjust the remaining amount of consideration from RMB90,000 thousand to RMB81,000 thousand considering that transferee intended, and the Company agreed with early repayments. As of the date of 31 December 2020, the Company has received RMB49,980 thousand. The remaining amount of RMB15,020 thousand was recovered in January 2021 and the RMB16,000 thousand was settled by tripartite debt.

Note 2: In 2017, the Group provided a loan of RMB6,500 thousand to Shanghai Jiuwo Co., Ltd., at an interest rate of 5.22%. The loan was extended for two years after its expiration on 30 November 2018, the loan interest rate during the extended period was 5.77% and the loan's due date is 30 November 2020. As of 31 December 2020, the Group have not received principal and interest, so it made full provision for bad debts.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VIII) Other current assets

Item	Closing balance	Opening balance
Input VAT to be certified	36,635	36,656
Bank borrowings deposit	11,500	13,200
Prepaid tax presented at the deducted net amount	40,137	39,015
Borrowing to related parties (Note 1)	296,570	296,570
Entrusted loan (Note 2)	42,400	42,400
Prepaid stock repurchases	—	—
Cost of returns receivable	50	81
Less: impairment loss	338,970	338,970
Total	88,322	88,952

Note 1: As of 31 December 2020, the Group provided a total loan of RMB40,000 thousand (2019: RMB39,500 thousand) to Hongche Industrial, at an interest rate of 6%. Due to the overall poor operation of the enterprise situation and the capital difficulties in cash flow turnover. The management of the Group is of the view that the receivables can barely be recovered, so made full provision for the impairment.

In 2019, Jack Walk (Shanghai) Garments Co., Ltd ("Jack Walk") begins liquidating process, the company has transferred book value of RMB256,570 thousand under Jack Walk from other receivables to other current assets and accrued full amount of provision for impairment in 2020.

Note 2: As of 31 December 2020, the Group provided a total loan of RMB37,400 thousand (2019: RMB37,400 thousand) to Xingji Industrial (Shanghai) Co., Ltd. ("Xiangji"), at an interest rate of 5.22% to 5.66%. Because Xingji was no longer in the scope of consolidation, fully accrued provision has been made. The borrowing provided by the Group to Chengdu BeCool Technology Co., Ltd. amounted to RMB5,000 thousand in total at an interest rate of 6.00%.

(IX) Long-term receivables

Item	Closing balance			Opening balance		
	Carrying amount before provision	Impairment provision	Carrying amount	Carrying amount before provision	Impairment provision	Carrying amount
Deposit	4,565	118	4,447	4,565	118	4,447
Total	4,565	118	4,447	4,565	118	4,447

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(X) Long-term equity investment

Investee company	Increase/decrease during the year										Closing balance	Balance of provision for impairment
	Opening balance	Provision for impairment	Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equities	Cash dividends declared	Provision for impairment			
1. Associates												
Tibet Baovin Equity Investment Partnership Enterprise (limited partnership) ("Tibet Baovin")	156,949	-	-	-	(4,284)	-	-	-	-	152,665	-	
Hongche Industrial (Shanghai) Co., Ltd. ("Hongche Industrial")	39,250	39,250	-	-	-	-	-	-	-	39,250	39,250	
Beijing Aoni Trading Co., Ltd. ("Beijing Aoni")	20,757	-	-	-	(315)	-	-	-	-	20,442	-	
Zhejiang Yuannui Information Science and Technology Co., Ltd. ("Zhejiang Yuannui")	-	-	-	-	-	-	-	-	-	-	-	
Fuzhou Badi Apparel Co., Ltd. ("Fuzhou Badi")	3,119	-	-	3,119	-	-	-	-	-	-	-	
Total	220,075	39,250	-	3,119	(4,599)	-	-	-	-	212,357	39,250	

Note 1: As of March 3rd, 2021, the Group transferred its equity in Fuzhou Badi at a consideration of RMB300.82 thousand to a natural person named Zhuang Meng.

(XI) Other equity instrument investment

1. Other equity instrument investment

Item	Closing balance	Opening balance
Beijing Mingtongsiji Technology Co., Ltd. ("Beijing Mingtong")	4,313	4,313
Shanghai O2bra Co., Ltd. ("Shanghai O2bra")	428	428
Total	4,741	4,741

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XI) Other equity instrument investment (continued)

2. Particulars of equity instrument investment not for trading

Items	Reasons for designated as measured at fair value through other comprehensive income	Dividend income recognized in the current period	Accumulated gains	Accumulated losses	Amount of other comprehensive income recognized in retained earnings	Reasons for other comprehensive income recognized in retained earnings
Beijing Mingtong	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	-	-	-	-	-
Shanghai O2bra	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	-	-	-	-	-
Total		-	-	-	-	-

3. Other particulars of non-trading equity instrument investments

- (1) In 2017, the Group acquired 1,075 thousand shares, or 3.75% equity interests in Beijing Mingtong Siji Technology Co., Ltd. (北京明通四季科技股份有限公司) through National Equities Exchange and Quotations with a consideration of RMB15,000 thousand. In 2019, the Group completed the equity change in the equity investment in Beijing Mingtong Siji Technology Co., Ltd. due to the increase of other equity instrument investment of RMB15,002 thousand this year, and the shareholding ratio changed to 7.07%. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. Therefore, the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As of 31 December 2020, the fair value of the equity instrument was RMB4,313 thousand.
- (2) In July 2017, Shanghai Yanghe Culture Communication Co., Ltd. ("Yanghe Culture") entered into an acquisition agreement with the Group whereby it transferred its 9.07% equity interest in O2bra Co. Ltd. to the Group at the consideration of RMB13,605 thousand. In March 2018, Shanghai O2bra Co. Ltd. completed the aforementioned transaction. The Group chose to designate the equity investment as financial assets at fair value through other comprehensive income, which are presented in other equity instrument investments. As of 31 December 2020, the fair value of the equity instrument was RMB428 thousand.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XII) Other non-current financial assets

Item	Closing balance	Opening balance	Note
Financial assets at fair value through profit or loss	94,050	94,050	
Including: Ningbo Langsheng Qianhui Investment Partnership (limited partnership)	27,031	27,031	(1)
Nantong Xunming Fund Partnership (limited partnership)	58,319	58,319	(2)
Hangzhou Smart Investment Equity Investment Partnership (limited partnership)	8,700	8,700	(3)

- (1) The Group entered into a written agreement which was Agreement About Ningbo Lansheng Qianhui Investment Partnership (Limited Partnership) with related parties in November 2017. The agreement stipulates that the subscribed capital contribution is RMB26,000 thousand, accounting for 5.2% of the total subscribed capital contribution, the Group paid a total of RMB18,200 thousand in installments in 2017. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.
- (2) The Group entered into a written agreement which was Agreement About Nantong Xunming Fund Partnership (Limited Partnership) with related parties in August 2018. The agreement stipulates that the subscribed capital contribution is RMB100,000, thousand accounting for 33% of the total subscribed capital contribution, the Group paid a total of RMB65,000 thousand in installments in 2019. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.
- (3) The Group entered into a written agreement which was Agreement About Hangzhou Smart Investment Equity Investment Partnership (Limited Partnership) with related parties in May 2018 and renewed the agreement in November 2017. The agreement stipulates that the subscribed capital contribution is RMB10,000 thousand, accounting for 19.57% of the total subscribed capital contribution, the Group paid a total of RMB10,000 thousand in installments in June 2017. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Fixed asset

Item	Closing balance	Opening balance
Fixed asset	1,570,263	1,624,902
Disposal of fixed asset	–	–
Total	1,570,263	1,624,902

Note: fixed asset above is the fixed asset less disposal.

1. Particulars of fixed asset

Item	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
I. Original cost					
1. Opening balance	1,783,291	60,660	2,219	92,433	1,938,603
2. Increases in the current year	4,675	–	–	665	5,340
(1) Purchase	4,675	–	–	665	5,340
3. Decreases in the current year	–	–	176	13,547	13,723
(1) Disposal or retirement	–	–	176	13,547	13,723
4. Closing balance	1,787,966	60,660	2,043	79,551	1,930,220
II. Accumulated depreciation					
1. Opening balance	201,766	34,063	1,297	76,575	313,701
2. Increases in the current year	46,595	4,335	349	7,633	58,912
(1) Accrual	46,595	4,335	349	7,633	58,912
3. Decreases in the current period	–	–	162	12,494	12,656
(1) Disposal or retirement	–	–	162	12,494	12,656
4. Closing balance	248,361	38,398	1,484	71,714	359,957
III. Impairment provision					
1. Opening balance	–	–	–	–	–
2. Increases in the current period	–	–	–	–	–
3. Decreases in the current period	–	–	–	–	–
4. Closing balance	–	–	–	–	–
IV. Carrying amount					
1. Closing balance	1,539,605	22,262	559	7,837	1,570,263
2. Opening balance	1,581,525	26,597	922	15,858	1,624,902

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Fixed asset (continued)

2. Fixed asset leased out by finance

Item	Closing carrying amount
Wujing headquarter	888,152
Total	888,152

3. Fixed asset with pending certificates of ownership

Item	Carrying amount	Reasoned for not completing the property certificate
Chengdu Logistic Center	96,868	The real estate certificate is being processed
Total	96,868	

4. Other particulars of fixed asset

As of 30 June 2021, the Group's real property located at No.58, Tanzhu road, Minhang district, Shanghai, is pledged as collateral for short-term borrowings of RMB680,180 thousand from Bank of Communications (Note VI (XXI)), in December 2020, the short-term borrowings has been transferred to China Huarong Asset Management Co., Ltd. Shanghai Pilot Free Trade Zone Branch. The real property ownership certificate number is Hu (2020) Min real property right No.023353. And as of 30 June 2021, the carrying amount of this real property was RMB1,025,840 thousand, which includes property and plants of RMB970,138 thousand and land use right of RMB55,702 thousand. The above-mentioned assets were seized by No. 1 Intermediate People's Court of Shanghai Municipality on 16 July 2020 due to litigation.

As of 30 June 2021, the Group's real property located at No.116, Guangzhou East road, Taicang, is pledged as collateral for short-term borrowings of RMB550,000 thousand from Bank of Urumqi, details are stated in Note VI (XXI), the real property ownership certificate numbers are Su (2019) Taicang real property right No. 0006322 and Su (2018) Taicang real property right No. 0029259. And as of 30 June 2021, the carrying amount of this real property is RMB382,493 thousand, which includes property and plants of RMB347,161 thousand and land use right of RMB35,332 thousand. The above-mentioned assets were seized by Shanghai Xuhui People's Court on 20 September 2020 due to litigation.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Fixed asset (continued)

4. Other particulars of fixed asset (continued)

As of 30 June 2021, the Group's real property located at No.24, Xinghua 4th road, Daxing town, Xiqing district, Tianjin, is pledged as collateral for short-term borrowings of RMB195,500 thousand from Everbright Bank, details are stated in Note VI (XXI), the real property ownership certificate number is Jin (2018) Xiqing district real property right No. 1016982. And as of 30 June 2021, the carrying amount of this real property is RMB164,698 thousand, which includes property and plants of RMB128,176 thousand, land use right of RMB36,522 thousand and construction in progress of RMB68,240 thousand. The above-mentioned assets were seized by Shanghai Xuhui People's Court on 23 December 2020 due to litigation.

As of 30 June 2021, the Group's right use land located at second and third group of Guangming Community, Jinma Town, Wenjiang District, Chengdu (Wen State Owned (2015) No.66859) is pledged as collateral for short-term borrowings of RMB83,000 thousand, details are stated in Note VI(XXI). As of the 30 June 2021, the carrying amount of this land and the plants and buildings above was RMB112,202 thousand, which includes property and plants of RMB94,130 thousand and land use right of RMB18,072 thousand.

As of 30 June 2021, the Group's fixed assets that the right-of-use or ownership has been restricted are stated in VI/ (LV).

(XIV) Construction in progress

Item	Closing balance	Opening balance
Construction in progress	70,308	69,054
Total	70,308	69,054

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Construction in progress (continued)

1. Particulars of construction in progress

Project	Closing balance			Opening balance		
	Carrying amount before provision	Provision for impairment	Carrying amount	Carrying amount before provision	Provision for impairment	Carrying amount
Tianjin logistics center	69,324	–	69,324	68,537	–	68,537
Others	984	–	984	517	–	517
Total	70,308	–	70,308	69,054	–	69,054

2. Movement in significant construction in progress

Project	Forecast	Opening balance	Increase in the current year	Transferred into fixed assets	Other decreases in the current period	Closing balance
Tianjin logistics center	296,286	68,537	787	–	–	69,324
Others	–	517	467	–	–	984
Total		69,054	1,254	–	–	70,308

Continued:

Project	Completion percentage (%)	Accumulative capitalization of borrowings	Including: interest of capitalized borrowing costs	interest rate of capitalized borrowing costs (%)	Sources of funds
Tianjin logistics center	70	853	–	–	Borrowing and working capital
Others	–	–	–	–	Working capital
Total		853	–	–	

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XV) Right-of-use assets

1. Particulars of right-of-use assets

Items	Properties and plants
I Original cost	
1. Opening balance	112,656
2. Increases	9,258
3. Decreases	92,273
Disposal	92,273
Disposal of subsidiaries	–
4. Closing balance	29,641
II Accumulated depreciation	
1. Opening balance	44,364
2. Increases	–
Accrual	17,359
3. decreases	50,168
Disposal	50,168
4. Closing balance	11,555
III Provision for impairment	
1. Opening balance	20,446
2. Increases	–
Accrual	–
3. Decreases	20,446
Disposal	20,446
4. Closing balance	–
IV Carrying amount	
1. Closing balance	18,086
2. Opening balance	47,846

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVI) Intangible assets

1. Particulars of intangible assets

Items	Trademarks	Purchased software	Land use right	Total
I. Original cost				
1. Opening balance	4,164	96,481	167,308	267,953
2. Increases	—	—	—	—
3. Decreases	—	—	—	—
4. Closing balance	4,164	96,481	167,308	267,953
II. Accumulated amortization				
1. Opening balance	2,707	78,397	19,993	101,097
2. Increases	116	4,168	1,687	5,971
(1) Accrual	116	4,168	1,687	5,971
3. Decreases	—	—	—	—
(1) Disposal of subsidiaries	—	—	—	—
4. Closing balance	2,823	82,565	21,680	107,068
III. Provision for impairment				
1. Opening balance	—	—	—	—
2. Increases	—	—	—	—
3. Decreases	—	—	—	—
4. Closing balance	—	—	—	—
IV. Carrying amount				
1. Closing balance	1,341	13,916	145,628	160,885
2. Opening balance	1,457	18,084	147,315	166,856

As of 30 June 2021, the Group has no intangible asset with uncompleted property certificate.

As of 30 June 2021, the Group's intangible assets that the ownership or right-of-use has been restricted are stated in Note VI (LV).

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVII) Goodwill

1. Original cost of goodwill

Name of investee or item resulting in goodwill	Opening balance	Increases		Decreases		Closing balance
		Formed from business combination	Others	Disposal	Others	
Acquire Hangzhou Anshe E-Commerce	78,231	–	–	–	–	78,231
Total	78,231	–	–	–	–	78,231

2. Relevant information about the asset group or portfolio of the asset group goodwill belongs

As of 30 June 2021, the goodwill balance is located in the asset of the original La Chapelle Group.

(XVIII) Long-term prepaid expenses

Items	Opening balance	Additions	Amortization	Other decreases	Closing balance
Leasehold improvement	22,984	223	16,223	2,330	4,654
Others	–	34	–	–	34
Total	22,984	257	16,223	2,330	4,688

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIX) Deferred tax assets and deferred tax liabilities

1. Deferred tax assets before offsetting

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Difference between tax and accounting	-	-	69,228	17,307
Disposal difference of Hanzhou Anshe	-	-	-	-
Intra-group unrealized profit	-	-	-	-
Tax losses carried forward	-	-	-	-
Provision for inventories impairments	-	-	-	-
Provision for bad debts	-	-	12,996	3,249
Differences in amortization of long-term prepaid expense between tax and accounting	-	-	-	-
Employee benefits payable	-	-	-	-
Integral income contract liability	-	-	-	-
Total	-	-	82,224	20,556

2. Deferred tax liabilities before offsetting

Items	Closing balance		Opening balance	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Asset gains from business combinations involving entities not under common control	-	-	-	-
Right-of-use assets	18,088	4,522	47,844	11,961
Capitalized borrowing costs	-	-	82,224	20,556
Differences between long-term equity investment tax laws and accounting	-	-	-	-
Fair value changes on financial instruments	7,800	1,950	7,800	1,950
Other	6,940	1,735	-	-
Total	32,828	8,207	137,868	34,467

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIX) Deferred tax assets and deferred tax liabilities (continued)

3. Deferred tax assets and liabilities presented as net balance after offsetting

Items	Closing balance		Opening balance	
	Offsetting amount	Net amount	Offsetting amount	Net amount
Deferred tax assets	–	–	(20,556)	–
Deferred tax liabilities		8,207	20,556	13,911

4. Details of deductible temporary differences of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Deductible temporary differences	1,330,705	1,677,021
Deductible losses	2,933,180	3,154,920
Total	4,263,885	4,831,941

5. Tax losses carried forward not recognized as deferred tax assets will expire in the following year

Year	Closing balance	Opening balance
2021	8,463	29,477
2022	33,076	144,892
2023	264,087	274,149
2024	1,385,475	1,415,368
2025	1,075,290	1,106,948
2026	166,789	–
Total	2,933,180	2,970,834

(XX) Other non-current asset

Items	Closing balance	Opening balance
Advances to suppliers for props	5,570	5,570
Less: provision for bad debts	5,570	5,570
Total	–	–

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Short-term borrowings

1. Classification of short-term borrowings

Items	Closing balance	Opening balance
Secured borrowing	54,000	54,000
Mortgages and guaranteed loans	556,900	563,400
Mortgage, pledge and guarantee loan	550,000	550,000
Total	1,160,900	1,167,400

The secured borrowing of RMB54,000 thousand was a short-term borrowing from Bank of Communications Co., Ltd. Shanghai Zhabei Branch. The guarantors are Xing Jiaying, Shanghai Weile, Chengdu Lewei, Tianjin LaCha and Taicang LaCha respectively.

Mortgages and guaranteed loan were RMB556,900 thousand, RMB87,000 thousand of which was short-term borrowing from China CITIC Bank Co., Ltd. Taifu Plaza Sub-branch borrowed by the parent company, which was guaranteed by Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd., La Chapelle Fashion (Tianjin) Co., Ltd. and La Chapelle Fashion (Taicang) Co., Ltd. and Xing Jiaying. The collateral was the land under the name of Chengdu Lewei Fashion Co., Ltd., located in the second and third groups of Guangming Community, Jinma Town, Wenjiang District, Chengdu (the land use certificate number is Wen State-owned (2015) No. 66859) and the above-ground logistics base. RMB198,000 thousands of mortgages and guaranteed loan was short-term borrowing from China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch, which was guaranteed by Xing Jiaying, Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd., and the collateral was the land use right and real property ownership (Jin(2018) Xiqing District Real Property No. 1016982) under the name of La Chapelle Fashion (Tianjin) Co., Ltd., located at No. 24, Xinghua 4th Road, Dasi Town, Xiqing District, Tianjin. RMB278,400 thousands of mortgages and guaranteed loan was short-term borrowing from Bank of Communications Co., Ltd. Shanghai Zhabei and Jing'an Bub-branch, which was guaranteed by Xing Jiaying, Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd. La Chapelle Fashion (Tianjin) Co., Ltd. and La Chapelle Fashion (Taicang) Co., Ltd., and the collateral is real property ownership (Min(2020) Minzi Real Property No. 023353-No. 58, Tanzhu Road) under the name of Shanghai Weile Fashion Co., Ltd..

Mortgage, pledge and guarantee loan of RMB550,000 thousand was an entrusted loan from Urumqi Bank Co., Ltd. Urumqi Siping Road Keji Branch borrowed by Xinjiang Tongrong, the principle was Urumuqi High-tech Investment Development Group, and was guaranteed by Xing Jiaying, and the collaterals are real property ownership under the name of La Chapelle Fashion (Taicang) Co., Ltd. and 100% owned by Taicang Jiashang Storage Co., Ltd. The numbers of real property certificate are Su (2019) Taicang Real Estate Property No. 0006322 and Su (2018) Taicang Real Estate Property No. 0029259. And the pledge is the Company's 100% equity interest in Taicang Jiashang Storage Co., Ltd.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Short-term borrowings (continued)

1. Classification of short-term borrowings (continued)

The total amount of short-term borrowing between the Company and Shanghai Zhabei Sub-branch and Jing'an Sub-branch of Bank of Communications Co., Ltd. was RMB332,400 thousand (including mortgages and guaranteed loans of RMB278,400 thousand and secured borrowing of RMB54,000 thousand), all of which have been transferred to China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office by Shanghai Subbranch of Bank of Communications Co., Ltd.

As of June 30, 2021, the annual interest rate range of the above borrowings is 4.55% to 7.00% (December 31, 2020: 4.55% to 7.00%).

2. Due short-term borrowings outstanding at the end of the period

The due short-term borrowings outstanding at the end of the current period was RMB957,500 thousand the important of which are presented below:

Borrowing company	Closing balance	Borrowing interest rate (%)	Due time	Overdue interest rate (%)
China Everbright Bank Company Limited Co., Ltd Caohejing sub-Branch	87,000	5.22	April 30, 2021	6.79
China Everbright Bank Company Limited Co., Ltd Caohejing sub-Branch	108,500	5.22	June 24, 2021	6.79
China Huarong Asset Management Co., Ltd Shanghai Pilot Free Trade Zone Branch	75,000	7	November 27, 2020	10.5
China Huarong Asset Management Co., Ltd Shanghai Pilot Free Trade Zone Branch	54,000	7	November 20, 2020	10.5
CHINA CITIC BANK CORPORATION LIMITED Taifu sub-Branch	15,000	4.55	April 15, 2021	6.83
CHINA CITIC BANK CORPORATION LIMITED Taifu sub-Branch	4,000	4.55	February 25, 2021	6.83
CHINA CITIC BANK CORPORATION LIMITED Taifu sub-Branch	35,500	4.55	April 22, 2021	6.83
CHINA CITIC BANK CORPORATION LIMITED Taifu sub-Branch	28,500	4.55	April 28, 2021	6.83
Urumqi Siping Road Science and Technology Sub- Branch of Bank of Urumqi Co., Ltd.	550,000	6.8	November 26, 2020	6.8
Total	957,500			

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Short-term borrowings (continued)

3. Descriptions of short-term borrowings

Short-term borrowings of the Group from Bank of Communications Shanghai Zhabei Jing'an Branch amounted to RMB332,400 thousand and was expired in 2020. The Group renewed the loan contracts of RMB203,400 thousand to 2021 after negotiating with Bank of Communications, the original interest rate is 4.9% and the loan interest rate during the extended period changed to 7% from September 2020; a loan of RMB129,000 thousand was expired and the overdue interest rate was 10.5%. In December 2020, this short-term borrowing with a total amount of RMB332,400 has been transferred to China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office by Shanghai Subbranch of Bank of Communications Co., Ltd.

Short-term borrowings of the Group from China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch was RMB198,000 thousand and was expired in 2020, after negotiation with China Everbright Bank, the contract extended to 2021, the original interest rate was 5.655%, and the interest rate during the extended period was 5.22%.

Short-term borrowings of the Group from CITIC Bank Co., Ltd. Taifu Square Sub-branch was RMB8,700 thousand and was expired in 2020, after negotiation with CITIC Bank, the contract extended to 2021, the original interest rate was 5%, and the interest rate during the extended period was 4.55%

(XXII) Accounts payable

Items	Closing balance	Opening balance
Payable for purchase	940,603	1,134,586
Total	940,603	1,134,586

1. Major accounts payable aged over one year

Name of company	Closing balance	Reason
Nantong Minglong Fashion Co., Ltd.	79,394	Difficulties in capital turnover
Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	38,337	Difficulties in capital turnover
Dongguan Xingjian Clothing Co., Ltd	34,143	Difficulties in capital turnover
Huangshan Dongming Clothing Co., Ltd	34,033	Difficulties in capital turnover
Hunan Suoyat Clothing Co., Ltd.	27,095	Difficulties in capital turnover
Guangzhou Chuangxing Garment Group Co., Ltd.	24,151	Difficulties in capital turnover
Shanghai Hongwei Apparel Factory.	22,359	Difficulties in capital turnover
Jiaxing Chengxin Garment Co., Ltd.	19,261	Difficulties in capital turnover
Dongguan Zhenghong Zhizao Co., Ltd.	18,242	Difficulties in capital turnover
Shanghai Yafeng Fuzhuangfushi Co., Ltd.	18,165	Difficulties in capital turnover
Other summaries of amount more than 10 million	207,765	Difficulties in capital turnover
Total	522,945	

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIII) Advance from customers

1. Particulars of advance from customers

Items	Closing balance	Opening balance
Rent in advance	1,805	1,428
Payment of goods in advance	–	–
Total	1,805	1,428

(XXIV) Contract liabilities

1. Particulars of contract liabilities

Items	Closing balance	Opening balance
Advance from customers	10,072	7,330
Total	10,072	7,330

2. Significant changes to the book value of contract liabilities during the period

Items	Amount change	Reason
Licensing obligation	5,068	Increase due to expansion of licensing
Franchising obligation	(2,326)	Decrease due to franchising cutoff
Total	2,742	

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXV) Payroll payable

1. Particulars of payroll payables

Items	Opening balance	Increase during the period	Disposal of subsidiaries	Decrease during the period	Closing balance
Short-term compensation	43,948	70,002	–	93,802	20,148
Retirement benefits – defined contribution plans	3,071	3,700	–	6,729	42
Termination benefits	18,617	5,842	–	6,061	18,398
Total	65,636	79,544	–	106,592	38,588

2. Particulars of short-term compensation

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Wages or salaries, bonuses, allowances and subsidies	38,761	65,485	87,944	16,302
Staff welfare	38	14	14	38
Social insurance	2,428	2,893	3,810	1,511
Including: Medical insurance	2,117	2,671	3,480	1,308
Others	311	222	330	203
Housing fund	2,412	1,610	1,953	2,069
Labor union and staff education fund	309	–	81	228
Total	43,948	70,002	93,802	20,148

3. Particulars of defined contribution plan

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance premium	3,011	3,560	6,557	14
Unemployment Insurance premium	60	140	172	28
Total	3,071	3,700	6,729	42

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVI) Taxes Payable

Item of taxes	Closing balance	Opening balance
Unpaid VAT	96,279	64,985
Corporate income tax payable	67,676	67,867
Individual income tax	388	519
City maintenance and construction tax payable	14,452	12,722
Educational surcharge payable	11,272	9,220
Others	9,986	8,601
Total	200,053	163,914

(XXVII) Other payables

Items	Closing balance	Opening balance
Interests payable	135,822	58,830
Other payables	650,130	795,725
Total	785,952	854,555

The other payables above refer to the other payables excluding interests payable and dividend payable.

1. Interest payable

Items	Closing balance	Opening balance
Interest of long-term borrowings with installment of interest and repayment of principal upon maturity	29,433	11,961
Interest payable of short-term borrowings	83,688	46,869
Interest payable of adjudicated litigation cases	22,701	–
Total	135,822	58,830

Particulars of significant interest expired but unpaid:

Names of borrowing company	Overdue amount	Reason
China Huarong Asset Management Co., Ltd Shanghai Pilot Free Trade Zone Branch	41,012	Difficulties in capital turnover
CHINA CITIC BANK CORPORATION LIMITED	1,440	Difficulties in capital turnover
Bank of Urumqi Co., Ltd. Siping Road Keji Sub-branch	54,796	Difficulties in capital turnover
China Everbright Bank Company Limited Co., Ltd	3,188	Difficulties in capital turnover
Total	100,436	Difficulties in capital turnover

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVII) Other payables (continued)

2. Other payables

(1) Other receivables presented by nature

Nature	Closing balance	Opening balance
Payables for construction and decoration of department stores	380,455	401,142
Suppliers' deposits	66,594	75,600
Vendors' deposit	40,738	75,744
Outsourcing staff service fee	5,780	9,346
Payables for logistic expense	8,480	15,271
Trustee fees	5,335	26,697
Payable for posts props and store promotion	3,403	336
Payables for rental fees	109,216	149,572
Litigation compensation	1,179	686
Loan from the 3rd party	5,489	6,053
Payable for e-commercial consulting fees	6,198	6,574
Payables for software purchase	2,454	3,265
Audit fees	–	2,018
Estimated costs	–	1,336
Other	–	3,152
Total	14,809	18,933
	650,133	795,725

(2) The aging of other significant payables over 1 year

Name of company	Closing balance	Reasons for not-payment or carryover
Taichang Ainengji Electric Power Engineering Co., Ltd.	30,561	Difficulties in capital turnover
Jinan Borunda Decoration Co., Ltd.	19,029	Difficulties in capital turnover
Yangzhou Rongkang Building Decoration Engineering Co., Ltd	16,403	Difficulties in capital turnover
Shanghai Rongkang Exhibition Production Co., Ltd	15,760	Difficulties in capital turnover
Wuhan Fuxinhua Decoration Co., Ltd	12,484	Difficulties in capital turnover
Total	94,237	

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVIII) Non-current liabilities due within 1 year

Items	Closing balance	Opening balance
Long-term borrowing due within one year	347,777	347,777
Lease liabilities due within one year	5,933	20,893
Total	353,710	368,670

(XXIX) Long-term borrowings

Category	Closing balance	Opening balance
Secured borrowing	347,777	347,777
Less: current portion of long-term borrowing	347,777	347,777
Total	—	—

(XXX) Lease liabilities

Items	Closing balance	Opening balance
Lease liabilities	21,254	57,156
Less: lease liabilities due within one year	5,933	20,893
Total	15,321	36,263

(XXXI) Estimated liability

Item	Closing balance	Opening balance	Reason
Estimated return	115	24	Goods return
Pending litigation	292	4,955	Litigation
HTI	372,595	345,606	Loan
Total	373,002	350,585	

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXII) Other non-current liabilities

Items	Opening balance	Addition in the current period	Decrease in the current period	Closing balance	Reason of formation
Asset-related government grants	5,916	–	666	5,250	Detailed in Form 1
Others	2,234	–	881	1,353	Detailed in Form 2
Total	8,150	–	1,547	6,603	

1. Liabilities related to government grants

Items	Opening balance	Amount of subsidy increased	Recognized in other profit or loss in the current period	Other changes	Closing balance	Asset/revenue related
Subsidy of Tianjin logistic program	5,400	–	150	–	5,250	Asset related
Subsidy of Taicang logistic program	516	–	516	–	–	Asset related
Total	5,916	–	666	–	5,250	

2. Other liability items

Items	Opening balance	Amount of subsidy increased	Amount of offsetting costs in the current period	Other changes	Closing balance	Asset/revenue related
Decoration subsidy	2,234	–	881	–	1,353	Income related
Total	2,234	–	881	–	1,353	

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIII) Share capital

Item	Opening balance	Movement in the current period					Closing balance
		Issuance of new shares	Bonus share	Transfer from reserve	Others	Sub-total	
Total share capital	547,672	–	–	–	–	–	547,672

Item	Closing balance	Opening balance
RMB-denominated ordinary shares (A share)	332,882	332,882
Overseas-listed shares (H share)	214,790	214,790
Total	547,672	547,672

(XXXIV) Capital surplus

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share premium	1,864,243	–	–	1,864,243
Other capital surplus(a)	46,563	–	–	46,563
Total	1,910,806	–	–	1,910,806

1. Other capital surplus

(1) Contribution from Shanghai Hexia by awarding its equity instruments to the employees

Shanghai Hexia Investment Co., Ltd. ("Shanghai Hexia"), a company which holds certain equity interests in the Company, operates a series of share-based compensation plans in exchange for employee services to the Group. Details of the share-based compensation plans are summarized as follows:

On 30 December 2009, Shanghai Hexia was established in the PRC by Mr. Xing Jiaying and certain selected employees (the "1st Batch Employees"). The registered capital of Shanghai Hexia at that time was RMB500 thousand, which was paid up by Mr. Xing Jiaying and the 1st Batch Employees at the ratio of 32.79% and 67.21%.

On 2 April 2010, Shanghai Hexia acquired 8.25% and 7% of the equity interests in the Company from two individuals and two financial investors, respectively. The cash considerations for these acquisitions were paid by Mr. Xing Jiaying as a unilateral contribution to the existing shareholders of Shanghai Hexia. The proportion attributable to the 1st Batch Employees was considered as management incentive.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIV) Capital surplus (continued)

1. Other capital surplus (continued)

(1) Contribution from Shanghai Hexia by awarding its equity instruments to the employees (continued)

On 19 October 2010, Good Factor Limited ("Good Factor"), a financial investor transferred 5% and 3% of its equity interests in the Company to Mr. Xing Jiaying and Shanghai Hexia, respectively, at nil consideration for the purpose of rewarding the chief executive and the 1st Batch Employees for their contributions to the Group based on the valuation adjustment items defined in the capital increment agreements signed by Good Factor, the Company and the shareholders.

On 22 April 2011, Mr. Xing Jiaying further transferred 15.49% of his existing equity interests in Shanghai Hexia to several employees (the "2nd Batch Employees") of the Group at nil consideration as management incentive.

On 24 March 2016, Mr. Xing Jiaying transferred 5.75% of his exiting equity interests in Shanghai Hexia to several employees (the "3rd Batch Employees") of the Group at a consideration equivalent to certain discount to the H Shares price at that time as management incentive.

On 31 March 2017, Mr. Xing Jiaying transferred 7.08% of his exiting equity interests in Shanghai Hexia to several employees (the "4th Batch Employees") of the Group at a consideration equivalent to certain discount to the H Shares price at that time as management incentive.

The percentage of equity interest in the Company indirectly held by through Shanghai Hexia as follows:

Items	Closing balance	Opening balance
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	–	6.21%

(2) Rights conferred to each of the employees who held equity interests in Shanghai Hexia

Rights conferred to each of the employees who held equity interests in Shanghai Hexia included: right of entitlement to dividends; right to vote and participate in the general meeting; right to appoint and replace members of board of directors; right to inspect the records relating to financing and investment decisions and arrangements of Shanghai Hexia.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIV) Capital surplus (continued)

1. Other capital surplus (continued)

(3) Fair value estimation of share-based compensation plans

The discounted cash flow method under the income approach has been applied in the determination of the fair value of the equity interests in the Company. The discounted cash flow derived by management considered the Group's future business plan, specific business and financial risks, the stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market.

The fair value as of the grant dates of each of the share-based compensation plans are summarized as follows:

Items	Fair Value
Granted to the 1st Batch Employees by Mr. Xing Jiaying on 2 April 2010	24,226
Granted to Mr. Xing Jiaying by Good Factor on 19 October 2010	9,354
Granted to the 1st Batch Employees by Good Factor on 19 October 2010	7,526
Granted to the 2nd Batch Employees by Mr. Xing Jiaying on 22 April 2011	40,754
Granted to the 3rd Batch Employees by Mr. Xing Jiaying on 24 March 2016	3,889
Granted to the 4th Batch Employees by Mr. Xing Jiaying on 31 March 2017	2,229

(4) Accounting treatment of the share-based compensation plans

The employee may choose the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service year. Accordingly, the share-based compensation plans were accounted for as compound financial instruments in the financial statements of Shanghai Hexia. As the Company received the benefits associated with the services of these employees, the share-based compensation charges were pushed down to the Company during the vesting year and recorded as an expense in the consolidated income statements, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Company.

(XXXV) Treasury share

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Treasury share	20,010			20,010
Total	20,010			20,010

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXVI) Other comprehensive income

Items	Opening balance	Changes in the current period					Closing balance
		The pre-tax amount in the current period	Less: transferred to profit or loss from which was recognized in OCI in the previous period	Less: transferred to retained earnings from which was recognized in OCI in the previous period	Less: income tax expense	Attributable to shareholders of the Company, net of tax	
I. Other comprehensive losses that cannot be reclassified into profit and loss	(38,866)	-	-	-	-	-	(38,866)
1. Fair value change gains of other equity instrument investments	(38,866)	-	-	-	-	-	(38,866)
II. Other comprehensive income reclassified to profit or loss	-	-	-	-	-	-	-
1. Exchange realignment	-	-	-	-	-	-	-
Total	(38,866)	-	-	-	-	-	(38,866)

(XXXVII) Surplus reserve

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Statutory surplus reserve	246,788	-	-	246,788
Total	246,788	-	-	246,788

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXVIII) Undistributed profit

Items	Closing balance	Opening balance
Undistributed profits at the beginning of year (before adjustments)	(3,254,246)	(1,414,703)
Changes of accounting policies	–	–
Undistributed profits at the beginning of year (after adjustments)	(3,254,246)	(1,414,703)
Add: Net profit attributable to shareholders of the Company	(236,947)	(1,839,543)
Less: appropriation to statutory surplus reserve	–	–
Add: Losses recovery from surplus reserve	–	–
Undistributed profits at the end of the period	(3,491,193)	(3,254,246)

(XXXIX) Revenue and cost of sales

1. Revenue and cost of sale

Items	30 June 2021		30 June 2020	
	Revenue	Cost	Revenue	Cost
Principal business	234,568	100,564	1,362,227	706,104
Other business	43,319	16,360	–	–
Total	277,887	116,924	1,362,227	706,104

Revenue from major business is mainly made of the revenue from offline retail outlets and online e-commerce platform sales. Offline retail outlets operate in the form of counters and boutiques, which are located in department stores.

the Group's business revenue has decreased by RMB1,084,340 thousand, same period compared to previous year, representing a decrease of 79.60%. The reduction was mainly due to a large amount of closing stores and significant reduction in business.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIX) Revenue and cost of sales (continued)

2. Income derived from contracts

Contract classifications	30 June 2021	30 June 2020
1. Category of products		
Apparel	169,771	1,352,940
Brand authorization	64,797	–
Lease	36,228	5,325
Others	7,091	3,962
2. Classified by business areas		
Domestic	277,887	1,081,551
Overseas	–	280,676
3. Classified by the timing of commodity transfer		
Transferred at a point in time	175,829	1,356,902
Transferred at a point over time	102,058	5,325
Total	277,887	1,362,227

(XL) Taxes and surcharge

Categories	30 June 2021	30 June 2020
City maintenance and construction tax	2,512	3,629
Educational surcharge	1,851	3,124
Others	8,068	8,938
Total	12,431	15,691

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLI) Selling and distribution expenses

Categories	30 June 2021	30 June 2020
Employee benefits expenses	52,948	279,304
Concessionaire fees	15,454	158,374
Depreciation of right of use assets	17,355	143,401
Amortization of long-term prepaid expenses	13,882	134,456
Rental fees	5,653	13,956
Department store expenses	35,274	39,962
Online platform expenses	128	34,508
Utilities and electricity fees	5,680	21,927
Logistic expenses	679	21,687
Depreciation of fixed assets	18,832	27,373
Marketing expense	–	820
Low value consumables	209	3,098
Repair and maintenance expenses	1,518	5,294
Traveling and communication expenses	–	1,155
Amortization of intangible assets	130	201
Quality inspection fee	–	–
Office supplies	–	482
Consulting expenses	2,828	5,758
Other – Naf	–	134,507
Others	55	59
Total	170,625	1,026,322

In this period, selling and distribution expenses have been decreased by RMB855,697 thousand, decreasing rate is 83.38% compared to last year, respectively. Due to reduction of sales and closing shops, entity loses significant market shares. Therefore, employee benefits expenses, concessionaire fees, and rental fees have decreased sharply.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLII) Administrative expense

Categories	30 June 2021	30 June 2020
Employee benefits expenses	27,180	46,331
Depreciation of fixed assets	23,454	30,668
Consulting expenses	11,719	13,046
Amortization of intangible assets	5,841	6,371
Rental fees	1,853	4,737
Utilities and electricity fees	4,178	2,841
Office supplies	2,544	2,752
Audit service	–	3,750
Traveling and communication expenses	399	520
Depreciation of right of use assets	4	2,216
Sample purchase fee	–	3,644
Logistic expenses	288	247
Repair and maintenance expenses	596	273
Costs of low value consumables	–	–
Amortization of long-term prepaid expenses	2,341	3,056
Other – Naf	–	31,481
Others	907	358
Total	81,304	148,541

(XLIII) Financial expenses

1. Particulars of financial expenses

Categories	30 June 2021	30 June 2020
Interest expenses	104,821	92,625
Less: Interest income	7,711	4,651
Exchange gains and losses	–	54
Bank charges	207	3,101
Total	97,317	91,129

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLIV) Other income

1. Particulars of other income

Source of other income	30 June 2021	30 June 2020
Governmental grants relating to daily operational activities	1,567	7,398
Gains from debt restructuring	60,939	–
Total	62,506	7,398

2. Governmental grants recognized in other income

categories	30 June 2021	30 June 2020	Related to assets/profit
Transferred from amortization of deferred income in asset class	666	666	Related to assets
Enterprise support policy	901	6,732	Related to income
Total	1,567	7,398	

(XLV) Investment income

1. Particulars of investment income

Categories	30 June 2021	30 June 2020
Share of net profit of associates and a joint venture accounted for using the equity method	(4,599)	(170)
Investment loss of disposal of long-term equity investment	(2,818)	(47,530)
Gain or loss on debt restructuring	10,807	33,996
Others	–	–
Total	3,390	(13,704)

2. Note to Investment income

Investment income increased RMB17,094 thousand compared to previous duration, the main reason is loss of disposal of long-term equity investment.

Besides, the company has RMB10,807 thousand income due to debt restructuring, to resolve the payable issue with suppliers by good-to-debt agreement.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLVI) Gain on fair value changes

Source of gain on fair value changes	30 June 2021	30 June 2020
Other non-current financial assets	–	(4,044)
Total	–	(4,044)

(XLVII) Credit impairment losses

Categories	30 June 2021	30 June 2020
Impairment losses of accounts receivables	(19,853)	(11,971)
Impairment losses of other receivables	(4,437)	(4,424)
Impairment losses of long-term receivables	–	1,792
Impairment losses of other current assets	–	(75,434)
Impairment losses of other non-current assets due within one year	–	(177)
Impairment losses of interest receivable	(1,103)	(7,207)
Impairment losses of prepayments	2,628	–
Total	(22,765)	(97,421)

(XLVIII) Asset impairment loss

Categories	30 June 2021	30 June 2020
Impairment loss of Inventory provision	(93,486)	(173,561)
Total	(93,486)	(173,561)

The amount has reduced by RMB80,075 thousand compared with the same period last year, representing a year-on-year decrease of 46.14%, which is mainly due to the decrease of the impairment loss of the inventory.

(XLIX) Gain on disposals of assets

Categories	30 June 2021	30 June 2020
Losses on disposal of fixed assets	799	(2,455)
Gains on disposal of right of use assets	13,380	13,127
Total	14,179	10,672

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(L) Non-operating income

Categories	30 June 2021	30 June 2020	Non-recurring profit or loss in 2021
Compensation income	130	750	130
Others	396	429	396
Total	526	1,179	526

(LI) Non-operating expenses

Categories	30 June 2021	30 June 2020	Non-recurring profit or loss in 2021
Compensation for closing stores	60	2,939	60
Compensation for litigation	328	–	328
Donations	–	1,488	–
Loss on obsolescence of non-current assets	126	–	126
Loss on disposal of current assets	5,939	26	5,939
Penalties	12	421	12
Unrecoverable account receivables	–	829	–
Others	8	80	8
Total	6,473	5,783	6,473

(LII) Income tax expenses

1. Table of income tax expenses

Items	30 June 2021	30 June 2020
Current income tax expense	470	38
Deferred income tax expense	(7,466)	(177,195)
Total	(6,996)	(177,157)

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LII) Income tax expenses (continued)

2. Reconciliation between total profit and income tax expenses

Items	30 June 2021	30 June 2020
Total profit	(242,837)	(900,824)
Income tax expenses calculated at applicable tax rates	(60,709)	(225,206)
Impact of different tax rates applicable to subsidiaries	–	26,228
Non-taxable income	1,150	(5,056)
Impact of prior period income tax adjustment	(1,762)	–
Impact of non-deductible costs, expenses and losses	81	816
Impact of deductible loss of the deferred income tax assets unrecognized in the previous period	(29,679)	–
Impact of deductible temporary differences or deductible loss for which deferred income tax assets are not recognized in the current period	83,924	26,061
Income tax expense	(6,996)	(177,157)

(LIII) Notes to the consolidated cash flow statement

1. Cash received relating to other operating activities

Categories	30 June 2021	30 June 2020
Customers' deposits and suppliers' deposits	39,740	41,369
Interest income	1,426	4,651
Non-operating income	132	1,178
Government grants	–	9,789
Total	41,298	56,987

2. Cash paid relating to other operating activities

Categories	30 June 2021	30 June 2020
Utilities, electricity and department store expenses	20,892	24,768
E-commerce fees	26,242	44,586
Repayment of deposit and security deposit	33,379	25,900
Consulting expense	8,507	20,290
Bank charges	130	7,079
Total	89,150	122,623

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LIII) Notes to the consolidated cash flow statement (continued)

3. Cash paid relating to other investing activities

Categories	30 June 2021	30 June 2020
Cash paid on behalf of related parties	–	6,676
Cash outflow of subsidiaries losing control	–	7,199
Total	–	13,875

4. Cash paid relating to other financing activities

Categories	30 June 2021	30 June 2020
Lease payment	8,806	182,424
Cash paid to repurchase shares	–	9,845
Total	8,806	192,269

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LIV) Supplementary information of cash flow statement

1. Supplementary information of cash flow statement

Categories	30 June 2021	30 June 2020
1. Reconciliation net loss to cash flows from operating activities		
Net Profit	(235,841)	(723,667)
Add: Credit impairment losses	22,765	97,421
Asset impairment provision	93,486	173,561
Depreciation of fixed assets, oil and gas assets, biological assets	56,251	58,041
Depreciation of right of use assets	17,359	145,617
Amortization of intangible assets	5,971	6,572
Amortization of long-term prepaid expenses	13,308	137,513
(Gain)/Losses on disposal of fixed assets, intangible assets and other long-term assets	(1,066)	(3,106)
(Gain)/Losses on disposal of right of use asset	(13,381)	–
(Gain)/Losses on fair value changes	–	4,044
Financial expenses	98,536	110,891
Investment Loss/(Gain)	(3,390)	(315,790)
Increase in deferred tax assets	–	(176,402)
Increase in deferred tax liabilities	(5,704)	–
Decrease in deferred income	(1,566)	–
Decrease/(increase) in inventories	91,024	450,439
Decrease/(increase) in operating receivable	73,779	126,965
Increase/(decrease) in operating payables	(190,625)	88,982
Others	–	–
Net cash flows from operating activities	20,906	181,081
2. Significant investing and financing activities not involving cash received and paid		
Debt transfers to capital	–	–
Corporate convertible bond due within one year	–	–
Financing leased in financial assets	–	–
3. Net change in cash and cash equivalents		
Closing balance of cash	36,848	62,090
Less: Opening balance of cash	24,319	175,549
Net increase amount of cash and cash equivalents	12,529	(113,459)

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LIV) Supplementary information of cash flow statement (continued)

2. Net cash received from disposal of subsidiaries in current year

Categories	30 June 2021
Cash and cash equivalents received from disposal of subsidiaries	100
Including:	
Fuzhou Badi	100
Less: Cash and cash equivalents held by subsidiaries at the date of loss of control	–
Including:	
Fuzhou Badi	–
Add: Cash and cash equivalents received in current year from disposal of subsidiaries for prior periods	15,024
Including:	
Anshe	15,024
Net cash received on disposal of subsidiaries	15,124

3. Cash and cash equivalents

Categories	Closing balance	Opening balance
I. Cash	36,848	24,319
Including: Cash on hand	285	321
Cash at bank that can be readily drawn on demand	36,563	23,998
Other cash at bank that can be readily used	–	–
II. Cash equivalents	–	–
Including: Bond investment due within three months	–	–
III. Closing balance of cash and cash equivalents	36,848	24,319
Including: restricted cash and cash equivalents used by the company or the subsidiaries of the Group	–	–

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

VI NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Assets with restricted ownership or use right

Categories	Balance	Reason for restriction
Cash at bank and on hand	129,753	Judicially frozen
Inventory	3,522	Liened or seized by third party
Fixed assets	1,423,222	Sealed up and mortgage payment
Fixed assets	94,130	Mortgage payment
Construction in progress	68,240	Sealed up and mortgage payment
Intangible assets	127,556	Sealed up and mortgage payment
Intangible assets	18,072	mortgage payment
Long-term equity investment	631,420	Judicially frozen
Total	2,495,915	

(LVI) Provision for asset impairment

Items	31 December 2020	Accrual	Decrease in the current year				30 June 2021
			Reversal	Write-off	Disposal of subsidiaries	Exchange realignment	
Provision for bad debts of accounts receivable	90,877	21,903	2,050	-	-	-	110,730
Other Provision for bad debts of other receivables	176,477	18,862	14,425	-	-	-	180,914
Provision for bad debts for interest receivable	5,622	1,103	-	-	-	-	6,725
Provision for bad debts for prepayments	2,628	-	2,628	-	-	-	-
Inventory provision	478,620	93,486	-	243,952	-	-	328,154
Impairment provision for non-current assets due within one year	7,547	-	-	-	-	-	7,547
Provision for bad debts of other current assets	338,970	-	-	-	-	-	338,970
Provision for bad debts of other non-current assets	5,570	-	-	-	-	-	5,570
Provision for long-term receivables	188	-	-	-	-	-	188
Impairment provision for long-term equity investment	351,907	-	-	-	-	-	351,907
Fixed assets depreciation reserves	-	-	-	-	-	-	-
Impairment of construction in progress	-	-	-	-	-	-	-
Provision for impairment of the right of use assets	-	-	-	-	-	-	-
Impairment of intangible assets	-	-	-	-	-	-	-
Goodwill impairment provision	-	-	-	-	-	-	-
Total	1,458,406	135,354	19,103	243,952	-	-	1,330,705

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VII CHANGES IN CONSOLIDATION SCOPE

The number of entities included in the scope of the consolidated financial statements for the current period decreased by two as compared to the previous period as follows:

Name of subsidiary	Reasons of changes
Tianjin Xiawei Storage Co., Ltd.	Deregistration on May 19th 2021
Chengdu Xiawei Storage Co., Ltd.	Deregistration on May 8th 2021

VIII INTERESTS IN OTHER ENTITIES

(I) Interests in other subsidiaries

1. Structure of the Group

Name of subsidiaries	Main business site	Place of registration	Nature of business	Registered Capital		Percentage of shareholding (%)		Means of acquirement
				Currency	Thousand	Direct	Indirect	
LaCha Xiuxian	Shanghai	Shanghai	Design and sales of apparel products	RMB	5,000	100	–	Established by investment
Shanghai Le'ou	Shanghai	Shanghai	Design and sales of apparel products	RMB	16,000	65	–	Established by investment
Chongqing Lewei	Chongqing	Chongqing	Design and sales of apparel products	RMB	500	100	–	Established by investment
Beijing LaCha	Beijing	Beijing	Design and sales of apparel products	RMB	500	100	–	Established by investment
Chengdu LaCha	Chengdu	Chengdu	Sales of apparel products	RMB	500	100	–	Established by investment
Shanghai Weile	Shanghai	Shanghai	Sales of apparel products	RMB	50,000	100	–	Established by investment
Shanghai Langhe	Shanghai	Shanghai	Sales of apparel products	RMB	5,000	100	–	Established by investment
Shanghai Xiawei	Shanghai	Shanghai	Sales of apparel products	RMB	5,000	100	–	Established by investment
Taicang LaCha	Taicang	Taicang	Sales of apparel products	RMB	100,000	95	5	Established by investment
Tianjin LaCha	Tianjin	Tianjin	Sales of apparel products	RMB	10,000	100	–	Established by investment
Chengdu Lewei	Chengdu	Chengdu	Sales of apparel products	RMB	10,000	100	–	Established by investment
Shanghai Chongan	Shanghai	Shanghai	Sales of apparel products	RMB	15,000	85	–	Established by investment
Shanghai Youshi	Shanghai	Shanghai	Sales of apparel products	RMB	20,000	100	–	Established by investment

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VIII INTERESTS IN OTHER ENTITIES (CONTINUED)

(I) Interests in other subsidiaries (continued)

1. Structure of the Group (continued)

Name of subsidiaries	Main business site	Place of registration	Nature of business	Registered Capital		Percentage of shareholding (%)		Means of acquirement
				Currency	Thousand	Direct	Indirect	
Fujian Lewei	Pucheng	Pucheng	Sales of apparel products	RMB	10,000	100	–	Established by investment
Enterprise Management	Shanghai	Shanghai	Investment	RMB	800,000	100	–	Established by investment
Shanghai Nuoxin	Shanghai	Shanghai	Sales of apparel products	RMB	10,000	100	–	Established by investment
Shanghai Jiatuo	Shanghai	Shanghai	IT technology	RMB	1,000	100	–	Established by investment
LaCha Naf	Shanghai	Shanghai	Sales of apparel products	RMB	20,000	65	–	Established by investment
Guangzhou Xichen	Guangzhou	Guangzhou	Sales of apparel products	RMB	20,000	60	–	Acquired by combination
Taichang Xiawei	Taichang	Taichang	Sales of apparel products	RMB	5,000	100	–	Established by investment
Xinjiang Tongrong	Urumqi	Urumqi	Apparel technology	RMB	20,000	95	5	Established by investment
Shanghai Pinxi	Shanghai	Shanghai	Design and sales of apparel products	RMB	20,000	–	100	Established by investment
Yixin Lingshou	Beijing	Beijing	Sales of apparel products	RMB	51,000	–	100	Established by investment
Taichang Jiashang	Taichang	Taichang	Sales of apparel products	RMB	393,191	–	100	Established by investment
Taichang Chongan	Taichang	Taichang	Warehousing services	RMB	5,000	100	–	Established by investment
Taichang Xiawei Cangchu	Taichang	Taichang	Warehousing services	RMB	1,000	–	100	Established by investment

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

VIII INTERESTS IN OTHER ENTITIES (CONTINUED)

(II) Equity in Joint Ventures and Associates

1. Significant joint ventures and associates

Name of associates	Main business site	Place of registration	Nature of business	Percentage of shareholding (%)		Accounting treatment
				Direct	Indirect	
Tibet Baoxin	Tibet	Tibet	Asset management	60	–	Equity method
Hongche Industrial	Shanghai	Shanghai	Design and sales of apparel products	36	–	Equity method
Beijing Aoni	Beijing	Beijing	Wholesale and retail	16	–	Equity method
Zhejiang Yuanrui	Zhejiang	Zhejiang	Information technology service	30	–	Equity method

(1) Description of difference in percentages of shareholding and voting rights in joint ventures and associates

The Group took only one seat in the Tibet Baoxin Investment Committee and can directly participate in the discussion and formulation of decision-making. However, because the Investment Committee has a total of four seats and the decision needs to be passed by more than two-thirds of the investment committee members, the Group cannot control the decision of the Investment Committee only has a significant impact on Tibet Baoxin, so it is recognized as an associate.

(2) Basis of holding voting rights less than 20% but can cast significant impact

The Group took one seat in the Board of Beijing Aoni out of 3 Board members, and can directly participate in the discussion and formulation of decision-making and has a significant impact on Beijing Aoni, so it is recognized as an associate.

(III) Others

On 25 February 2020, the subsidiary company FASHION I has been taken over the control by the HTI ADVISORY COMPANY LIMITED due to overdue payment of loan. Therefore, La Chapelle was not able to make any impacts on FASHION I after then since the company already lost the actual control. As of 30 June 2021, FASHION I's actual control is still unrecovered.

On 22 January 2020, the Group received the bankruptcy decision of the subsidiary Jack Walk (Shanghai) Garments Co., Ltd. (Following abbreviated as "Jack Walk") issued by the Shanghai Third Intermediate People's Court and appointed Shanghai Jinmao Kaide Law Firm as the administrator, leading to the loss of control on Jack Walk company and its subsidiaries. As of 30 June 2021, the bankruptcy liquidation process is still unfinished.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include cash at bank and on hand, equity investments, debt investments, notes receivable and accounts receivable, short-term loans and long-term loans. The Group faces various risks of financial instruments during daily activities, mainly including credit risks, liquidity risks and market risks (including foreign exchange risk, interest rate risk and price risk). The following will show the risks relating to these financial instruments and the risk management strategies the Group adopted to reduce the relevant risks:

The Board is responsible for planning and establishing the risk management structure of the Group, working out the risk management policies and relevant guidelines of the Group and supervising the implementation of the risk management measures. The Group has worked out risk management policies to identify and analyze the risks it faced. These risk management policies have clearly defined specific risks, covering market risk, credit risk and liquidity risk management. The Group regularly assesses changes in the market environment and its operating activities to decide whether or not to update the risk management policies and systems. The Group's risk management is conducted by the risk management committee according to the policies approved by the Board. The risk management committee identifies, assesses and avoids relevant risks via close cooperation with other business departments of the Group. The internal audit department of the Group conducts regular review on the risk management control and procedures and reports the review results to the audit committee of the Group. The Group diversifies risks of financial instruments through appropriate diversified investments and business portfolios and works out relevant risk management policies to reduce the risks concentrated in any single industry, specific region or specific counterparty.

(I) Credit risk

Credit risk refers to the risk of financial losses to the Company as a result of the failure of performance of contractual obligations by the counterparties. The management has developed proper credit policies and continuously monitors credit risk exposures.

The Company has adopted the policy of transacting with creditworthy counterparties only.

In addition, the Company evaluates the credit qualification of customers and sets up corresponding credit term based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factors such as current market conditions. The Company monitors the balances and recovery of bills and accounts receivable, and contract assets on a continual basis. As for bad credit customers, the Company will use the written reminders, shorten the credit term or cancel the credit term to ensure that the Company is free from material credit losses. In addition, the Company reviews the recovery of financial assets on each balance sheet date to ensure adequate expected credit loss provision is made for relevant financial assets.

The Group's other financial assets include cash at bank and on hand, other receivables and debt investment. The credit risk relating to these financial assets arises from the default of counterparties, but the maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet. The Group have not provided any other guarantee that may cause credit risk for the Group.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (continued)

The monetary funds held by the Group are mainly deposited with financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk, and the Company would not have any significant losses caused by the default by these institutions. The Company's policy is to control the amount deposited with these famous financial institutions based on their market reputation, operating size and financial background, to limit the credit risk amount of any single financial institution.

As a part of its credit risk asset management, the Company assesses the impairment loss of accounts receivable and other receivables based on aging. Accounts receivable and other receivables of the Company involves a large number of customers, and the aging information can reflect the solvency and bad debt risk of these customers for accounts receivable and other receivables. The Company calculates the historical actual bad debt rate for different aging periods based on historical data and takes into account the current and future forecast economic conditions, such as national GDP growth rate, total infrastructure investment, national monetary policy and other forward-looking information to adjust expected loss rate. For contract assets and long-term receivables, the Company conducted reasonable evaluation to the adjusted expected credit loss after comprehensive consideration of the settlement period, the contractual payment period, the financial position of debtors and the economic situation of the debtors' industry and takes into account the above forward-looking information.

As of 30 June 2021, the carrying amount and expected credit impairment loss of related assets are as follows:

Aging	Carrying amount	Impairment provision
Accounts receivable	336,968	110,730
Prepayment	24,214	–
Other receivable	271,289	178,207
Long-term receivable	4,565	118
Total	637,036	289,054

The major customers of the Group are malls, customers of this kinds are reliable and have good reputation. Therefore, the Group is of the view that these customers do not have material credit risk. There is no material credit concentration risk as the Company has a broad customer base.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(II) Liquidity risk

Liquidity risk refers to the risk of short of funds when the Company performs its obligation of cash payment or settlement by other financial assets. The Company's subordinate financial department is responsible for their respective cash flow projections. Based on the results thereof, the Company continually monitors its short-term and long-term capital needs at the company level to ensure adequate cash reserves; in the meantime, continually monitoring the compliance with loan agreements and secures undertakings for sufficient reserve funds from major financial institutions, to address its short-term and long-term capital needs. In addition, the Company entered into a credit line banking facilities agreement with principal business banks to provide support for the Company's obligations related to commercial bills. As of 30 June 2021, the Group have no credit line provided by domestic banks.

As of 30 June 2021, all the financial liabilities and off-balance sheet guarantees of the Group are presented at undiscounted contractual cash flows by maturity date as follows:

Items	Closing balance					Total
	Immediate repayment	Within 1 year	1 to 2 years	2 to 5 years	5 years above	
Short-term borrowings	–	1,160,900	–	–	–	1,160,900
Accounts payable	–	940,603	–	–	–	940,603
Other payables	–	659,007	–	–	–	659,007
Total	–	2,760,510	–	–	–	2,760,510

(III) Market risk

1. Exchange rate risk

The Group's major operational activities are carried out in Mainland China and the majority of the transactions are denominated in RMB. The Group's head office is responsible for monitoring the amount of assets and liabilities and transactions denominated in foreign currencies to minimize the foreign exchange risk. The Group may consider entering forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. For the year from 1 January to 30 June in 2021 and the year of 2020, the Group did not enter any forward exchange contracts or currency swap contracts. As of 30 June 2021, the Group has no foreign currency financial asset.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk (continued)

2. Interest rate risk

The Group's interest rate risk mainly arises from interest-bearing debt such as bank borrowings. Borrowings obtained at floating rates expose the Group to cash flow interest rate risk and borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

There is no interest-bearing debt with floating rate as of 30 June 2021.

X FAIR VALUE

(I) Financial instruments measured at fair value

The Company presents the book value of the financial asset instruments measured at fair value on 30 June 2021 at three levels of fair value. When the fair value is classified into three levels as a whole, it is based on the lowest level among the three levels of the important input values used in the fair value measurement. The three levels are defined as follows:

Level 1: unadjusted quotations for identical assets or liabilities that can be obtained on the measurement date in an active market

Level 2: input value that is directly or indirectly observable for underlying assets or liabilities other than the input value of the level 1

Input values of Level 2 includes: 1) quotations for similar assets or liabilities in an active market; 2) quotations for identical or similar assets or liabilities in an inactive market; 3) observable inputs other than quotations, including observable interest rate and yield curves, implied volatility; and credit spreads during normal quotations interval; 4) market-proven input values, etc.

Level 3: unobservable input value of underlying assets or liabilities.

(II) Fair value measurement at the end of the period

1. Persistent fair value measurement

Items	Closing fair value			Total
	Level 1	Level 2	Level 3	
Other equity instrument investment	–	–	4,741	4,741
Other non-current financial assets	–	–	94,051	94,051
Total assets	–	–	98,792	98,792

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Particular of the Company's ultimate controlling party

As of 30 June 2021, the company's ownership structure is decentralized. The shareholder with the highest shareholding ratio does not exceed 30%. There has no controlling shareholder who can control the general meeting of shareholders and board of directors. There has no situation of joint control nor actual controller.

The company's operation is well structured; shareholders and board of directors execute their voting right independently.

(II) The general information of the subsidiaries is set out in Note VIII (I) Interests in major subsidiaries

For details, see VIII/(I) "Interests in other subsidiaries"

(III) Joint ventures and associates of the Group

The general information of the Joint Ventures and Associates are set out in Note VIII (II) Rights in joint ventures or associates.

Other joint ventures or associates in which the Company has a related party transaction or balances caused by a related party transaction in the previous period are as follows:

Name of joint venture or associate	Relationship with the Group
Hongche Industrial	Associate of the Group
Zhejiang Yuanrui	Associate of the Group

(IV) Related party transactions

- For the subsidiaries which are controlled by the Group and recognized into the consolidated financial statements, the intra-company transactions and parent company transactions have been eliminated.
- Sales of goods and rendering of services to related parties

Related party	Transaction	30 June 2021	31 December 2020
Hongche Industrial	Render Service	–	–
Zhejiang Yuanrui	Brand Licensing	3,710	–
Total		3,710	–

The Group charged Zhejiang Yuanrui for brand Licensing of RMB3,710 thousand from January to June in 2021.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

3. Asset leasing with related parties

(1) The Group as lessee

Name of leaser	Type of leased asset	Lease income recognized in this period	Lease income recognized in the previous period
Hongche Industrial	Houses and buildings	–	–
Total		–	–

4. Related party guarantees

(1) The Group act as guaranteed party

Guarantor	Guaranteed amount	Date of commencement	Date of maturity	Whether the guarantee has been fulfilled
Xing Jiaying	88,000	April 30, 2020	April 30, 2021	No
Xing Jiaying	40,000	June 24, 2020	June 24, 2021	No
Xing Jiaying	70,000	June 24, 2020	June 24, 2021	No
Xing Jiaying	400,000	September 11, 2019	September 10, 2022	No
Xing Jiaying	200,000	November 25, 2019	November 25, 2022	No
Xing Jiaying	150,000	October 19, 2018	January 2, 2022	No
Xing Jiaying	550,000	November 26, 2019	November 26, 2023	No
Total	1,498,000			

The total guaranteed amount provided for the Group by the former actual controller Xing Jiaying is RMB1,498,000,000. As of 30 June 2021, none of the guarantee has been fulfilled.

5. Funds lending with related party

(1) Lending for related parties

As of 30 June 2021, the Group has offered a loan of RMB256,570 thousand to Jack Walk, an external related party, the loan has expired. And offered a loan of RMB40,000 thousand to an external related party, the loan has expired. The above borrowings to related party are presented in other current assets and made full impairment, detailed in VI (VII).

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

6. Receivables and payables of related party

(1) Receivables from related parties of the Group

Items	Related party	Closing balance		Opening balance	
		Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Accounts receivable	Hongche Industrial	4,284	4,284	4,284	4,284
	Zhejiang Yuanrui	1,132	23	–	–
Other receivables	Hongche Industrial	8,574	8,574	7,341	7,341

(2) Payables to related parties of the Company

Items	Related party	Closing balance	Opening balance
Accounts payable	Zhejiang Yuanrui	–	1,000

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS

(I) Significant commitments

There is no significant commitment to be disclosed.

(II) Events as at the balance sheet date

1. Contingencies and financial influences formed by pending litigation or contingencies

(1) Litigations overdue and not yet been executed

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group	Urumqi Hi-Tech. Ind. Development Zone State-owned Assets Investment Management C O., Ltd.	Loan contract dispute	586,528
2	The Group	Shanghai Construction No.2(group) Co., Ltd.	Construction contract dispute	175,639
3	The Group	China Everbright Bank Company Limited Co., Ltd Shanghai Caohejing sub-branch	Dispute over financial loan	89,347
4	The Group	Nantong Minglong Fashion Co., Ltd.	Sale and purchase agreement dispute	83,371
5	The Group	China Everbright Bank Company Limited Co., Ltd Shanghai Caohejing sub-branch	Dispute over financial loan	71,073
6	The Group	China Everbright Bank Company Limited Co., Ltd Shanghai Caohejing sub-branch	Dispute over financial loan	40,487
7	The Group	Huangshan Dongming Clothing Co., Ltd	Sale and purchase agreement dispute	37,904
8	The Company	Shanghai Yuqiao Garment Co., Ltd.	Processing contract dispute	30,966
9	The company	Dongtai Xinding Fashion Co., Ltd.	Contractor agreement dispute	30,637
10	The Group	Hunan Suoyat Clothing Co., Ltd.	Processing contract dispute	29,926
11	The Group	Hangzhou Xuxu Technology Co., Ltd.	Processing contract dispute	29,920
12	The Group	Shanghai Pinzhong Clothing Co., Ltd	Processing contract dispute	28,298
13	The Group	Shanghai Yafeng Clothing Co., Ltd	Sale and purchase agreement dispute	22,963
14	The Company	Jiaxing Chengxin Garment Co., Ltd.	Processing contract dispute	21,806
15	The Company	Shanghai Yijun Clothing Co., Ltd	Sale and purchase agreement dispute	19,039
16	The Company	Shanghai Yiren Industrial Co., Ltd.	Sale and purchase agreement dispute	19,001
17	The Company	Guangzhou Chuangxing Garment Group Co., Ltd.	Processing contract dispute	18,631
18	The Company	Shanghai Yafeng Clothing Co., Ltd	Sale and purchase agreement dispute	17,553
19	The Company	Shishi Yingfeng Clothing Co., Ltd.	Contractual dispute	16,710
20	The Company	Guangzhou Runxing Fashion Co., Ltd.	Processing contract dispute	16,574
21	The Company	Shanghai Meige Clothing Co., Ltd	Sale and purchase agreement dispute	16,549
22	The Company	Jiangsu Huihong International Group Wanxin Clothing Co., Ltd.	Sale and purchase agreement dispute	15,634
23	The Company	Nanjing Runzehua Knitting Textile Technology Development Co., Ltd.	Processing contract dispute	15,202
24	The Company	Nantong Sanrun Clothing Co., Ltd	Processing contract dispute	15,111
25	The Company	Nanjing Suzhongbo Textile Co., Ltd.	Sale and purchase agreement dispute	14,231

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS (CONTINUED)

(II) Events as at the balance sheet date (continued)

1. Contingencies and financial influences formed by pending litigation or contingencies (continued)

(1) Litigations overdue and not yet been executed (continued)

No.	Defendant	Plaintiff	Reasons	Amount involved
26	The Company	Shanghai Y.g Fashion Co., Ltd.	Processing contract dispute	14,156
27	The Company	Kunshan Liqin Clothing Co., Ltd	Contractual dispute	13,905
28	The Company	Guangzhou Maofeng Apparel Co., Ltd	Processing contract dispute	13,061
29	The Company	Tai'an Xinyi Garment Co., Ltd.	Contractual dispute	12,174
30	The Company	Shanghai Jingyun Industrial Co., Ltd.	Processing contract dispute	11,623
31	The Company	Zhejiang Shuoyang Clothing Co., Ltd	Processing contract dispute	10,530
32	The Group	Nanjing Runzehua Knitting Textile Technology Development Co., Ltd.	Processing contract dispute	10,428
33	The Group	Object of litigation lower than RMB10,000 thousand		452,986
Total				2,001,963

As of 30 June 2021, The Group has a total of 325 cases that have not yet been executed, including 323 cases in which the Group is the defendant, and the cumulative amount involved is RMB2,001,847 thousand. All interests of litigation with judged decision have been recorded by 30 June 2021; afterwards, the overdue interest of will be recorded accordingly.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS (CONTINUED)

(II) Events as at the balance sheet date (continued)

1. Contingencies and financial influences formed by pending litigation or contingencies (continued)

(2) Litigations unjudged

a. The Group as Defendant

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group and Jiaxing Xing	HTI ADVISORY COMPANY LIMITED	Loan contract dispute	311,255
2	The Group	China Citic Bank Corporation Limited Shanghai Branch	Dispute over financial loan contract	35,662
3	La Chapelle Fashion(Tianjing) Co., Ltd.	Tianjin Erjian Construction Engineering Co., Ltd.	Construction contract dispute	32,435
4	The Group	China Citic Bank Corporation Limited Shanghai Branch	Loan contract dispute	28,640
5	The Group	Shanghai Pinzhong Clothing Co., Ltd	Processing contract dispute	28,298
6	The Group	Xinjiang Hengding International Supply Chain Technology Co., Ltd.	Contractual dispute	27,467
7	The Group	China Citic Bank Corporation Limited Shanghai Branch	Loan contract dispute	23,123
8	The Company	Jinhou Group Weihai Garments Co., Ltd.	Processing contract dispute	14,117
9	The Group	Nanjing Runzehua Knitting Textile Technology Development Co., Ltd.	Processing contract dispute	13,843
10	The Group	Object of litigation lower than RMB10,000 thousand		35,816
Total				550,656

b. The Group as Plaintiff

No.	Defendant	Plaintiff	Reasons	Amount involved
1	Shanghai Youshi Clothing Co., Ltd.	Shanghai Feiliang Information Technology Co., Ltd.	Joint venture contract dispute	31,215
2	The Company	Shanghai Bingjian Digital Media Co., Ltd./MZ Shang Trading Co., Ltd./Kangjie Feng	Advertising contract dispute	14,801
3	The Group	Object of litigation lower than RMB10,000 thousand	Contractual dispute	630
Total				46,646

As of 30 June 2021, the Group has a total of 46 cases that have not been judged, including 42 cases in which the Group is the defendant, and the cumulative amount involved is RMB550,656 thousand. 4 cases that the Group is Plaintiff, involved amount RMB46,646 thousand.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS (CONTINUED)

(II) Events as at the balance sheet date (continued)

1. *Contingencies and financial influences formed by pending litigation or contingencies (continued)*

- (3) On January 22, 2020, the Company received the bankruptcy decision of the subsidiary Jack Walk issued by the Shanghai Third Intermediate People's Court and appointed Shanghai Jinmao Kaide Law Firm as the administrator. On 9 June 2020, the Company submitted declaration of creditor and convened the first meeting of creditors on 12 July 2020. The liquidation matter of Jack Walk is still pending as of 30 June 2021. The Group has accrued fully provision of the loan to Jack Walk, and the liquidation matters are not expected to have a significant impact on the Group's existing business.
- (4) On 25 February 2020, FASHION I, a subsidiary of the Company, has been taken over by HTI ADVISORY COMPANY LIMITED due to the loan dispute, La Chapelle cannot exercise control or influence and, which leads to the Company losing control over FASHION I, a subsidiary of the Company, and APPAREL I, APPAREL II as well as Naf Naf SAS, which are subsidiaries of FASHION I.

As Naf Naf SAS, an original wholly-owned subsidiary of the Group, was unable to repay debts in arrears owed to suppliers and the local government, the French local court formally made a ruling on 15 May 2020 that Naf Naf SAS would initiate rehabilitation proceedings, and the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Naf Naf SAS's business operations. On June 19, 2020, the French local court ruled that Naf Naf SAS will transfer part of its assets and liabilities, including Naf Naf SAS intangible assets, fixed assets, inventory, payable employee rights, leases, franchise agreements, etc. (excluding monetary funds, accounts receivable, accounts payable, bank loans, etc.) The transfer price is about 8.2 million euros, while the judicial reorganization procedure of Naf Naf SAS was transferred to the judicial liquidation procedure. The proceeds of the transfer will be included in the judicial liquidation procedures to repay its related debts. As of 30 June 2021, the above liquidation matter of Naf Naf SAS is pending. However, since the Group is unable to obtain further information on the liquidation with Naf Naf SAS, the impact on the Group has not yet been determined, and the final liquidation result is pending.

2. *Contingencies and financial influences from external debt guarantees*

As of 30 June 2021, no guarantees have been provided to any of related-parties or non-related parties.

As of 30 June 2021, apart from the above contingencies, there is no other significant contingency that need to be disclosed.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XIII EVENTS AFTER THE BALANCE SHEET DATE

(I) Important non-adjustment events

1. External Investment

The company's Wholly owned subsidiary Shanghai Jiatuo established a new wholly owned subsidiary, Shanghai Geraopu Garment Co., Ltd. (hereinafter referred to as "Geraopu") in Shanghai, with a registered capital of 1,000 thousand yuan, and 100% of which is held by Shanghai Jiatuo. On 5 July 2021, Geraopu completed the industrial and commercial registration procedures and obtained the business license issued by the Xuhui District Market Supervision Administration of Shanghai.

2. Effect of newly added litigations or arbitrations

a. The Group as Defendant

No.	Defendant	Plaintiff	Reasons	Amount involved
1	Shanghai Lashabel Leisure Clothing Co., Ltd.	Beijing Yateng Real Estate Management Co., Ltd.	Rental contract dispute	2,415
2	Shanghai Wei Le Fashion Co., Ltd.	Shenzhen Guanlanhu Real Estate Development Co., Ltd.	Rental contract dispute	1,716
3	The Company	Zhongshan Royalfamily Garments Co., Ltd.	Contractual dispute	1,577
4	The Group	Object of litigation lower than RMB1000 thousand		4,147
Total				9,855

b. The Group as Plaintiff

No.	Defendant	Plaintiff	Reasons	Amount involved
1	Shanghai Yuexun Network Technology Co., Ltd.	The Company	Contractual dispute	1,500
Total				1,500

From June 30, 2021 to the reporting date, the Group has a total of 21 new cases, including 20 cases in which the Group is the defendant, and the cumulative amount involved is RMB9,855 thousand, 1 case that the Group as plaintiff with RMB1,500 thousand.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XIII EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(I) Important non-adjustment events (continued)

3. New litigations not yet been executed

a. The Group as Defendant

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group	China Citic Bank Corporation Limited Shanghai Branch	Dispute over financial loan contract	87,425
2	The Company	Jinhou Group Weihai Garments Co., Ltd.	Processing and contractor agreement dispute	14,117
3	The Group	Nanjing Runzehua Knitting Textile Technology Development Co., Ltd.	Processing and contractor agreement dispute	10,428
4	The Group	Object of litigation lower than RMB1000 thousand		15,876
Total				127,847

b. The Group as Plaintiff

No.	Plaintiff	Defendant	Reasons	Amount involved
1	Shanghai Youshi Clothing Co., Ltd.	Kunming Golden Eagle Shopping Square Ltd.	Joint venture contract dispute	528
Total				528

As of the approval date of the financial statements, The Group has an increased cumulative amount of 24 cases that not yet been executed, including 23 cases in which the Group is the defendant, and the cumulative amount involved is RMB127,847 thousand. The Group as plaintiff has 1 case involves RMB528 thousand.

(II) Description of other events after the balance sheet date

As of the approval date of the financial statements, apart from the events above, there is no other significant post balance sheet event which needs to be disclosed.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XIV OTHER SIGNIFICANT EVENTS

(I) Debt Restructuring

Due to the difficulties of operating, the company is facing large amount of unpaid loan. In October 2020, the company decides in a way of goods to debt to resolve the payment issue with a part of suppliers based on the operating and recording situations.

Meanwhile, the company starts to implement the good to debt with suppliers and send out the goods. By June 30, 2021, the company decrease accounts receivables RMB125,618 thousand, send out inventory total as RMB50,241 thousand, recognize profit of debt reorganization RMB60,939 thousand.

In addition, the company has recognized RMB10,807 thousand profit of debt reorganization by the agreement made with other suppliers as good to debt.

(II) Lease

1. As a lesser

The group leased part of the houses and buildings as an operating lease. According to the lease contract, the rent will be adjusted according to the market rent status each year. The group's income from leasing houses and buildings was RMB38,204 thousand in 2021, as shown in note VI (XXXIX).

2. As a lessee

Items	30 June 2021
Interest charges on lease liabilities	33,329
Short-term lease expense with simplified treatment included in current profit and loss	28,771
Variable lease payments not included in the measurement of lease liabilities	–
Total cash outflows related to leases	28,771

The leasing assets leased by the Group include houses and buildings used in the operation and the lease term of the houses and buildings is usually from 2-7 years. The lease contract usually stipulates that the Group cannot sublease the leased assets, and part of the lease contract requires the financial indicators of the Group to be kept at a certain level. A few leases contain options for renewal, termination rent clauses.

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

1. Accounts receivable disclosed based on aging

Accounts receivable with aging since invoice date are analyzed as follows:

Aging	Closing balance	Opening balance
Within 90 days	2,774,057	2,627,699
90 days to 1 year	37,433	15,378
1 to 2 years	18,676	992
2 to 3 years	6,734	11
3 years above	21,457	10,419
Sub-total	2,858,357	2,654,499
Less: provision for bad debt	62,892	47,636
Total	2,795,465	2,606,863

2. Disclosed based on classification of provision method for bad debts

Categories	Carrying amount before provision		Closing balance Provision for bad debt		Carrying amount
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable subjected to provision for expected credit losses on individual basis	18,221	1	18,221	100	–
Accounts receivable subjected to provision for expected credit losses on portfolio basis	2,840,136	99	44,671	2	2,795,465
Including: credit risk characteristics combined with provision for bad debts	2,840,136	99	44,671	2	2,795,465
Total	2,858,357	100	62,892	2	2,795,465

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of provision method for bad debts (continued)

Continued:

Categories	Carrying amount before provision		Opening balance		Carrying amount
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable subjected to provision for expected credit losses on individual basis	20,033	1	20,033	100	–
Accounts receivable subjected to provision for expected credit losses on portfolio basis	2,634,466	99	27,603	1	2,606,863
Including: credit risk characteristics combined with provision for bad debts	2,634,466	99	27,603	1	2,606,863
Total	2,654,499	100	47,636	2	2,606,863

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

3. Accounts receivable subjected to provision for expected credit losses on individual basis

Name of company	Carrying amount before provision	Closing balance		Reason
		Provision for bad debt	Carrying amount	
Honghe Industrial	4,284	4,284	100	(1)
Accounts receivables from shopping malls	13,937	13,937	100	(2)
Total	18,221	18,221	100	

(1) As of 30 June 2021, the accounts receivables from related parties out of the consolidation was RMB4,284 thousand, due to the poor operating conditions of the companies, there was a capital turnover problem, the Company considered that these receivables could not be collected, so as of December 31, 2020, a provision for bad debts has been made.

(2) As of 30 June 2021, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions of the shopping malls, there was a capital turnover problem, and some shopping malls were closed. The group considered that the receivables could not be collected, so a provision for bad debts has been made.

4. Accounts receivable subjected to provision for expected credit losses on portfolio basis

(1) provision on portfolio basis

Aging	Closing balance		
	Carrying amount	Provision for bad debt	Provision ratio (%)
Within 90 days	35,341	706	2
90 days to 1 year	37,433	1,872	5
1 to 2 years	13,956	4,187	30
2 to 3 years	6,734	4,040	60
3 years above	7,957	7,957	100
Subsidiaries within 90 days	2,738,716	25,909	1
Total	2,840,137	44,671	2

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

5. Particulars of provision, recovery and reversal for bad debt in the current period

Category	Opening balance	Provision	Changes in the current period		Other changes	Closing balance
			Recovery or reversal	Write-off		
Accounts receivable subjected to provision for expected credit losses on individual basis	20,033	–	1,812	–	–	18,221
Accounts receivable subjected to provision for expected credit losses on portfolio basis	27,603	17,068	–	–	–	44,671
Including: credit risk characteristics combined with provision for bad debts	27,603	17,068	–	–	–	44,671
Total	47,636	17,068	1,812	–	–	62,892

6. There was no account receivable written-off in the current period

7. Particulars of the top five of accounts receivable at the end of the period

Name of company	Closing balance	% of total accounts receivable balance (%)	Bad debt provision
La Chapelle Apparel (Taicang) Co., Ltd.	895,881	31	8,959
Shanghai Weile Fashion Co., Ltd.	468,579	16	4,686
Shanghai La Chapelle Casual Fashion Co., Ltd.	337,054	12	3,371
La Chapelle Apparel (Tianjing) Co., Ltd.	304,245	11	3,042
Shanghai Youshi Fashion Co., Ltd	281,439	10	2,814
Total	2,287,198	80	22,872

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables

Aging	Closing balance	Opening balance
Within 1 year	348,316	575,028
1 to 2 years	–	9,363
2 to 3 years	–	1,958
3 years above	4,620	9,081
Sub-total	352,936	595,430
Less: provision for bad debt	189,907	181,486
	163,029	413,944

1. Classified by nature

Nature	Closing balance	Opening balance
Amounts due from subsidiaries	275,501	566,571
Deposits	57,795	13,211
Refund of service charges	–	13,778
Staff advances	11	3
Related party prepaid	1,709	–
Personal credit	159	–
Property rental fees	–	1,640
Receivables from transactions (cooperation)	10,374	–
Others	7,387	227
Total	352,936	595,430

2. Presented by three stages of provision for financial asset

Item	Closing balance			Opening balance		
	Carrying amount before provision	Provision for bad debt	Carrying amount	Carrying amount before provision	Provision for bad debt	Carrying amount
Stage 1	176,554	13,524	163,029	411,465	8,193	403,272
Stage 2	–	–	–	11,321	649	10,672
Stage 3	176,383	176,383	–	172,644	172,644	–
Total	352,936	189,907	163,029	595,430	181,486	413,944

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

3. Particulars of bad debt provision for other receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	expected	expected	expected	
	credit losses	credit losses	credit losses	
		(no credit	(credit	
		impairment	impairment	
		occurred)	occurred)	
Opening balance	8,193	649	172,644	181,486
The balance at the beginning of the current period	8,193	649	172,644	181,486
–Transfer to stage 2	–	–	–	–
–Transfer to stage 3	(383)	(649)	1,032	–
–Transfer to stage 2	–	–	–	–
–Transfer to stage 1	–	–	–	–
Provision	5,714	–	2,707	8,421
Reversal	–	–	–	–
Write-off	–	–	–	–
Offset	–	–	–	–
Other changes	–	–	–	–
Closing balance	13,524	–	176,383	189,907

4. There is no actual write-off of other receivables in the current period

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments

Nature	Closing balance			Opening balance		
	Carrying amount before provision	Impairment provision	Carrying amount	Carrying amount before provision	Impairment provision	Carrying amount
Investment in subsidiaries	1,123,650	481,230	642,420	1,123,650	481,230	642,420
Investment in associates and joint ventures	–	–	–	3,119	–	3,119
Total	1,123,650	481,230	642,420	1,126,769	481,230	645,539

1. Investment in subsidiaries

Investee	Opening balance	Addition in the current period	Decrease in the current period	Closing balance	Impairment provision	Balance of provision
					in the current period	for impairment
LaCha Xiuxian	5,000	–	–	5,000	–	–
Shanghai Le'ou	10,400	–	–	10,400	–	–
Chongqing Lewei	500	–	–	500	–	–
Beijing LaCha	500	–	–	500	–	–
Chengdu LaCha	500	–	–	500	–	–
Shanghai Weile	50,000	–	–	50,000	–	–
Shanghai Langhe	5,000	–	–	5,000	–	5,000
Shanghai Xiawei	5,000	–	–	5,000	–	–
Taichang LaCha	95,000	–	–	95,000	–	–
Tianjin LaCha	10,000	–	–	10,000	–	–
Chengdu Lewei	10,000	–	–	10,000	–	–
Shanghai Chong'an	12,750	–	–	12,750	–	12,750
Shanghai Youshi	20,000	–	–	20,000	–	–
Fujian Lewei	10,000	–	–	10,000	–	–
Enterprise Management	800,000	–	–	800,000	–	375,480
Shanghai Nuoxing	10,000	–	–	10,000	–	10,000
Shanghai Jiatuo	1,000	–	–	1,000	–	–
LaCha Naf	3,000	–	–	3,000	–	3,000
Jack Walk	75,000	–	–	75,000	–	75,000
Guangzhou Xichen	–	–	–	–	–	–
Total	1,123,650	–	–	1,123,650	–	481,230

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments (continued)

2. Investment in joint ventures

Investee	Opening balance	Additional investment	Disinvestment	Changes in the current period	
				Return on investment under equity method	Adjustment in other comprehensive profit or loss
Joint venture					
Zhejiang Yuanrui	–	–	–	–	–
Fuzhou Badi	3,119	–	3,119	–	–
Total	3,119	–	3,119	–	–

Continued:

Investee	Changes in other equity	Changes in the current period			Closing balance	Balance of provision for impairment
		Declare payment of cash dividends or profits	Provision for impairment	Other		
Joint venture						
Zhejiang Yuanrui	–	–	–	–	–	–
Fuzhou Badi	–	–	–	–	–	–
Total	–	–	–	–	–	–

Notes to the Interim Financial Statements

January 1 to June 30, 2021
(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(IV) Revenue and cost of sales

1. Revenue, cost of sales

Item	30 June 2021		30 June 2020	
	Revenue	Cost	Revenue	Cost
Main business	139,214	100,599	563,542	500,750
Other business	3,067	2,395	–	–
Total	142,281	102,994	563,542	500,750

2. Income derived from contracts:

Contract classifications	Parent company
1. Category of products	
Apparel	102,388
Brand authorization	36,826
Lease	3,067
2. Classified by business areas	
Domestic	142,281
Overseas	–
3. Classified by the timing of commodity transfer	
Transferred at a point in time	102,389
Transferred at a point over time	39,892
Total	142,281

(V) Investment income

Items	30 June 2021	30 June 2020
Long-term equity interest investment income calculated by equity method	–	150
Disposal of long-term equity investments resulting in investment losses	(2,818)	(23,922)
Investment gains/losses from debt restructuring	6,749	15,704
Total	3,931	(8,068)

Note: The debt restructuring resulted in an investment loss due to the exemption of part of payable for purchase of goods by suppliers.

Notes to the Interim Financial Statements

January 1 to June 30, 2021

(All amounts in RMB'000 unless otherwise stated)

XVI SUPPLEMENTARY INFORMATION

(I) Summary of non-current profit or loss

Items	30 June 2021	30 June 2020
Gains and Loss from disposal of non-current assets	14,179	10,672
Government grants (It is closely related to the normal business operations, except for the government subsidies that are in line with the provisions of the national policies and in accordance with certain standard quota or quantitative continuous enjoyment)	1,567	7,398
Gains and losses on debt restructuring	71,746	33,996
Impairment loss of Inventory	(5,939)	–
Gains from changes in fair value of financial assets held for trading	–	(4,044)
Litigation interest and expense	(22,701)	–
Investment income from disposal of subsidiaries	–	2,033
Investment loss from disposal of subsidiaries	–	(49,267)
Investment income from disposal of associates	–	(296)
Investment income from disposal of long-term investment with equity method	(2,818)	–
Other non-operating income and expenses except the above items	(8)	(4,604)
Less: impact of income tax expense	(14,010)	923
impact on the minority interests, net of tax	(1,468)	(790)
Total	40,548	3,979

(II) Return on net assets and earnings per share

Profit during the reporting period	Weighted average return rate on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	N/A	(0.44)	(0.44)
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	N/A	(0.51)	(0.51)

The weighted-average net assets for the reporting period were negative and the weighted-average return on net assets was not calculated. The Group has no dilutive potential ordinary shares.