La Chapelle

Xinjiang La Chapelle Fashion Co., Ltd.

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

ANNUAL REPORT 2021

(Stock Code: 06116)

Contents

Corporate Profile

Xinjiang La Chapelle Fashion Co., Ltd. (the "**Company**") was incorporated in the People's Republic of China (the "**PRC**" or "**China**") as a joint stock company on 23 May 2011 converting from its predecessor, Shanghai Xuhui La Chapelle Fashion Limited that was founded in 1998. The H shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") since 9 October 2014 (the "**Hong Kong Listing Date**"), and the A shares of the Company have been listed on the Main Board of the Shanghai Stock Exchange since 25 September 2017.

The Company and its subsidiaries (the "**Group**") are a multi-brand and omni-channel operated fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market casualwear. Since its establishment, the Group has kept its focus on the apparel sector and adhered to the brand's core development concept of "designing for a better life". The Group has been committed to providing consumers with fashionable, high-quality and cost-effective apparel products and is an important participant in the mass casual apparel market.

The Group now owns multiple brands such as La Chapelle, Puella, 7 Modifier and La Babité which have different but complementary styles. They are mass-market women fashion brands that have interwoven and extensive customer positioning which satisfy the diverse needs of a wide range of female consumers.

During the Reporting Period, the major activities of the Group include apparel selling, brand licensing and property leasing. It is a diversified Group including apparel products and brand licensing.

Corporate Profile

7MODIFIER

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
Hong Kong

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTORS

Executive Directors

Mr. Zhao Jinwen *(Chairman)*
Ms. Zhang Ying *(President)*

Non-executive Director

Mr. Yang Heng

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Xing Jiangze *(Chairman)*
Mr. Yang Heng
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. Zhao Jinwen
Mr. Zhu Xiaozhe

BUDGET COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Zhao Jinwen *(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 SECRETARIES

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

AUTHORIZED REPRESENTATIVES

Mr. Zhao Jinwen (appointed on 20 April 2022)
Mr. Zhang Xin (appointed on 10 June 2021,
and resigned with effect from 20 April 2022)
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


7MODIFIER

Financial Highlights

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**430,128**	1,819,317	7,666,229	10,175,853	8,998,709
Gross profit	**210,762**	885,596	4,423,450	6,647,516	5,627,804
Gross profit margin	**49.00%**	48.68%	57.70%	65.33%	62.5%
Operating (loss)/profit	**(724,598)**	(1,498,037)	(2,266,447)	(151,681)	737,493
Operating (loss)/profit margin	**(168.46%)**	(82.34%)	(29.56%)	(1.49%)	8.2%
(Loss)/profit for the year	**(822,762)**	(1,876,936)	(2,252,279)	(199,182)	537,440
(Loss)/profit attributable to equity owners of the Company	**(821,280)**	(1,839,543)	(2,166,306)	(159,513)	498,527
Non-controlling interests	**(1,482)**	(37,393)	(85,973)	(39,669)	38,913

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**1,998,777**	2,293,936	4,811,602	3,473,479	2,817,072
Current assets	**408,086**	1,191,844	3,199,921	5,216,019	5,054,640
Total assets	**2,406,863**	3,485,780	8,011,523	8,689,498	7,871,712
EQUITY AND LIABILITIES					
Total equity	**(1,509,570)**	(686,648)	1,126,196	3,561,957	4,069,228
Non-current liabilities	**429,938**	408,909	1,400,240	407,752	67,039
Current liabilities	**3,486,495**	3,763,519	5,485,087	4,719,789	3,735,445
Total liabilities	**3,916,433**	4,172,428	6,885,327	5,127,541	3,802,484
TOTAL EQUITY AND LIABILITIES	**2,406,863**	3,485,780	8,011,523	8,689,498	7,871,712

The above summary does not form a part of the consolidated financial statements.

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present to you the annual report of the Group for the year ended 31 December 2021.

Since the second half of 2018, due to factors such as the failure to make correct judgment on the external industry environment, as well as ineffective internal strategy, excessive expansion and cost structure imbalance, coupled with the impact of the COVID-19 epidemic since 2020, the Company's financing channels were severely limited, its capital chain was broken and it has been unable to repay its debts as they fell due, and the Company has been subject to a large number of litigations and asset freezes and seizures. The Company's production and operations were adversely affected by the relatively significant cash flow pressure and the risk of concentration of debt payments. During the reporting period, the Company overcame numerous difficulties and strived to maintain the normal operation of the Company. Through adjusting and transforming its business model, actively responding to litigation matters, stabilising the core management and staff team, promoting the resolution of historical issues and strengthening internal control management, the Company achieved certain results in its business transformation and sustainable development.

2021 was a year for the Company to forge ahead and deepen changes. Although the Company is still facing certain difficulties at this stage, through the implementation of innovative changes in the business model, adjustment and transformation of management and efforts to resolve operating burdens, the Company has achieved a significant reduction in losses in 2021, and its main business operations have improved with clearer development thinking, laying a solid foundation for returning to the path of positive growth. In 2022, the Company will continue to promote the clearance of historical problems and improve the operation of the Company. The main measures to be taken in 2022 are as follows:

1. Continue to plan for debt solutions to reduce the burden of business development. On the one hand, the Company will continue to negotiate with the court, creditors and financial institutions to obtain a certain percentage of debt discount or installment payment terms to avoid the uncertainty brought to the Company by new litigation cases. On the other hand, the Company will plan for a comprehensive solution to the debt problem, including but not limited to debt restructuring, reaching settlement and creditors' arrangement, in order to eliminate the debt burden through a comprehensive solution and promote the Company's return to a sound development path.

2. Currently, the number of the Company's offline network has basically reached its minimum. In the future, the Company's channel strategy will change to "open new shops and open good shops", so as to reasonably expand the scale of the Company's business. In addition, in 2022, the Company will continue to improve the level of refinement of the management of its stock at shops, through adjusting the product and personnel structure, and using single shops as a gateway to promote the clearance of legacy issues, so as to improve sales per store, sales per unit area and profitability of the offline operating network.

3. Strengthen the construction of brand laddering, youthfulness and quality, and complete the brand's new transformation. The Company will follow the business development strategy of "one brand, one strategy, division of the primary and the secondary", integrate its management resources to promote the rejuvenation of its brands, and expand its potential consumer base. To date, the Company is in the process of creating the new

Chairman's Statement

Puella brand, whose brand positioning, product style and target group are more in line with the current trend and market rhythm, which is expected to help enhance the vitality of the brand and grow its business scale. In addition, the Company has launched two new brands, USHGEE and EYEHI, through internal incubation and external collaboration, to reserve new business growth points for the future.

4. The Company will continue to transform into an asset-light, high-profit-margin, fast-turnaround business model in line with the basic idea of "rebranding and brand protection". In the future, the Company will continue to increase its brand empowerment promotion efforts, further expand the brands, categories and platform channels covered by its online brand business, extend more business chains on top of the original business, and strive to build its brands into strong brands in various sub-sectors.

5. While taking measures to extricate itself from the crisis, the Company will also leverage on the resources and advantages of its major shareholders, Wensheng Asset, Haitong Securities and Cinda Asset in terms of financing credit, capital strength and professional capabilities to restore and enhance the Company's credit and financing capabilities through overall business optimization and restructuring and the seeking of additional capital.

In 2022, "Change" will remain as the main theme of the Company. The Company will embrace new opportunities and challenges with a positive and optimistic attitude, and will continue to develop its business with enthusiasm and vigour. On behalf of the Board, I would like to express sincere gratitude to the Group's shareholders, business partners, customers and employees for their unstinting support. Going forward, the Group will continue to strive for innovation and change, creating value for shareholders.

Mr. Zhao Jinwen
Chairman

27 April 2022

Management Discussion and Analysis

INDUSTRY REVIEW AND BUSINESS OPERATIONS

According to the the data from the National Bureau of Statistics, the total retail sales of consumer goods in 2021 amounted to RMB44,082.3 billion, representing an increase of 12.5% over the previous year; the retail sales of consumer goods in units above designated size amounted to RMB16,414.8 billion, representing a year-on-year increase of 13.4%. Among them, retail sales of apparel, footwear, hats and knitted textiles in the consumer goods category above designated size amounted to RMB1,384.2 billion, representing a year-on-year increase of 12.7%; retail sales of supermarkets in the retail sector above designated size increased by 6.0% over the previous year, while those of department stores, professional shops and specialty shops grew by 11.7%, 12.8% and 12.0% respectively.

As residents travelled less due to the COVID-19 pandemic, demand for online consumption increased significantly, with online retail sales increasing by 14.1% in 2021 compared to the previous year, a higher growth rate than offline consumption. On the whole, consumer demand was dampened by the epidemic and floods in China, but the trend of sustained recovery in consumption remained unchanged, with steady growth.

During the Reporting Period, affected by factors such as the outbreak of the COVID-19 pandemic and the closure of offline channels of the Company, the decrease in product procurement and the transformation into an online business model, the Company recorded revenue of RMB430 million in the year ended 31 December 2021, representing a year-on-year decrease of RMB1,389 million or 76.36% as compared with RMB1,819 million in last year. The net loss attributable to shareholders of the Company for the year ended 31 December 2021 amounted to RMB820 million, representing a year-on-year decrease in net loss of RMB1,020 million. Main reasons for the continuous loss for the Reporting Period: 1. During the Reporting Period, due to external reasons such as the impact of the pandemic and also cash flow pressure of the Company, the Company continued to close down offline stores that are loss-making. The operating loss of the closed stores, and expenses such as those arising from the one-off amortization of all the remaining renovation fees and the closing of stores cumulatively resulted in an operating loss of approximately RMB60 million. 2. During the Reporting Period, the Company was involved in many litigation cases with high claim amounts, and expenses such as interest for debt, overdue penalties, and litigation costs accounted for a loss of approximately RMB290 million. 3. During the Reporting Period, as a result of the aging of its inventories, the Company made provision for impairment loss for inventories of approximately RMB150 million. 4. During the Reporting Period, the Company made provision for credit impairment loss for the receivables of approximately RMB190 million. At the end of the Reporting Period, the Company tested assets including goodwill and long-term assets with signs of impairment and correspondingly made provision for assets impairment loss of approximately RMB160 million.

Management Discussion and Analysis

Review

Since the second half of 2018, due to factors such as the failure to make correct judgment on the external industry environment, as well as ineffective internal strategy, excessive expansion and cost structure imbalance, coupled with the impact of the COVID-19 epidemic since 2020, the Company's financing channels were severely limited, its capital chain was broken and it has been unable to repay its debts as they fell due, and the Company has been subject to a large number of litigations and asset freezes and seizures. The Company's production and operations were adversely affected by the relatively significant cash flow pressure and the risk of concentration of debt payments. During the Reporting Period, the management of the Company endeavoured to maintain the normal operation of the Company, mainly focusing on the following aspects:

1. Maintaining normal operations of our core business and actively promoting the development of the Company. During the Reporting Period, the Company's management, under the leadership of the Board of Directors, strived to maintain the stability of its basic production and operations and core business, even though it was still facing capital constraints and difficulties in production and operation. In 2021, the Company achieved a revenue of approximately RMB430 million; in respect of offline channels, the Company actively implemented franchise, joint venture and agency business models, and focused on improving the refined management level of its quality stock of shops, resulting in a revenue of RMB287 million; and in respect of online channel, through the transformation of the brand licensing business model, the Company's business turnover and profitability improved significantly, resulting in a revenue of RMB60.45 million from licensing business for the year, representing an increase of 215% as compared to 2020.

2. Actively responding to litigation matters to protect the Company's legal rights. As the Company faced a relatively large number of litigation cases with high amounts of monetary compensation involved, the Company set up a special litigation and debt clearance team during the Reporting Period to prudently investigate and settle litigation matters involving the Company, and hired a team of professional lawyers to handle important cases to take effective measures to deal with litigation cases and the freezing, seizure and enforcement of assets, so as to protect the legitimate rights and interests of the Company and its shareholders.

3. Advancing solutions to historical debt problems and reduce the Company's operating burden. During the Reporting Period, in view of the historical debt problems, the Company, in a responsible attitude towards its shareholders and creditors, actively negotiated with the court, creditors and financial institutions to seek debt extensions, waivers, discounts, settlements and settlement of debts with goods to reduce the Company's burden. In 2021, the Company realised debt restructuring proceeds of approximately RMB150 million in the form of settlement of debt with goods, etc.. On the other hand, the Company reached a tacit agreement with some of its suppliers to shelve their historical debts and jointly launch new businesses, thereby enhancing the suppliers' confidence in cooperating with the Company and providing support for its sustainable business development. In addition, the Company has reduced the risk of increasing receivables by actively adjusting its sales strategy, strengthening the control of receivables, and strengthening the collection of uncollected payments. During the Reporting Period, the Company recovered uncollected payments from previous years in the amount of approximately RMB50 million, providing support for the business liquidity.

4. Stabilising the core management and staff team to ensure the normal operation of the Company. Previously, due to the relatively "rapid change" in the Company's business, there was a relatively large turnover and frequent changes in the Company's core management staff and junior staff, which also affected the Company's operations to a certain extent. In 2021, the Company continued to adjust its human resources policies, optimise its business, position settings and risk management processes to enhance the stability of its management and key personnel. The Company has also adapted its management requirements to cater for the special circumstances by adjusting its structure, reducing the number of reporting layers and flattening management. The Company has now formed a core team in view of the actual circumstances at this stage and has further defined its core objectives of improving the quality of its operations and enhancing its profitability.

5. Strengthening its internal control management and enhancing the standard of operation of the Company. During the Reporting Period, the Company reviewed and improved its internal management system and formulated systems to prevent misappropriation of funds, management of inside information, internal reporting of material information and accountability for errors in annual financial reporting; At the same time, the Company further strengthened its financial management and management of the use of company seals, continuously optimised various control links and functions of various departments, and improved the weak links in its internal control system, thereby effectively enhancing the Company's risk prevention capability and standard of operations. This has effectively improved the Company's risk prevention capability and standard of operations.

In 2021, although the Board and the management of the Company actively maintained the normal operation of the Company's business under extremely difficult circumstances and strived to eliminate the qualifications in previous years' audit reports and to achieve a positive net asset position, the Company's results for the Reporting Period were still loss-making due to the heavy burden faced by the Company in various aspects, and many historical problems that could not be effectively resolved, and the audited net asset position continued to be negative. According to the relevant regulations, the Shanghai Stock Exchange has decided to delist the Company's A shares.

FINANCIAL REVIEW

For the year ended 31 December 2021, the Group's revenue and operating loss reached RMB430.1 million and RMB724.6 million respectively, representing a decrease of 76.4% and 51.6% respectively, as compared with the last year. The net loss for the year ended 31 December 2021 amounted to RMB822.8 million, representing a loss decrease of 56.2% as compared with the last year.

Revenue

The revenue of the Group for the year ended 31 December 2021 decreased from RMB1,819 million for 2020 to RMB430 million, representing a decrease of 76.4%.

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 retails points of the Group in China decreased by 659 from 959 as at 31 December 2020 to 300 as at 31 December 2021, representing a decrease of 68.7%; (2) the Company's transfer to a 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:

	Year ended 31 December					
	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	**103,023**	**23.8**	**49.4**	677,446	37.1	(2.0)
Standalone retail outlets	**99,260**	**23.1**	**41.6**	625,496	34.4	(4.0)
Online platform	**16,142**	**3.8**	**79.2**	295,760	16.3	35.4
Franchise/Associates	**50,033**	**11.6**	**51.9**	169,090	9.3	9.0
Wholesale	**34,230**	**8.0**	**(35.5)**	90	0.0	4.5
Licensing	**60,448**	**14.1**	**100.0**	19,179	1.1	–
Others	**66,992**	**15.6**	**47.0**	32,256	1.8	(50.4)
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

The revenue from concessionaire counters decreased from RMB677.4 million for the year ended 31 December 2020 to RMB103.0 million for the year ended 31 December 2021, representing a decrease of 84.8%. The revenue from retail outlets decreased from RMB625.5 million for the year ended 31 December 2020 to RMB99.3 million for the year ended 31 December 2021, representing a decrease of 84.1%. Due to factors such as 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, the revenue from licensing business of the Company accounted for 14.1% of the total revenue of the Group for the year ended 31 December 2021.

Note: "Others" mainly refers to the revenue from the Company's leasing business of RMB51.9 million and labour services, amounting to a sum of RMB67.0 million in total.

Revenue by brand

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

	Year ended 31 December					
	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	**130,146**	**30.3**	**46.9**	388,101	21.4	(8.1)
Puella	**54,520**	**12.7**	**46.2**	287,612	15.8	(6.2)
7 Modifier	**42,246**	**9.8**	**52.7**	266,274	14.6	5.0
La Babité	**46,590**	**10.8**	**42.3**	234,720	12.9	(5.1)
Candie's	**33,544**	**7.8**	**51.9**	187,228	10.3	0.0
USHGEE	**3,430**	**0.8**	**35.2**	–	–	–
Menswear brands	**34,170**	**7.9**	**60.9**	72,586	4.0	29.7
8ém	**5,532**	**1.3**	**56.3**	37,081	2.0	11.6
Other brands	**12,958**	**3.0**	**65.9**	32,783	1.8	125.9
Others	**66,992**	**15.6**	**47.0**	32,256	1.8	(50.4)
Naf Naf	**–**	**–**	**–**	280,676	15.4	–
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

Notes:

1. There is a new brand, USHGEE, during the Reporting Period; "Menswear brands" comprise JACK WALK, Pote and MARC ECKŌ brands; "Other brands" comprise brands including UlifeStyle and Siastella brands; "Others" mainly refers to the revenue from the leasing business of RMB51.9 million and the revenue from labour services.

2. Due to factors such as the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for its 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 adoption of a brand licensing business model with a higher gross profit during the Reporting Period and the Company's increased efforts to sell aged inventories at a value higher than the net value and the increase in the sale of aged inventories at a value higher than the net value, the gross profit of certain brands of the Company recorded an increase.

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 year ended 31 December 2021 had an overall decrease of 76.4%. The revenue from each of the major brands decreased, and in particular, the revenue from womenswear brands decreased by 77.2%, and that from menswear brands decreased by 52.9%. At the same time, due to the increase in the proportion of licensing revenue in the total revenue and the increase in the sale of aged inventories 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:

	Year ended 31 December					
	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))
First-tier cities	**61,836**	**14.3**	**18.7**	148,513	8.2	(22.7)
Second-tier cities	**161,576**	**37.6**	**37.2**	670,280	36.8	(8.3)
Third-tier cities	**98,568**	**22.9**	**50.8**	369,368	20.3	(3.4)
Other cities	**47,700**	**11.1**	**59.9**	331,301	18.2	10.1
Overseas region	**–**	**–**	**–**	280,676	15.4	–
Licensing	**60,448**	**14.1**	**100.0**	19,179	1.1	–
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

Note: For the classification of domestic cities into various tiers, please refer to the prospectus of the Company dated 24 September 2014 (the "**Prospectus**").

For the year ended 31 December 2021, the Group's revenue in all tiers of cities decreased, mainly due to factors such as the decline in the number of retail outlets and the decrease in product purchases. The gross profit margin in first-tier cities decreased, mainly due to the Company's strengthening clearance of the inventory during the Reporting Period.

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:

	Year ended 31 December					
	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))
Tops	**209,337**	**48.7**	**35.5**	1,181,143	64.9	(9.6)
Bottoms	**29,193**	**6.8**	**48.7**	174,546	9.6	(2.4)
Dresses	**60,228**	**14.0**	**45.8**	410,737	22.6	(6.4)
Accessories	**3,930**	**0.9**	**68.3**	1,456	0.1	147.9
Others	**127,440**	**29.6**	**72.2**	51,435	2.8	(26.2)
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

Note: "Others" refers to the revenue from the Company's licensing business of RMB60.44 million, and other revenue of RMB66.99 million.

For the year ended 31 December 2021, revenue of the Group from sales recorded a decrease across tops, bottoms, and dresses, which was partly attributable to the year-on-year decrease in the number of existing stores of the Group, 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 as compared with the same period of last year, revenue contribution from sales of tops decreased by 16.2%, that from sales of bottoms decreased by 2.8% and that from sales of dresses decreased by 8.6%.

Cost of Sales

The cost of sales of the Group decreased by 76.5% from RMB933.7 million for the year ended 31 December 2020 to RMB219.4 million for the year ended 31 December 2021. The decrease in cost of sales was mainly due to the year-on-year decrease in revenue.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB885.6 million for the year ended 31 December 2020 to RMB210.8 million for the year ended 31 December 2021, representing a decrease of 76.2%, mainly attributable to a period-on-period decrease in revenue.

The overall gross profit margin of the Group increased to 49.0% for the year ended 31 December 2021 from 48.7% for the year ended 31 December 2020, mainly due to the increase in the proportion of revenue from the Company's licensing business and increased efforts to sell aged inventories at a value higher 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 for the year ended 31 December 2021 amounted to RMB215.4 million (2020: RMB1,637.8 million), consisting primarily of sales staff salaries and benefits, concessionaire expenses relating to retail points and online stores, depreciation of right-of-use assets, amortisation of store decoration expenses and depreciation of fixed assets. Expressed as a percentage, selling and distribution expenses for the year ended 31 December 2021 as a percentage of total revenue for the year ended 31 December 2021 was 50.1% (2020: 90.0%), 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, concessionaire expenses relating to shopping malls and online stores, depreciation of right-of-use assets and amortisation of long-term deferred expenses. However, on the whole, the ratio of selling and distribution expenses to revenue was still at a high level. General and administrative expenses for the year ended 31 December 2021 amounted to RMB158.5 million (2020: RMB264.6 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 for the year ended 31 December 2021 were 36.8% (2020: 14.5%). 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 year ended 31 December 2021 was RMB310.2 million (2020: RMB341.2 million), which was provided for impairment of inventories.

Credit Impairment Loss

Credit impairment losses recorded RMB186.5 million for the year ended 31 December 2021 (2020: RMB149.4 million), mainly due to bad debt losses of accounts receivables and other receivables.

Investment Income

Investment income for the year ended 31 December 2021 was RMB31.8 million (2020: RMB-46.2 million), mainly due to gain on debt restructuring.

Other Income – Net

The Group's other income amounted to RMB108.4 million for the year ended 31 December 2021 (2020: RMB23.6 million), mainly due to the debt restructuring income generated by the settlement of debts with goods in the Reporting Period.

Finance Expenses/Income – Net

The Group's net finance expenses were RMB199.7 million for the year ended 31 December 2021 (2020: RMB152.7 million). The increase in the net financial expenses was mainly a result of the penalty interest arising from overdue debts charged by 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 RMB1,513.0 million for the year ended 31 December 2020 to a loss before income tax of RMB835.7 million for the year ended 31 December 2021, representing a decrease of 44.8% 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/Credit

Income tax credit amounted to RMB-12.9 million for the year ended 31 December 2021 (2020: RMB363.9 million). The effective income tax rate for the year ended 31 December 2021 was 1.5% (2020: -24.1%).

Net Loss for the Reporting Period

As a result of the foregoing, net loss of the Group for the year ended 31 December 2021 amounted to RMB822.8 million, representing a decrease by 56.2% from the net loss of RMB1,876.9 million for the year ended 31 December 2020. In particular, net loss for the Reporting Period attributable to the shareholders of the Company was RMB821.3 million, representing a decrease by 55.4% from the net loss of RMB1,839.5 million for the year ended 31 December 2020.

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. For the year ended 31 December 2021, the capital expenditure incurred by the Group was RMB4.9 million (2020: RMB45.0 million).

Cash and Cash Flow

For the year ended 31 December 2021, net cash generated from operating activities amounted to an inflow of RMB37.9 million (2020: inflow of RMB99.6 million). The decrease in the net cash inflow from operating activities was mainly due to the decrease in revenue.

For the year ended 31 December 2021, net cash generated from investing activities amounted to a net cash inflow of RMB13.3 million (2020: net outflow of RMB5.2 million). In particular, the major investment activities for the year ended 31 December 2021 contributing to the cash inflow were: (1) the net cash inflow of RMB17.1 million for disposal of subsidiaries; and (2) the net cash inflow of RMB1.1 million for disposal of fixed assets, intangible assets and other long-term assets, which was partially offset by the net cash outflow of RMB4.9 million to acquire fixed assets, intangible assets and other long-term assets.

For the year ended 31 December 2021, net cash used in financing activities amounted to an outflow of RMB14.2 million (2020: net outflow of RMB245.3 million). Major financing activities for the year ended 31 December 2021 included: (1) cash payments for distribution of dividends, profits or interest expenses resulting in a net cash outflow of RMB3.4 million; (2) repayment of bank loans and interests resulting in a net cash outflow of RMB5.0 million; (3) payment relating to other financing activities resulting in a net cash outflow of RMB7.8 million; and (4) cash received from investments by others resulting in a net cash inflow of RMB2.0 million.

As at 31 December 2021, the Group held cash and cash equivalents in the total amount of RMB61.4 million (31 December 2020: RMB24.3 million), mainly due to the decrease in net cash outflows from financing activities compared with the corresponding period of last year.

For the year ended 31 December 2021, the average inventory turnover of the Group was 212 days (2020: 217 days), and the average receivables turnover was 150 days for the year ended 31 December 2021 (2020: 85 days). The year-on-year increase in inventory turnover rate was mainly due to the Company's strengthening clearance of the inventory and the business contraction of the Company.

As at 31 December 2021, current liabilities of the Group amounted to RMB3,486.5 million (31 December 2020: current liabilities of the Group amounted to RMB3,763.5 million). Total assets less current liabilities amounted to RMB-1,079.6 million (31 December 2020: total assets less current liabilities amounted to RMB-277.7 million). The gearing ratio (calculated by dividing total liabilities by total assets) was 162.7% (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.

Total equity attributable to shareholders of the Company

As at 31 December 2021, total equity attributable to shareholders of the Company was RMB-1,431.3 million (31 December 2020: RMB-607.9 million).

Bank loans and other borrowings

As at 31 December 2021, bank borrowings of the Group amounted to RMB1,149.2 million (31 December 2020: RMB1,167.4 million), which mainly included mortgages, pledges and guaranteed loans due within one year.

Pledge of assets

(a) As at 31 December 2021, the book value of properties and buildings used as collateral for bank loans was RMB1,493.5 million (31 December 2020: RMB1,581.5 million).

(b) As at 31 December 2021, projects under construction with a book value of 75.0 million (31 December 2020: 68.5 million) were used as collateral to obtain bank loans.

(c) As at 31 December 2021, the land use right with a book value of RMB144.1 million (31 December 2020: RMB147.3 million) was used to support a mortgage to obtain bank loans; the amortization amount of the land use right in 2021 was RMB3.4 million (2020: RMB3.3 million)

Litigation and Contingent liabilities

(a) 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 for a loan of EUR37.4 million 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 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. LaCha Apparel I Sarl, LaCha Apparel II and Naf Naf SAS. HTI 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 RMB355.7 million was accrued.

(b) 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 28 December 2021, an aggregate of 145 bank accounts of the Group have been frozen, involving an aggregate frozen amount of approximately RMB111 million. As at 29 December 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 RMB667 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. For details, please refer to the announcement of the Company dated 29 December 2021.

As at 29 December 2021, as a result of the Company's involvement in a total of 39 litigation cases arising from disputes such as disputes over loan agreements and construction agreements, 4 real properties of the Company (with an aggregate book value of approximately RMB1.646 billion as at 30 November 2021) have been seized. The seizure has caused restriction to rights and there is a risk that the real properties may be judicially auctioned for debt repayment. 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 29 December 2021.

For the details of the update announcement after the Reporting Period, please refer to the announcement of the Company dated 1 April 2021.

Human Resources

As at 31 December 2021, the Group had 519 full-time employees in total (31 December 2020: 2,354). The Group offers competitive compensation package for its employees, including statutory social insurance, housing fund, holiday benefits and other benefits, etc. Meanwhile, the Group is dedicated to building itself a learning organization by emphasizing employee training, individual development and team spirit.

Significant investments held

Please refer to notes VI(9) and VI(10) to the consolidated financial statements of the Group for the year ended 31 December 2021 for details of the investments held by the Group.

BUSINESS REVIEW

Retail Network

For the year ended 31 December 2021, the number of domestic retail outlets of the Group was 300, decreasing from 959 as at 31 December 2020, which were situated at approximately 205 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 31 December 2021 and as at 31 December 2020 by tier of cities in the PRC:

	As at 31 December			
	2021		2020	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
First-tier cities	**23**	**7.7**	50	5.2
Second-tier cities	**128**	**42.7**	408	42.5
Third-tier cities	**58**	**19.3**	204	21.3
Other cities	**91**	**30.3**	297	31
Total	**300**	**100.0**	959	100.0

Note: In respect of the classification of the tier of cities, please refer to the Prospectus.

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

	As at 31 December			
	2021		2020	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
Concessionaire counters	**117**	**39.0**	561	58.5
Standalone retail outlets	**32**	**10.7**	331	34.5
Franchise/Associate	**151**	**50.3**	67	7.0
Total	**300**	**100.0**	959	100.0

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

	As at 31 December			
	2021		2020	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
La Chapelle	**150**	**50.1**	253	26.3
Puella	**43**	**14.3**	202	21.1
7 Modifier	**45**	**15.0**	176	18.4
La Babité	**25**	**8.3**	154	16.1
Candie's	**25**	**8.3**	142	14.8
USHGEE	**12**	**4.0**	–	–
Menswear	**–**	**–**	21	2.2
8ém	**–**	**–**	5	0.5
Other brands	**–**	**–**	6	0.6
Total	**300**	**100.0**	959	100.0

Notes:

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. During the Reporting Period, the Company conducted a comprehensive evaluation of all stores in the terminal channel and further closed some loss-making and inefficient stores.

2. Other brands include UlifeStyle and Siastella.

Management Discussion and Analysis

The table below sets out the distribution of the Group's net retail points open/(closure) in the PRC in as at 31 December 2021 and as at 31 December 2020 by brands:

	For the year ended 31 December			
	2021		2020	
	Number of Net retail points closure	**Percentage of total (%)**	Number of retail points points closure	Percentage of total (%)
La Chapelle	**(103)**	**15.5**	(951)	21.1
Puella	**(159)**	**24.1**	(831)	18.4
7 Modifier	**(131)**	**19.9**	(782)	17.4
La Babité	**(129)**	**19.6**	(613)	13.6
Candie's	**(117)**	**17.8**	(451)	10.0
USHGEE	**12**	**(1.8)**	–	–
Menswear	**(21)**	**3.2**	(195)	4.3
8ém	**(5)**	**0.8**	(89)	2.0
Other brands	**(6)**	**0.9**	(593)	13.2
Total	**(659)**	**100.0**	(4,505)	100.0

In the Reporting Period, the number of retail outlets of the Group's major brands declined.

Same store sales

Due to the adjustments in market structure, the Company has seen the migration of certain customers from department stores and shopping centers to rapidly emerging online shopping platforms, causing reduction in same store sales of traditional clothing enterprises that relied on department stores as their primary distribution channels. On the other hand, due to the insignificant recovery of the consumption market, same store sales of retail shops in 2021 decreased by 17.9%, compared to that of 2020.

FUTURE OUTLOOK

The de-listing of A shares will not affect the normal operations of the Company, and the Company will continue to work hard to achieve quantitative and qualitative transformation by expanding its business. In 2022, "change" will continue to be the main theme of the Company. The Board of the Company will lead the management and staff of the Company to take proactive measures to improve the Company's ability to sustain and operate, and to put the Company back on the growth track. The main measures to be taken are as follows:

1. Promote the clearance of historical problems and improve sales per store, sales per unit area and profitability of the offline operating network. After the massive closure of shops, the number of the Company's offline network has basically reached its minimum. In the future, the Company's channel strategy will change to "open new shops and open good shops", and it intends to adopt direct operation in core business areas, while franchising, joint venture and agency will co-exist in the remaining areas, so as to achieve the effect of reducing the management radius and saving operating capital investment, while reasonably expanding the scale of the Company's business. In addition, in 2022, the Company will continue to improve the level of refinement of the management of its stock at shops, through adjusting the product and personnel structure, and using single shops as a gateway to promote the clearance of legacy issues, so as to improve sales per store, sales per unit area and profitability of the offline operating network.

2. Strengthen the construction of brand laddering, youthfulness and quality, and complete the brand's new transformation. The Company has five women's wear, one kid's wear and two men's wear brands, which have accumulated a huge consumer base through long-term development and have relatively high brand influence and recognition. The Company will follow the business development strategy of "one brand, one strategy, division of the primary and the secondary", integrate its management resources to promote the rejuvenation of its brands, develop corresponding high quality new products and expand its potential consumer base. To date, the Company is in the process of creating the new Puella brand, whose brand positioning, product style and target group are more in line with the current trend and market rhythm, which is expected to help enhance the vitality of the brand and grow its business scale. In addition, the Company has launched two new brands, USHGEE and EYEHI, through internal incubation and external collaboration, to reserve new business growth points for the future.

3. The Company will continue to transform into an asset-light, high-profit-margin, fast-turnaround business model in line with the basic idea of "rebranding and brand protection". In 2021, the Company achieved operating revenue of approximately RMB60.45 million through the expansion of its brand licensing business, which effectively improved the Company's business turnover and profitability. In the future, the Company will continue to increase its brand empowerment promotion efforts, further expand the brands, categories and platform channels covered by its online brand business, extend more business chains on top of the original business, and strive to build its brands into strong brands in various sub-sectors.

Management Discussion and Analysis

4. Unload the heavy baggage and move lighter as soon as possible. In 2021, the Company's income from the leasing of real estate reached RMB51.92 million, which effectively improved the efficiency of the Company's assets and reduced operating costs. The Company will continue to negotiate with creditors and the court on the disposal of relevant assets, promote the leasing or disposal of existing inefficient property assets (including the headquarters campus properties and warehousing and logistics assets), and strive to achieve disposal at a maximum premium, and return capital by divesting assets that are not in line with the Company's strategy, so as to improve liquidity and asset structure and provide capital support for core business development. In addition, the company will continue to effectively reduce the inventory of aged products, strengthen the collection of receivables, and ease the liquidity pressure to stabilize the Company's production and operation.

5. Continue to plan for debt solutions to reduce the burden of business development. On the one hand, the Company will continue to negotiate with the court, creditors and financial institutions to obtain a certain percentage of debt discount or installment payment terms to avoid the uncertainty brought to the Company by new litigation cases. According to the Company's communication with some creditors, they are willing to support the Company's sustainable development by way of debt extension, discount and waiver. On the other hand, the Company will plan for a comprehensive solution to the debt problem, including but not limited to debt restructuring, reaching settlement and creditors' arrangement, in order to eliminate the debt burden through a comprehensive solution and promote the Company's return to a sound development path.

6. The Company will continue to strengthen its management system and regulate its operations to provide support for the healthy, virtuous and sustainable development of its business. The Company is in the process of reorganising its management system and performance appraisal system, promoting a performance contribution-oriented internal distribution mechanism, and improving the incentive and constraint mechanism that combines the interests of the management and staff with the long-term interests of the Company, so as to better stimulate the development of the Company. At the same time, the Company will continue to improve the weaknesses in the internal control system and optimise the functions of each control link and department.

7. While taking measures to extricate itself from the crisis, the Company will also leverage on the resources and advantages of its major shareholders, Wensheng Asset, Haitong Securities and Cinda Asset in terms of financing credit, capital strength and professional capabilities to restore and enhance the Company's credit and financing capabilities through overall business optimization and restructuring and the seeking of additional capital.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS OF THE FOURTH SESSION OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Zhao Jinwen (趙錦文), aged 29, has been an executive director, chairman of the Board, a member of the remuneration and appraisal committee, a member of the budget committee, and the chairman of the strategy and development committee of the Board since 20 April 2022. He was a non-executive director and a member of Audit Committee of the Company from 10 June 2021 to 20 April 2022. He obtained a master's degree in finance from Tsinghua University in July 2016. Mr. Zhao served as a manager at China Orient Asset Management Co., Ltd.* (中國東方資產管理股份有限公司) from July 2016 to July 2020, and has been a manager of the president's office of Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ("**Shanghai Wensheng**") since July 2020.

For the details of Shanghai Wensheng's interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

Ms. Zhang Ying (張瑩), aged 43, is the executive director of the Company (with effect from 11 January 2021), the president of the Company (with effect from 9 December 2020), the chairman of the Budget Committee of the Company (with effect from 22 February 2021), a member of the Strategy and Development Committee of the Company (with effect from 22 February 2021) and a member of Nomination Committee of the Company (with effect from 22 February 2021). She was the chairman of the Board, the chairman of the Nomination Committee, the chairman of the Strategy and Development Committee, a member of the Budget Committee of the Company from 11 January 2021 to 22 February 2021 and a member of Audit Committee of the Company from 11 January 2021 to 10 June 2021. She holds a Bachelor's degree in fashion design from Tianjin Polytechnic University and is now undertaking an EMBA degree at Xiamen University. Since 2003, she has worked as a designer, associate supervisor, a supervisor of brands, general manager of brand department, general manager of business unit, vice president, and president of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Yang Heng（楊恒）, aged 38, is the non-executive director of the Company (with effect from 6 July 2021), a member of Audit Committee of the Company (with effect from 20 April 2022), and a member of Strategy and Development Committee of the Company (with effect from 6 July 2021). He was a member of Budget Committee of the Company from 6 July 2021 to 20 April 2022. He obtained a master's degree of Laws from Renmin University of China（中國人民大學）in 2009. Mr. Yang has worked for Hainan Jianxin Investment Management Co., Ltd.*（海南建信投資管理股份有限公司）since March 2010, and is currently a deputy general manager. He has also served as a director of Beijing Sande Environmental Engineering Co.,Ltd.*（北京桑德環境工程有限公司）from May 2019 to present, the chairman of the supervisory committee of Shoutai Jinxin (Beijing) Equity Investment Fund Management Co., Ltd.*（首泰金信（北京）股權投資基金管理股份有限公司）from February 2021 to present.

For the details of Hainan Jianxin Investment Management Co., Ltd.'s interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xing Jiangze (邢江澤), aged 55, has been an independent non-executive Director, the chairman of the Audit Committee and Remuneration and Appraisal Committee and a member of the Budget Committee and Nomination Committee of the Company since 8 May 2020. Mr. Xing Jiangze is a certified public accountant, certified tax agent and senior accountant in China. He has a practicing certificate for Asset Management Association of China and has nearly 30 years' experience in finance, accounting and auditing. From January 1992 to November 1998, he served as a director and financial manager of Lingbao Wuhua Fuel Co., Ltd.* (靈寶物華燃料有限公司). From December 1998 to January 2000, he served as a chief accountant of Henan Lingye Group Co., Ltd.* (河南淩冶集團有限公司). From February 2000 to November 2002, he served as a project manager and a manager of the first auditing division of Henan Zhengyong Accounting Firm* (河南正永會計師事務所). From November 2002 to April 2007, he served as a financial director of Lingbao Shuangxin Mining Co., Ltd.* (靈寶雙鑫礦業有限公司). From April 2007 to June 2018, he served as a deputy financial director and manager of the finance department, financial director, investment director, secretary of the board, deputy general manager and executive director of Lingbao Gold Group Company Ltd. (stock code: 03330). He has served as a vice chairman, secretary of the board and senior executive vice president of Lingbao Gold Group Company Ltd. from June 2018 to May 2021, and he has served as a vice chairman and secretary of the board of Lingbao Gold Group Company Ltd. from May 2021.

Mr. Xing Jiangze graduated from Henan Radio and Television University with a college diploma in accounting in July 1988. Mr. Xing Jiangze attended the PLA Information Engineering University from September 2006 to June 2009 for computer science and technology, and obtained a bachelor's degree in engineering.

Ms. Chow Yue Hwa Jade (周玉華), aged 59, has been an independent non-executive Director, a member of the Audit Committee, Budget Committee, and Strategy and Development Committee of the Company since 10 June 2021. She obtained a master's degree in business administration from the University of Southern California in May 1985 and a bachelor's degree in science from University of California, Los Angeles in August 1983. Ms. Chow acted as the general manager and a director of Elegance Textiles (Hong Kong) Limited from 1990 to 1998, an associate director of PricewaterhouseCoopers (Hong Kong) from 1999 to 2003, and the managing director of Marbridge Holdings LLC (United States) since November 2003.

Mr. Zhu Xiaozhe (朱曉喆), aged 47, is an independent non-executive director, a member of the Remuneration and Appraisal Committee and Strategy and Development Committee of the Company (with effect from 8 May 2020) and the chairman of the Nomination Committee (with effect from 22 February 2021). He was a member of the Nomination Committee from 8 May 2020 to 22 February 2021. He has a doctoral degree of History of Law in the East China University of Political Science and is a professor of the School of Law in Shanghai University of Finance and Economics.

Mr. Zhu was an associate professor and a master's degree candidate advisor at the Civil and Commercial Law Research Institute in East China University of Political Science and Law from September 2005 to January 2014. He has been a professor and a doctoral degree candidate supervisor of the School of Law in Shanghai University of Finance and Economics since January 2014. He also served as a council member of the Civil Law Research Institute of China Law Association from July 2014 to July 2017. He has served as the director of the Trust Law Research Institute of Shanghai University of Finance and Economics since January 2017, an executive council member of the Civil Law Research Institute of China Law Association since 2017, an arbitrator of the Shanghai Arbitration Commission since June 2018, a legal consultant of the Chinese Communist Party's Baoshan District Committee of Shanghai and a legal consultant of the Education Development Fund of Shanghai University of Finance and Economics since January 2018, a consultant of the Shanghai Judicial Think Tank Association since June

2018, the vice president of the Civil Law Research Institute of Shanghai Law Association since December 2019, an independent director of Anhui Jiaxian Functional Additives Co., Ltd. since March 2020, an independent-director of Hangzhou Bioer Technology Co,. Ltd since September 2020, and an independent-director of Horizon Holdings Group Inc since January 2021.

SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Gu Zhenguang (顧振光), aged 41, is the chairman of the Supervisory Committee (appointed since 10 June 2021). He has been a shareholder representative Supervisor since 22 February 2021. Mr. Gu obtained a diploma in financial accounting from the Shanghai Open University in March 2008. Mr. Gu currently serves as a director of the accounting management department of the Company. Mr. Gu has served as a financial commissioner, financial supervisor, financial manager, and senior financial manager, director of the accounting management department of the Company since November 2003.

Mr. Sun Bin (孫斌), aged 41, has been an employee representative Supervisor since 15 January 2021. Mr. Sun obtained a diploma in administration and management from Shanghai Normal University in March 2006. Mr. Sun Bin served as an executive officer of Shanghai Datun Energy Company Limited (上海大屯能源股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code:600508)) from December 2000 to December 2010 and has served as an executive officer of the Company since December 2010.

Mr. Wang Jiajie (王佳杰), aged 32, has been an employee representative supervisor since 10 June 2021. He is an intermediate accountant and is currently the director of the supply chain management department of the Company. Mr. Wang has served as a financial specialist, a supervisor of the finance department, a deputy financial manager of the accounting management department, a manager of the accounting management department, a senior manager of the accounting management department, and the director of the supply chain department of the Company. Mr. Wang obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in 2015.

CURRENT SENIOR MANAGEMENT

Ms. Zhang Ying (張瑩), aged 43, is the executive director of the Company (with effect from 11 January 2021), the president of the Company (with effect from 9 December 2020), the chairman of the Budget Committee of the Company (with effect from 22 February 2021), a member of the Strategy and Development Committee of the Company (with effect from 22 February 2021) and a member of Nomination Committee of the Company (with effect from 22 February 2021). She was the chairman of the Board, the chairman of the Nomination Committee, the chairman of the Strategy and Development Committee, a member of the Budget Committee of the Company from 11 January 2021 to 22 February 2021 and a member of Audit Committee of the Company from 11 January 2021 to 10 June 2021.

She holds a Bachelor's degree in fashion design from Tianjin Polytechnic University and is now undertaking an EMBA degree at Xiamen University. Since 2003, she has worked as a designer, associate supervisor, a supervisor of brands, general manager of brand department, general manager of business unit, vice president, and president of the Company.

Mr. Hu Zhiguo (虎治國), aged 39, has been the chief financial officer of the Company since 30 March 2020. Mr. Hu served as an accountant of cost of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司) from July2008 to May 2010. He also served various positions, including as general ledger accountant of the finance department manager of accounting and auditing department and deputy head of the finance department, at Zhejiang Semir Garment Co., Ltd. (浙江森馬服飾股份有限公司) from June 2010 to April 2017. He joined the Company in April 2017 and served as the financial director at the regional finance management department, as general manager of the finance department and as the chief financial officer of the Company. Mr. Hu obtained a bachelor's degree in financial management from Gansu University of Political Science & Law (甘肅政法大學) in June 2008 and is now undertaking an EMBA degree at School of Management in Bocconi University.

Mr. Zhu Fengwei (朱風偉), aged 33, has been a secretary of board of directors of the Company since June 2021. He obtained a bachelor's degree in finance. He served as the assistant to the general manager at Ningbo Veritas Mercy Co., Ltd.* (寧波威瑞泰默賽有限公司), the investor relations manager at Shanghai Aoyun Management Consulting Co., Ltd.* (上海翱贇管理諮詢有限公司) and the investment manager at Shanghai Feile Intelligence Technology Co., Ltd.* (上海飛樂智能技術有限公司). He joined the office of the board of directors of the Company in November 2017 and served as the security affairs representative of the Company. Mr. Zhu obtained the qualification of secretary of the board of directors of the Shanghai Stock Exchange in January 2018.

RESIGNED DIRECTOR

Mr. Zhang Xin (張鑫), aged 46, was the executive director of the Company, the chairman of the Company, the chairman of Strategy and Development Committee, and a member of Remuneration and Appraisal Committee and Budget Committee of the Company from 10 June 2021 to 20 April 2022. He obtained a master's degree in law from East China University of Politics and Law (華東政法學院) (now East China University of Political Science and Law) in June 2005, and is a certified public accountant. Mr. Zhang served as an accountant at Shanghai Meishan Iron&Steel Co., Ltd.* (上海梅山鋼鐵股份有限公司) from July 2000 to September 2002, an investment banking project manager at Northeast Securities Co., Ltd.* (東北證券股份有限公司) from June 2005 to April 2007, the business director of the investment banking department of Orient Securities Company Limited* (東方證券股份有限公司) from May 2007 to April 2012, the general manager of investment banking department VI of Zhongtai Securities Company Limited* (中泰證券股份有限公司) from May 2012 to April 2015, the general manager of the Suzhou branch of Guolian Securities Co., Ltd.* (國聯證券股份有限公司) from May 2015 to April 2018, the deputy general manager of the risk management department of Lian Chu Securities Co., Ltd.* (聯儲證券有限責任公司) from May 2018 to December 2018, the deputy general manager of the equity investment department of Shanghai Wensheng since January 2019, an independent director of Jiangsu Skyray Instrument Co. Ltd.* (江蘇天瑞儀器股份有限公司) since May 2021, an independent director of WUS PRINTED CIRCUIT (KUNSHAN) CO., LTD. * (滬士電子股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code:002463)), and an independent director of Bohigh Zinc Product Co., Ltd.* (江西寶海微元再生科技股份有限公司).

For the details of Shanghai Wensheng' interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲), is the Company's Company Secretary. She is also a vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. She has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has approximately 14 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group designs, markets and sells apparel products with a focus on mass-market ladies' casual wear in the PRC. Principal activities and other particulars of the Company's subsidiaries are set out in note VIII(I) of the consolidated financial statements.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the section headed "Management Discussion and Analysis" on pages 14 to 28 of this report. The descriptions of the financial risk management of the Group are set out in note Ⅸ to the consolidated financial statements. Five-year financial summary of the Group is set out on page 7 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 46 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2021 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements of this report.

A discussion and analysis of the Group's performance during the year and material factors underlying its results and financial position are set out in the section headed "Management Discussion and Analysis" of this report.

RESERVES AND RESERVES AVAILABLE FOR DISTRIBUTION

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2021 are set out in Consolidated Statement of Changes in Shareholders' Equity to the consolidated financial statements.

As at 31 December 2021, the Company did not have any reserves available for distribution.

SHARE CAPITAL

Details of movements of the share capital of the Company are set out in note Ⅵ(34) to the consolidated financial statements.

FINAL DIVIDENDS

As the distributable profit of the Company as at the end of 2021 was negative, pursuant to the requirements of the Articles of Association and taking into consideration the Company's current actual operation and development conditions and for securing the need of cash for future development, the Board of Directors recommended no payment of cash dividends or stock dividends and no transfer from capital surplus to share capital or other form of distribution for the year ended 31 December 2021.

DIVIDEND POLICY

The Company adopts continuous and stable profit distribution policies, aiming to bring reasonable returns to investors while ensuring the sustainable development of the Company and establishing a continuous and stable distribution mechanism based on the profitability and actual needs arising from the future development strategy of the Company. Specific details of the dividend distribution plan are as follow:

1. Profit distribution shall not exceed the accumulated distributable profit of the Company and shall not adversely affect the subsequent continuing operation of the Company;

2. The Company may distribute profits in cash, shares and/or by a combination of cash and shares or otherwise as permitted by laws and regulations. However, where the conditions for cash dividend are satisfied, profit distribution in the form of cash dividend shall take priority;

3. Where the Company intends to implement cash dividend distribution, all the following conditions shall be satisfied:

   (1) the distributable profit (i.e. after-tax profit after making up for losses and making appropriation to the statutory reserve fund) of the Company for the year is positive;

   (2) the auditing firm issued a standard audit report with unqualified opinions on the financial report for the year.

4. When the above conditions for cash dividend distribution are satisfied, the Company will actively distribute profits in the form of cash dividends once per year in principle. The Board may also propose distributing interim cash dividends after taking into account the profitability and capital demand of the Company;

5. The Company shall maintain the continuity and stability of its profit distribution policies. The total profit to be distributed in cash shall not be less than twenty percent (20%) of the distributable profit realised in such year. The Board shall comprehensively consider factors such as the characteristics of the industry in which the Company operates, the stage of development, operation model and profitability of the Company and whether there is any arrangement for significant capital expenditure to differentiate between the following situations, and put forward differentiated policies for cash dividend distribution according to the procedures stipulated in the Articles of Associations:

   (1) cash dividend distribution should at least account for 80% of the profit distribution if the Company reaches a mature stage in its development and there is no arrangement for significant capital expenditure;

   (2) cash dividend distribution should at least account for 40% of the profit distribution if the Company reaches a mature stage in its development and there is an arrangement for significant capital expenditure;

   (3) cash dividend distribution should at least account for 20% of the profit distribution if the Company is in a stage of growth and there is an arrangement for significant capital expenditure; the stipulations in the preceding paragraph shall prevail if it is difficult to differentiate the stages of development of the Company.

   If the profit of the company grows substantially and the Board is of the opinion that there is a mismatch between the share price of the Company and the scale of its share capital, a preliminary dividend distribution plan may also be proposed and implemented after satisfying the above cash dividend distribution.

6. If the Board does not put forth a cash dividend distribution plan, the reasons shall be disclosed in the annual report and independent Directors shall express independent opinions thereon;

7. If there is illegal misappropriation of funds of the Company by a Shareholder, the Company has the right to deduct that Shareholder's cash dividend during profit distribution to reimburse the misappropriated funds.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES

On 30 May 2022, the Company will hold the 2021 annual general meeting of the Company (the "**2021 AGM**") for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2021 AGM. The Company will publish the circular and notice of the 2021 AGM as and when appropriate.

In order to determine the H shareholders who are entitled to attend the 2021 AGM, the register of members of the Company for H shares will be closed from 25 May 2022 to 30 May 2022 (both days inclusive), during which period no transfer of H shares of the Company can be registered. In order to be qualified to attend and vote at the 2021 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 24 May 2022.

H Shareholders whose names appear on the register of members of the Company at the close of business on 24 May 2022 are entitled to attend and vote at the 2021 AGM. Please refer to the A Share announcement published on the Shanghai Stock Exchange for the information for A Shareholders who are entitled to attend the 2021 AGM.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note VI(12) to the consolidated financial statements.

INFORMATION ON THE GROUP'S MATERIAL PROPERTIES

The following table sets out the Group's material properties held for investment:

Location	Existing use	Freehold
No. 58, Tanzhu Road, Minghang District, Shanghai, PRC	Office and lease	The Group
No. 116 Guangzhou East Road, Taicang, Jiangsu Province, PRC	Storage and lease	The Group
No. 24, Xinghua West Branch Road, Dasi Town, Xiqing District, Tianjin, PRC	Storage and lease	The Group

BANK LOANS AND BORROWINGS

Details of the bank loans and borrowings of the Group as at 31 December 2020 are set out in note VI(21) (27) (28) (30) (32) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date before printing this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2021 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Zhao Jinwen (趙錦文) [1]	Chairman and Executive Director	Board management, strategic planning and decision making	10 June 2021	June 2021
Ms. Zhang Ying (張瑩) [2]	President and Executive Director	Overall management of the Group, strategic planning and decision making	11 January 2021	March 2003
Mr. Yang Heng (楊恒)	Non-executive Director	As a non-executive Director	6 July 2021	July 2021
Mr. Xing Jiangze (邢江澤)	Independent non-executive Director	As an Independent non-executive Director	8 May 2020	May 2020
Ms. Chow Yue Hwa Jade (周玉華)	Independent non-executive Director	As an Independent non-executive Director	10 June 2021	June 2021
Mr. Zhu Xiaozhe (朱曉喆) [3]	Independent non-executive Director	As an Independent non-executive Director	8 May 2020	May 2020
Mr. Wu Jinying (吳金應) [4]	Chairman and Executive Director (resigned)	Board management, strategic planning and decision making	22 February 2021	March 2001
Ms. Zhang Danling (章丹玲) [5]	Executive Director (resigned)	Design and branding management	8 May 2020	March 2001
Mr. Yin Xinzai (尹新仔)[6]	Non-executive Director (resigned)	As a non-executive Director	8 May 2020	August 2013
Ms. Wong Sze Wing(黃斯穎) [7]	Independent non-executive Director (resigned)	As an Independent non-executive Director	11 January 2021	January 2021
Mr. Duan Xuefeng (段學鋒)[8]	Chairman and non-executive Director (resigned)	Board management, strategic planning and decision making	8 May 2020	May 2020
Ms. Zhang Yujing (張妤菁)[9]	Non-executive Director (resigned)	As a non-executive Director	8 May 2020	May 2020
Ms. Xiao Yanming (肖艷明)[10]	Independent non-executive Director (resigned)	As an independent non-executive Director	8 May 2020	May 2020
Mr. Zhang Xin (張鑫) [11]	Chairman and Executive Director (resigned)	Board management, strategic planning and decision making	10 June 2021	June 2021

1. Mr. Zhao Jinwen has been an executive director, chairman of the Board, a member of the remuneration and appraisal committee, a member of the budget committee, and the chairman of the strategy and development committee of the Board since 20 April 2022. He was a non-executive director and a member of Audit Committee of the Company from 10 June 2021 to 20 April 2022.

2. Ms. Zhang Ying was the chairman of the Board, the chairman of the Nomination Committee, the chairman of the Strategy and Development Committee, a member of the Budget Committee of the Company from 11 January 2021 to 22 February 2021 and a member of Audit Committee of the Company from 11 January 2021 to 10 June 2021.

3. Mr. Zhu Xiaozhe was a member of the Nomination Committee from 8 May 2020 to 22 February 2021.

4. Mr. Wu Jinying was an executive director, Chairman of the Company, the chairman of the Strategy and Development Committee, and a member of the Budget Committee from 22 January 2021 to 10 June 2021.

5. Ms. Zhang Danling resigned as an executive Director and a member of each of the budget committee and the strategy and development committee of the Board with effect from 10 June 2021.

6. Mr. Yin Xinzai resigned as a non-executive Director and a member of each of the remuneration and appraisal committee, the budget committee, and the strategy and development committee with effect from 30 April 2021.

7. Ms. Wong Sze Wing resigned as an independent non-executive Director, and a member of each of the audit committee, budget committee and strategy and development committee of the Board with effect from 10 June 2021.

8. Mr. Duan Xuefeng was appointed as chairman, a non-executive Director, chairman of Nomination Committee and Strategy and Development Committee and a member of Budget Committee with effect from 8 May 2020, and resigned with effect from 11 January 2021.

9. Ms. Zhang Yujing was appointed as a non-executive Director, a member of Audit Committee, Budget Committee and Strategy and Development Committee with effect from 8 May 2020, and resigned with effect from 11 January 2021.

10. Ms. Xiao Yanming was appointed as an independent non-executive Director, a member of Audit Committee and Strategy and Development Committee with effect from 8 May 2020, and resigned with effect from 11 January 2021.

11. Mr. Zhang Xin was appointed as an executive director of the Company, the chairman of the Company, the chairman of Strategy and Development Committee, and a member of Remuneration and Appraisal Committee and Budget Committee of the Company with effect from 10 June 2021, and resigned with effect from 20 April 2022.

The Supervisors during the year ended 31 December 2021 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Mr. Gu Zhenguang (顧振光) [1]	Chairman of the Supervisory Committee and director of the accounting management department	Supervision of the Board and Senior Management	22 February 2021	November 2003
Mr. Sun Bin (孫斌)	Supervisor and executive officer	Supervision of the Board and Senior Management	15 January 2021	December 2010
Mr. Wang Jiajie (王佳杰)	Supervisor and director of the supply chain management department	Supervision of the Board and Senior Management	10 June 2021	July 2011
Mr. Ma Yuanbin (馬元斌) [2]	Chairman of the Supervisory Committee (resigned) and assistant to president and chairman of labour union	Supervision of the Board and Senior Management	8 May 2020	July 2018
Mr. Shi Xiaofeng (施孝鋒) [3]	Supervisor (resigned) and a general manager of the licensing business department and a general manager of the supply chain management department	Supervision of the Board and Senior Management	8 May 2020	February 2013
Mr. Wu Jinying (吳金應) [4]	Supervisor (resigned) and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001

1. Mr. Gu Zhenguang was appointed as Supervisor of the fourth session of the Supervisory Committee on 22 February 2021 and was elected as the chairman of the fourth session of the Supervisory Committee on 10 June 2021.

2. Mr. Ma Yuanbin was appointed as Supervisor and chairman of the fourth session of the Supervisory Committee on 8 May 2020 and resigned with effect from 10 June 2021.

3. Mr. Shi Xiaofeng was appointed as a Supervisor of the fourth session of the Supervisory Committee on 8 May 2020 and resigned with effect from 15 January 2021.

4. Mr. Wu Jinying was appointed as Supervisor of the fourth session of the Supervisory Committee on 8 May 2020 and resigned with effect from 22 February 2021.

Biographical details of the Directors, Supervisors and senior management are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director has entered into a service contract with the Company while all Supervisors do not have a service contract with the Company. The terms of the Directors and Supervisors do not exceed three years and will expire upon conclusion of the general meeting at which members of a new session of the Board and Supervisory Committee are elected.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of the Directors or Supervisors, or any entity connected with the Directors or Supervisors, had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2021.

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

As at 31 December 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

As at 31 December 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 31 December 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 31 December 2021	Approximate percentage shareholding in the total issued Shares at 31 December 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%
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	85,200,000 A Shares (L)	25.59%	15.56%
	Beneficial owner	21,600,000 A Shares (L)	6.49%	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]	Beneficial owner	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* (招商資管建投海外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%

Name of Shareholder	Nature of interest and capacity	Number of Shares interested[6]	Approximate percentage shareholding in the relevant class of Shares as at 31 December 2021	Approximate percentage shareholding in the total issued Shares at 31 December 2021
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:

1. As disclosed in the announcements of the Company dated 12 July 2020, 16 July 2020, 17 August 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 Jiaxing ("**Mr. Xing**") and 45,204,390 A Shares held by Shanghai Hexia Investment Co., Ltd. ("**Shanghai Hexia**")), 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 and 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.

   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, 16 April 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's shares 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 31 December 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2021, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

The Directors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments and the five highest paid individuals are set out in note XI(V)8 to the consolidated financial statements respectively.

EMOLUMENT POLICY

The Remuneration and Appraisal Committee was set up to develop the Group's emolument policy and structure for remuneration of the Directors, Supervisors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors, Supervisors and senior management and comparable market practices.

For the year ended 31 December 2021, Mr. Zhao Jinwen (has been re-designated from non-executive Director to executive Director with effect from 20 April 2022), Mr. Yang Heng, Mr. Duan Xuefeng (resigned on 11 January 2021) and Ms. Zhang Yujing (resigned on 11 January 2021) agreed not to receive remuneration for acting as non-executive Directors of the Company. Save as disclosed above, none of the Directors waived remuneration for the year ended 31 December 2021.

PENSION SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "**Schemes**") organized by the local authorities whereby the subsidiaries are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries. Contributions to these Schemes vest to employees immediately. Under these Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2021 were RMB14,829 thousand.

There were no forfeited contributions (by employers on behalf of employees who leave the Schemes prior to vesting fully in such contributions) which were used or may be used to reduce the level of contributions for the year ended 31 December 2021 and no forfeited contribution was available as at 31 December 2021 to reduce future years' contributions. The Group does not operate any defined benefit plan.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2021.

PERMITTED INDEMNITY PROVISION

The Company has not arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2021, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, purchases attributable to the Group's largest supplier accounted for 20.0% of the Group's total purchases and purchases from the Group's five largest suppliers accounted for 51.7% of the Group's total purchases. For the year ended 31 December 2021, the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to promoting the sustainable development of the environment and society. We recognize the inevitable impacts on the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificate in compliance with the national and international environmental standards, safety standards and health for workers. The Group conducts performance assessment of its suppliers on environment and social responsibility regularly. Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2021" (the "**ESG Report 2021**").

The Chinese and English versions of 2021 ESG report is available in the Investor Relations (Corporate Reports) section of the website of the Company (www.lachapelle.cn), the HKEX news website (www.hkexnews.hk), and Shanghai Stock Exchange (http://www.sse.com.cn). If the shareholders of the Company wish to receive the Company's 2021 ESG report, they may submit their request to the Company by email to ir@lachapelle.cn.

RELATIONSHIP WITH STAKEHOLDERS

The Group fully understands that employees, customers and partners are the key to our sustainable and steady development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our partners and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group values our staff as the most important resource. Hence, the Group has been endeavouring to provide our staff with equal opportunities and humane workplace. We offer a competitive remuneration package and great opportunities for promotion based on employees' performance. The Group also provides our staff with regular training, including internal training and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market and industry as well as to upgrade their job skills.

The Group upholds its initial aspiration and development concept of "designing for a better life", bears in mind its corporate mission of "creating a better life", guards the bottom line for quality, and establishes the corporate image of La Chapelle through continuous innovation.

The Group intends to achieve mutual growth with partners in the brand value chain with reference to international standards and leading practices of the industry. In 2021, we followed a series of internal systems such as the Administrative Measures on the Appraisal and Rating of Garment Suppliers and the Administrative Measures for New Supplier Admission to impose requirements on the work process, evaluation standards and targets of supply chain management. As a result, the goal of a responsible supply chain can be attained for driving its sustainable development. Detailed information on the relationship between the Group and stakeholders is contained in the 2021 ESG Report.

CONNECTED TRANSACTIONS

For the year ended 31 December 2021, the Group did not enter into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

DISPOSAL OF 54.05% EQUITY INTEREST IN ANSHE E-COMMERCE

On 7 May 2019, the Company entered into an Equity Transfer Agreement (the "**Equity Transfer Agreement**") with Hangzhou Yaner Enterprise Management Consulting Co., Ltd. (the "**Purchaser**") and Ms. Cao Qing ("**Ms. Cao**"), pursuant to which the Purchaser conditionally agreed to purchase and the Company conditionally agreed to sell the 54.05% equity interest in Hangzhou Anshe E-Commerce Company Limited ("**Anshe E-Commerce**") held by the Company, at the consideration of RMB200,000,000 (the "**Disposal**").

The Company, Ms. Cao, Aibo Technology Company Limited, and Hangzhou Anshe Investment Management Partnership LLP owned 54.05%, 23.86%, 14.32% and 7.77% of Anshe E-Commerce respectively. Upon completion of the Disposal, the Company ceased to hold any equity interest in Anshe E-Commerce and Anshe E-Commerce ceased to be a subsidiary of the Company.

Since the Purchaser (wholly owned by Ms. Cao on 7 May 2019) held 23.86% equity interest in Anshe E-Commerce, the Purchaser was an associate of a substantial shareholder of Anshe E-Commerce and therefore a connected person of the Company at the subsidiary level. Accordingly, the Equity Transfer Agreement and the transactions contemplated thereunder constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As at 31 May 2019, completion already took place pursuant to the terms of the Equity Transfer Agreement.

In view of the Company's current working capital condition and business development needs and upon negotiation with the Purchaser, the Company entered into a supplemental agreement with the Purchaser, Ms. Cao and Anshe E-Commerce on 3 December 2020 (the "**Supplemental Agreement**") for the early settlement of the adjusted remaining consideration.

As at 29 January 2021, the Company has cooperated with the Purchaser in the cancellation of the pledge registration of the equity pledge and the trademark pledge in relation to the equity transfer of Anshe E-Commerce, and the Company has received RMB65,000,000 from the Purchaser as part of the adjusted remaining consideration, and the Purchaser had also paid the amount of RMB16,000,000 to Hangzhou Xuxu Technology Co., Ltd. (a supplier of the Company) on behalf of the Company as the remaining portion of the adjusted remaining consideration. All of the payments for the consideration of the Disposal have therefore been fully settled and the Disposal has completed.

For details of the Equity Transfer Agreement and Supplemental Agreement of 54.05% equity interest in Anshe E-commerce, please refer to the announcements of the Company dated 7 May 2019, 2 February 2021 and 22 February 2021.

The related party transactions as set out in note 8(4) to the consolidated financial statements do not constitute connected transactions under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2021 or as at the date of this report.

MATERIAL LITIGATION

During the year ended 31 December 2021, the Company or at least one of its subsidiaries was involved in the following material litigation or arbitration:

As a result of a dispute over a guarantee agreement, HTI Advisory Company Limited (海通國際諮詢有限公司) claimed against the Company and its subsidiaries for about EUR37.4 million. For details, please refer to the announcement of the Company dated 25 September 2020.

As a result of a dispute over a construction agreement, Shanghai Construction No. 2 (Group) Co., Ltd. (上海建工二建集團有限公司) ("**Shanghai Construction**") claimed against the Company and its subsidiary for about RMB174 million. Since the Company's wholly-owned subsidiary, Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) did not pay the first instalment of the construction price of RMB5 million to Shanghai Construction, Shanghai Construction has applied to the Shanghai No. 1 Intermediate People's Court for compulsory enforcement. For details, please refer to the announcements of the Company dated 9 December 2020, 29 April 2021, 17 May 2021, 9 June 2021, and 30 June 2021.

As a result of a dispute over a property lease agreement, Nanbu County Mei Hao Jia Yuan Real Estate Development Co., Ltd. (南部縣美好家園房地產開發有限公司) applied for a retrial of its claim against the Company and its subsidiaries for about RMB28 million. The Higher People's Court of Sichuan Province ordered the case be remitted to the People's Court of Nanbu County of Sichuan Province for retrial. As at the last practical date, the first retrial judgement was received. For details, please refer to the announcements of the Company dated 17 June 2019, 15 October 2019, 7 November 2019, 10 March 2020, 12 January 2021, 18 March 2021, 27 May 2021, and 22 October 2021.

As a result of a dispute over an entrusted loan agreement, Urumqi High-tech Investment Development Group Co., Ltd. (烏魯木齊高新投資發展集團有限公司) claimed against the Company and its subsidiaries for about RMB586 million. As at the last practical date, the first instance judgement, Enforcement Notice* (《執行裁定書》), and "Notice of

Assessment and Auction"* (《評估拍賣通知書》) were received. For details, please refer to the announcements of the Company dated 27 November 2019, 7 December 2020, 12 January 2021, 19 January 2021, 23 April 2021, 16 August 2021, and 20 December 2021.

As a result of a dispute over a clothing sale and purchase agreement, Xinjiang Hengding International Supply Chain Technology Co., Ltd (新疆恒鼎國際供應鏈科技有限公司) sued the Company and its subsidiaries for about RMB27 million. As at the last practical date, the first instance judgement from the court was received, and the judgement sum is approximately RMB14 million. For details, please refer to the announcements of the Company dated 27 November 2019, 7 December 2020, 12 January 2021, 19 January 2021, 28 January 2021, 9 March 2021, 28 January 2021, 23 February 2021, 24 February 2021, and 7 December 2021.

As a result of disputes over financial borrowing agreements, Shanghai Caohejing Hi-tech Park Sub-branch of China Everbright Bank Co., Ltd.* (中國光大銀行股份有限公司上海漕河涇開發區支行) sue the Company and its subsidiaries for about RMB201 million. As at the last practical date, the case is at the stage of enforcement. For details, please refer to the announcements of the Company dated 25 January 2021, 29 April 2021, 25 June 2021 and 31 December 2021.

As a result of disputes over financial loan agreements, China CITIC Bank Corporation Limited Shanghai Branch* (中信銀行股份有限公司上海分行) sued the Company and its subsidiaries for about RMB84 million. As at the last practical date, the case is at the stage of enforcement. For details, please refer to the announcements of the Company dated 5 March 2021 and 6 August 2021.

During the year ended 31 December 2021, the Company and its subsidiaries were also involved in other non-material litigation or arbitration. For details, please refer to the announcement of the Company dated 29 December 2021.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 30 December 2021.

AUDIT COMMITTEE

During the year ended 31 December 2021, the Audit Committee met eight times to review the annual financial results in respect of the year ended 31 December 2020, the first quarter results for the three months ended 31 March 2021, the interim financial results in respect of the six months ended 30 June 2021 and the third quarter financial results in respect of the nine months ended 30 September 2021, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2021.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2021 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2021, the Remuneration and Appraisal Committee met twice to review and assess the annual job performance of the Senior Management, and review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

NOMINATION COMMITTEE

During the year ended 31 December 2021, the Nomination Committee met three times to nominate directors and senior management members for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

Ernst & Young Hua Ming LLP ("**EY**") was re-appointed as the domestic and international auditor of the Company at the annual general meeting of the Company held on 30 July 2020 (the "**2019 AGM**") to hold office until the conclusion of the next annual general meeting of the Company.

Subsequent to the 2019 AGM, the Company could not reach a consensus with EY on the audit fee for the year ended 31 December 2021. With a view to reasonably controlling the audit costs and to reducing expenses of the Company, and in consideration of the Company's 2020 audit schedule, after careful consideration, in December 2020 the Company appointed Da Hua Certified Public Accountants (Special General Partnership) ("**Da Hua**") as the Company's auditor for the year ended 31 December 2021.

Da Hua was re-appointed as the domestic and international auditor of the Company at the 2021 third extraordinary general meeting of the Company held on 6 July 2021 to hold office until the conclusion of the next annual general meeting of the Company.

The resolution regarding the appointment of the auditor for the year ending 31 December 2022 will be tabled at the 2021 annual general meeting.

The remuneration paid to Da Hua was RMB348 million in respect of the audit services rendered for the year ended 31 December 2021.

POST REPORTING PERIOD EVENTS

Details of the events after the Reporting Period are set out in note XIII to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2021 interim report of the Company.

THE BOARD'S AND THE AUDIT COMMITTEE'S VIEWS ON THE QUALIFIED OPINION

Da Hua issued a qualified opinion on the Company's financial statements for the year ended 31 December 2021. The bases for the qualified opinion objectively reflect the actual situation of the Company and reveal the risks faced by it. The Board and the audit committee respect the independent judgment of Da Hua in issuing a qualified opinion, and attach great importance to the impact of the matters forming the bases for such an opinion on the Company. The Company will take active measures to eliminate the impact of such matters as soon as possible, and safeguard the interests of its investors.

MAJOR ACTIONS PROPOSED TO BE TAKEN BY THE COMPANY

(I) As the Company failed to repay the loan from HTI Advisory Company Limited ("**HTI**") in a timely manner, HTI took over LaCha Fashion I on 25 February 2020, and the Company was unable to control or exert any influence over it, and thereby lost actual control over LaCha Fashion I, a former wholly-own subsidiary of the Company, and its subsidiaries, including Naf Naf SAS. In addition, Naf Naf SAS officially entered into judicial liquidation on 19 June 2020 (French time), and the judicial liquidation is still in progress. The failure of the former management and judicial administrator of Naf Naf SAS to cooperate with the Company in providing the audit evidence required by the auditors and to cooperate in the performance of audit procedures caused difficulties to the Company in obtaining audit evidence and the performance of the audit procedures by the auditors. The auditors were not able to audit the 2020 financial statements of LaCha Fashion I and its subsidiaries, especially Naf Naf SAS, which impacted disclosure on the comparison of financial data year-on-year. On the basis of the aforementioned, the auditor issued a qualified opinion in this regard.

The Company has proactively attempted to maintain communication with the former management of Naf Naf SAS following its liquidation. This included sending legal letters to the former management of Naf Naf SAS through the Company's solicitors, requesting Naf Naf SAS's cooperation in providing working papers of its main financial statement line items that had a material impact on the Company's 2020 consolidated financial statements, as well as working papers of accounting items on the balance sheet, such as income, costs, expenses and asset impairment losses, from 1 January 2020 to the time of loss of control over Naf Naf SAS. At the same time, the Company has engaged legal advisors in France to maintain communication with the judicial administrator of Naf Naf SAS, and has sought the judicial administrator's cooperation in providing the audit evidence required by the Company to Da Hua. However, as previously disclosed, the judicial reorganization of Naf Naf SAS was initiated on 15 May 2020 (Naf Naf SAS is still in judicial liquidation as of the date of this report) and a portion of its assets and liabilities were transferred to an independent third party through a public tender process in the French District Court on 20 June 2020. The above has created significant practical difficulties for the Company and Da Hua to obtain the necessary materials from the management of Naf Naf SAS and/or its judicial administrator. At the same time, the Company also actively negotiated with HTI during the reporting period, with a view to negotiate a debt settlement with HTI to facilitate the clarification of its disposal arrangements for LaCha Fashion I. In addition, the Company has also made the takeover of LaCha Fashion I by HTI a subject of litigation with a view to confirm the subsequent disposal arrangements of HTI in relation to the takeover of LaCha Fashion I through judicial proceedings. However, due to the Company's limited liquidity, it was unable to reach a settlement with HTI and the dispute between the Company and HTI in relation to the guarantee contract of LaCha Fashion I is still pending, resulting in the Company being unable to reach a disposal arrangement for LaCha Fashion I. As LaCha Fashion I and its subsidiary Naf Naf SAS were not included in the Company's consolidated financial statements in 2020, the Company has already recorded asset impairment and estimated liabilities in 2020 in respect of the long-term equity investments and current payments in LaCha Fashion I and Naf Naf SAS, and therefore the qualified opinion issued by the accountants has no material impact on the Company's financial position and results of operations for the Reporting Period and only affects the comparability of the current period's data with that of the previous period.

(II) The Company has faced a relatively large number of litigation cases involving a relatively high amount of monetary claims in the previous years and during the Reporting Period. During the Reporting Period, the Company has made timely and reasonable adjustments and provisions to the liabilities recorded on the Company's financial accounts based on the progress of the outstanding litigation cases (including the progress of court cases or the progress of settlement of debt restructuring proposals between the parties); and established a cumulative litigation statistical ledger to collate and verify the relevant data and figures of all litigation cases that have not yet been adjudicated, adjudicated but not yet enforced, and adjudicated and enforced. However, as the adjudication and enforcement of cases is affected by certain factors beyond the Company's control, it is not possible to estimate the amount of adjustment of liabilities and the amount of losses to be incurred, for the amount of expenses to be incurred in order for the Company to meet its current obligations (including late interest payment, liquidated damages, litigation costs, legal fees and other legal costs). In this regard, although Da Hua has carried out relevant audit procedures, such as obtaining a list of the litigations, verifying the amount of compensation granted in the judgments and the amount recorded on the books, consulting the creditors, consulting the advice of lawyers, enquiring public information and communicating with the management of the Company, they were still unable to assess the accuracy and completeness of the Company's estimated liabilities related to litigation and arbitration and therefore issued a qualified opinion in this regard.

In view of the debt problems and litigation cases faced by the Company, the Company will continue to attempt to reduce the possible losses arising from the litigation matters and the amount of supplementary liabilities to be incurred by discussing with creditors to withdraw their lawsuits or reaching a settlement with them, while relieving the Company's liquidity pressure and using the Company's limited funds to maintain its business operations and debt restructuring (discount of the debts). At the same time, the Company will proactively plan creditors' arrangement and introduce external investors, and strive to eliminate its debt burden and the impact of the litigation cases through a comprehensive solution.

(III) For actions proposed to be taken by the Company in respect of the material uncertainties, the Company plans to take proactive measures to improve the Company's ability to sustain and operate, and to put the Company back on the growth track, please refer to the section of "Future outlook" of "Management Discussion and Analysis" in this report.

For and on behalf of the Board
Zhao Jinwen (趙錦文)
Chairman

Shanghai, PRC, 27 April 2022

Report of the Supervisory Committee

In 2021, the Supervisory Committee of the Company fulfilled diligently its duties and conscientiously discharged its responsibilities and obligations, and implemented various oversight functions in accordance with the Company Law, the Securities Law, the Articles of Association, and the Rules of Procedure of the Supervisory Committee and other relevant laws and regulations of the PRC. The Supervisory Committee inspected and supervised the Company's legal operation, production and operation, financial condition, and performance of duty of the Company's directors and senior management, providing a strong protection for the Company's standardized operation and development. The report of the Supervisory Committee of the Company for this year is as follows:

1. WORK PERFORMED BY THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Company convened seven meetings of the Supervisory Committee: namely the tenth meeting of the fourth session of the Supervisory Committee, eleventh meeting of the fourth session of the Supervisory Committee, twelfth meeting of the fourth session of the Supervisory Committee, thirteenth meeting of the fourth session of the Supervisory Committee, fourteenth meeting of the fourth session of the Supervisory Committee, fifteenth meeting of the fourth session of the Supervisory Committee, and sixteenth meeting of the fourth session of the Supervisory Committee. The convening and voting procedures of the meetings complied with the relevant provisions of the Company Law of the PRC and the Articles of Association. Specific details are as follows:

(I) The tenth meeting of the fourth session of the Supervisory Committee

On 29 January 2021, the Company convened the tenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in relation to the Proposed Appointment of Mr. Gu Zhenguang as the Supervisor of the Company".

(II) The eleventh meeting of the fourth session of the Supervisory Committee

On 29 April 2021, the Company convened the eleventh meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Report of the Supervisory Committee of the Company for the Year 2020", the "Report on the Company's Financial Accounts for the Year 2020", the "Resolution in Relation to the Provision for Asset Impairment", the "Annual Report and Summary of the Company for the Year 2020", the "Opinion on Specific Explanation of the Board on Matters Involving Non-Standard Audit Opinions", the "Internal Control Evaluation Report of the Company for the Year 2020", the "Opinion on Specific Explanation of the Board on Matters Involving Adverse Opinions on Internal Control Audit Report", the "Proposal on the Unrecovered Losses Amounting to One-Third of the Total Paid-Up Share Capital", the "2020 Environmental, Social and Governance Report", the "Proposal on the Determination of the Remuneration of Supervisors of the Company for the Year 2020", the "Proposal on the Company's 2020 Plan on Non-distribution of Profit", the "Special Report on the Deposit and Actual Use of the Funds Raised by the Company for the Year 2020", the "Report on the Company's Financial Budget for the Year 2021", the "Resolution in Relation to the Appointment of Auditors for the Year 2021", the "Resolution in Relation to the Application to Financial Institution(s) Including Bank(s) for Credit Facilities by the Company", the "Resolution in Relation to Providing Guarantees for Wholly-owned Subsidiaries of the Company", the "Resolution in Relation to the Cancellation of the Change of Company Name and Amendments to the Articles of Association of the Company", the "Resolution on Supplementing and Correcting the Financial Reports for the First Quarter, First Six Months, and Third Quarter of the Year Ended 31 December 2020", and the "Resolution in Relation to the Full Text and Text of the First Quarterly Report of the Company in 2021".

(III) The twelfth meeting of the fourth session of the Supervisory Committee

On 10 June 2021, the Company convened the twelfth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Election of the Chairman of the Supervisory Committee", the "Resolution in Relation to the Re-Appointment of Da Hua Certified Public Accountants (Special General Partnership) as Auditors of the Company for the Year Ending 31 December 2021", and the "Resolution in Relation to the Supplemental Review of A Debt Set-Off Agreement* (《債務抵銷協議》) and Related Party Transactions".

(IV) The thirteenth meeting of the fourth session of the Supervisory Committee

On 20 July 2021, the Company convened the thirteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Correction of Accounting Errors".

(V) The fourteenth meeting of the fourth session of the Supervisory Committee

On 30 August 2021, the Company convened the fourteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Provision for Asset Impairment", "Company Interim Report of 2021, Summary and Interim Results Announcement" and "Special Report on the Deposit and Actual Use of Funds Raised for the First Half Year of 2021".

(VI) The fifteenth meeting of the fourth session of the Supervisory Committee

On 28 October 2021, the Company convened the fifteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Full Text and Text of the Third Quarterly Report of the Company in 2021".

(VII) The sixteenth meeting of the fourth session of the Supervisory Committee

On 15 December 2021, the Company convened the sixteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Rectification Reports Addressing the Decisions from the Xinjiang CSRC Ordering the Adoption of Corrective Measures".

By attending Board meetings and shareholders' general meetings, members of the Supervisory Committee participated in the Company's important work, conducted effective supervision over meeting agendas, voting procedures and voting results, and made recommendations on the Company's business activities and standardized operation. The Supervisory Committee also conducted effective supervision over the decisions made to ensure that such decisions are in compliance with national laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings, and that they are in the interests of the shareholders of the Company.

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

During the Reporting Period, the Supervisory Committee inspected and supervised the Company's financial condition, operations and the performance of duty by senior management in accordance with the Company Law and other relevant laws and regulations, the Articles of Association and relevant requirements of the Rules of Procedures for the Supervisory Committee. The Supervisory Committee is of the view that in 2021, the Company operated normatively in strict compliance with the Company Law, the Articles of Association and other relevant regulations and systems. Operating decisions were reasonable and effective, and the decision-making procedures complied with the requirements of laws and regulations. None of the directors and senior management of the Company had violated laws and regulations or caused any prejudice to the interests of the Company and various investors in performing their duties.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON FINANCIAL POSITION OF THE COMPANY

During the Reporting Period, the Supervisory Committee of the Company supervised and inspected the Company's financial condition by receiving reports from the Company's chief financial officer, reviewing the Company's periodic reports, and reviewing audited reports issued by an accounting firm. The Supervisory Committee is of the view that the financial operations of the Company are made normatively during the year. The 2021 audited financial statements of the Company truly reflected the Company's operating condition, and there are no false records, misleading statements or major omissions.

4. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE UTILIZATION OF THE PROCEEDS RAISED BY THE COMPANY

The Supervisory Committee has inspected the utilization of the proceeds raised, and the Company has established the management system for the proceeds raised. The proceeds were used in a regulated manner and were invested in the projects as undertaken. The Company utilized part of the idle proceeds raised for supplementing liquidity, performing the required legal and relevant approval procedures as well as fulfilling its information disclosure obligations.

Owing to factors such as the COVID-19 pandemic and the closure of a number of stores, the Company was under intense cash pressure to repay debts that were due. The funds available to the Company are insufficient to repay the proceeds raised, and as the bank account where the Company placed its proceeds raised has been frozen, there is a risk that the proceeds repaid into such bank account would either be frozen or transferred. As such, as at the date of this report, the Company is unable to repay RMB50 million of the proceeds that were used to temporarily supplement its liquidity into its specific bank account for such proceeds. The Supervisory Committee would urge the Board of Directors and management of the Company to actively seek solutions for repaying the proceeds used to temporarily supplement its liquidity as soon as possible.

5. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S CONNECTED TRANSACTIONS

The Supervisory Committee verified the related transactions of the Company during the Reporting Period and considered that the Company's related transactions in 2021 are fair and equal, there is no obvious unfairness and no profits of the Company are manipulated through related transactions, and there is no harm to the interests of the Company and its shareholders, and in particular, the interests of small and medium shareholders.

6. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON REVIEW OF THE COMPANY'S EXTERNAL GUARANTEE

During the Reporting Period, the Company had no violation of its external guarantees. The Supervisory Committee has not identified any circumstances that would impair the interests of the Company's shareholders or cause loss to the Company's assets.

7. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON INSPECTING THE COMPANY'S INTERNAL CONTROL SELF-EVALUATION REPORT

The Supervisory Committee reviewed the structure and operation of the Company's internal control system and the Company's Internal Control Evaluation Report for 2021, and is of the view that the Company's Internal Control Evaluation Report truly and objectively reflects the structure and operation of the Company's internal control system.

8. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S PERIODIC REPORT

The preparation and review procedures for the Company's 2021 annual report are in compliance with relevant provisions of laws, regulations and the Articles of Association of the Company. Its substance and form are in compliance with the requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange. The information contained therein truly reflected the Company's operational management and financial condition in 2021. No violation of confidentiality requirements was found among those involved in the preparation and review of the annual report.

9. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON INSPECTING THE IMPLEMENTATION OF INFORMATION INSIDER MANAGEMENT OF THE COMPANY

During the Reporting Period, in accordance with the relevant requirements of the Securities Law and the Administrative Measures for the Disclosure of Information of Listed Companies* (《上市公司信息披露管理辦法》), the Company implemented insider information confidentiality and insider information registration for matters such as periodic reports and significant matters, effectively preventing the disclosure and utilization of insider information for trading. Upon verification, the Supervisory Committee is of the view that, during the Reporting Period, the Company's directors, supervisors, senior management and other insider information personnel did not use any insider information or to trade any stocks of the Company through others.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2021.

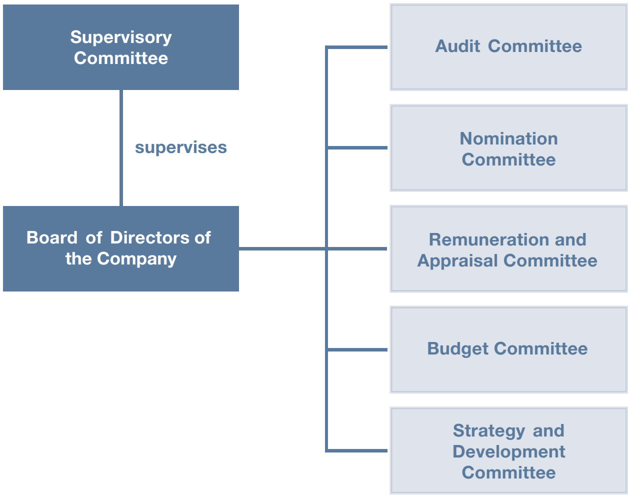
For the year ended 31 December 2021 and as at the date of this report, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below. Corporate governance rules and recommendations with respect to matters including Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Company Secretary, and communication between the Company and Shareholders were made by the Company.

In particular, the Chairman assumes the major responsibility for ensuring sound corporate governance practices and procedures of the Company. The Company has adopted a corporate governance policy, which sets out the terms of reference for the Board to perform, including but not limited to: formulation and review of the corporate governance policy and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and Senior Management; review and monitoring of the policies and practices of the Company in relation to compliance with laws and regulatory requirements; formulation, review and monitoring of the compliance by staff and Directors with the code of conduct and compliance manual; and review of the compliance of the Company with the CG Code.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. The Group has prudently reviewed the relevant regulations pursuant to the guidelines as stipulated in the Listing Rules, and introduced corporate governance practices appropriate to the conduct and growth of the business.

As of 31 December 2021, the governance structure of the Company is as follows:



The H shares of the Company were listed on the Hong Kong Stock Exchange with effect from the Hong Kong Listing Date, therefore, the CG Code has been applicable to the Company since the Hong Kong Listing Date.

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.

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 of the CG Code for the year ended 31 December 2021, save as to the deviation from the Code Provision C.1.8 of Part 2.

Under Code Provision C.1.8 of Part 2, 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.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the overall management and control of the Company. The Board's main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All Directors carry out their duties in good faith and in compliance with the applicable laws and regulations, and act in the interest of the Company and its shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and Senior Management, with a view to ensuring that Board procedures and all applicable laws and regulations are followed.

The Board is responsible for making decisions on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Directors have full and timely access to independent consultation with the Senior Management. Upon making reasonable request to the Board, a Director or a Board professional committee may seek independent professional advice in appropriate circumstances at the Company's expense.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the management of the Group. The respective functions of the Board and the management of the Company are established and will be reviewed from time to time as appropriate. To oversee particular aspects of the Company's affairs, the Board has established five Board professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, the Budget Committee and the Strategy and Development Committee (altogether the "**Board Professional Committees**"). The Board has delegated to the Board Professional Committees responsibilities as set out in their respective terms of reference.

Board Composition

As at the date of this report, the Directors of the fourth session of the Board are as follows:

Executive Directors

Mr. Zhao Jinwen *(Chairman)*
Ms. Zhang Ying *(President)*

Non-executive Director

Mr. Yang Heng

Independent Non-executive Directors

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

Biographical details of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

There are no relationships among the Directors, Supervisors and Senior Management, including financial, business, family or other material/relevant relationships.

For the year ended 31 December 2021, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his or her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Professional Committees, all non-executive Directors has made various contributions to the effective leadership of the Company.

Induction and Continuous Professional Development

All current Directors of the Company confirmed that they have complied with Code Provision C.1.4 of Part 2 relating to the director training. During the year ended 31 December 2021, all current Directors of the Company participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to further develop and refresh their knowledge and skills. All current Directors of the Company have provided their training record to the Company.

Directors	Reading materials	Attendance at lectures or seminars
Executive Directors		
Mr. Zhao Jinwen (Chairman)	√	√
Ms. Zhang Ying	√	√
Non-executive Director		
Mr. Yang Heng	√	√
Independent Non-executive Directors		
Mr. Xing Jiangze	√	√
Ms. Chow Yue Hwa Jade	√	√
Mr. Zhu Xiaozhe	√	√
Former Executive Director		
Mr. Zhang Xin	√	√

Chairman and Chief Executive Officer

Code Provision C.2 of Part 2 stipulates that the chairman and chief executive in the Company should have a balanced power and authority.

The positions of Chairman of the Board and President of the Company are held by Mr. Zhao Jinwen and Ms. Zhang Ying, respectively. The Chairman provides leadership and is responsible for formulating the overall strategic planning of the Group. The President focuses on the Company's overall business management and making overall operational decisions.

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, consider the selection criteria, selection procedures and terms of office of the Directors of the Company after taking into account the practical situations of the Company, and shall record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Each of the Directors has entered into a service contract with the Company for a term commencing on the date of appointment and ending on the expiration of the term of office.

Board Professional Committees

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls.

The Audit Committee of the fourth session of the Board consists of one non-executive Director and two independent non-executive Directors. The members of the Audit Committee are Mr. Xing Jiangze, Mr. Yang Heng and Ms. Chow Yue Hwa Jade. It is currently chaired by Mr. Xing Jiangze, an independent non-executive Director.

During the year ended 31 December 2021, the Audit Committee met eight times to review the annual financial results in respect of the year ended 31 December 2020, the first quarter results for the three months ended 31 March 2021, the interim financial results in respect of the six months ended 30 June 2021 and the third quarter financial results in respect of the nine months ended 30 September 2021, the appointment of auditors and significant matters on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2021.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, to assess the independence and diversity of the independent non-executive Directors and to make recommendations to the Board on the appointment and removal of Directors. The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, the individuals' skills, experience, professional knowledge and time commitments, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee of the fourth session of the Board consists of one executive Director and two independent non-executive Directors. The members of the Nomination Committee are Mr. Zhu Xiaozhe, Ms. Zhang Ying and Mr. Xing Jiangze. It is currently chaired by Mr. Zhu Xiaozhe, an independent non-executive Director.

Nomination Policy

The following selection process for directors and senior management is set out in the terms of reference of nomination committee of the Board:

(1) The Nomination Committee shall proactively exchange views with relevant departments of the Company, study the demand of the Company for new directors and senior management, and then prepare the written materials thereof;

(2) The Nomination Committee may conduct extensive search for candidates for directors and senior management in the Company and job market;

(3) The Nomination Committee shall collect information on the potential candidates, including the profession, education, job title, detailed working experience and all part-time jobs, and then prepare the written materials thereof;

(4) The Nomination Committee shall seek the nominee's consent to nomination, failing which such nominee shall not be named as a candidate for directors and senior management;

(5) Meetings of the Nomination Committee shall be convened, at which a review on qualifications for the potential candidates shall be carried out based on the terms of appointment for directors and senior management;

(6) The Nomination Committee shall submit to the Board of Directors its recommendations on the candidates for directors and new senior management together with relevant materials in one month to two months prior to the election of new directors and appointment of new senior management;

(7) The Nomination Committee shall implement other follow-up work in accordance with the decisions and feedback of the Board of Directors.

During the year ended 31 December 2021, the Nomination Committee met three times to nominate directors and senior management members for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard to the benefits of diversity on the Board.

The Company is committed to selecting the best person for the role of a Board member. Selection of candidates will not only be based on educational background, professional experience, skills, knowledge and length of service, but also with reference to a range of factors with a view to enhancing diversity, including but not limited to gender, age, cultural background and ethnicity. The ultimate decision will be based on merit and contribution that the candidate will bring to the Board.

As at 31 December 2021, the Board consists of five male members and two female members, with a female representation and gender diversity on the Board of approximately 29%. The Nomination Committee is responsible for reviewing the diversity of the Board, and will continue to monitor and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and disclose in the corporate governance report about the implementation of the board diversity policy, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. The Nomination Committee will also bear in mind the gender diversity of the Board in the future when evaluating candidates to be appointed as directors to the Board.

As at 31 December 2021, one of our senior management members out of three is female, and more than 80% of our total workforce were female. The Company will also continue to take steps to promote gender diversity at all levels of the Company.

Remuneration and Appraisal Committee

The Company has established a Remuneration and Appraisal Committee with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration and Appraisal Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

According to the Terms of Reference of Remuneration and Appraisal Committee, the remuneration plans of the directors of the Company proposed by the Remuneration and Appraisal Committee must be agreed by the Board and approved in the General Meeting before it can be implemented. The remuneration distribution schemes of the senior management of the Company must be submitted to the Board for approval. The procedures as set out in Model (ii) of Rule E.1.2 (c) of Part 2 in Appendix 14 of the Listing Rules is adopted for the determination on the remuneration of directors and senior management

The Remuneration and Appraisal Committee of the fourth session of the Board consists of one executive Director and two independent non-executive Directors. The members of the Remuneration and Appraisal Committee are Mr. Xing Jiangze, Mr. Zhao Jinwen, and Mr. Zhu Xiaozhe. It is chaired by Mr. Xing Jiangze, an independent non-executive Director.

For the year ended 31 December 2021, the Remuneration and Appraisal Committee met twice to review and assess the annual job performance of the Senior Management, and to review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

The Company has established a Budget Committee. The primary duties of the Budget Committee are to make recommendations to the Board on budgeting.

The Budget Committee of the fourth session of the Board consists of two executive Directors, and two independent non-executive Directors. The members of the Budget Committee are Ms. Zhang Ying, Mr. Zhao Jinwen, Mr. Xing Jiangze and Ms. Chow Yue Hwa Jade. It is chaired by Ms. Zhang Ying.

For the year ended 31 December 2021, the Budget Committee met once to review and make recommendations to the Board on the budgeting for the upcoming financial year.

Strategy and Development Committee

The Company has established a Strategy and Development Committee. The primary duties of the Strategy and Development Committee are to make recommendations to the Board on matters such as the Company's development plans, strategic investments and business innovations.

The Strategy and Development Committee of the fourth session of the Board consists of two executive Directors, one non-executive Director and two independent non-executive Directors. The members of the Strategy and Development Committee are Mr. Zhao Jinwen, Ms. Zhang Ying, Mr. Yang Heng, Ms. Chow Yue Hwa Jade and Mr. Zhu Xiaozhe. It is chaired by Mr. Zhao Jinwen.

For the year ended 31 December 2021, the Strategy and Development Committee met once to review and make recommendations to the Board on the Group's latest strategic plans and development.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of the Directors and Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendations to the Board where appropriate to enhance shareholders' relationship with the Company.

For the year ended 31 December 2021, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

The Board intends to hold Board meetings regularly (i.e., at least four times a year roughly at quarterly intervals). Notices of no less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters for discussion in the meeting agenda.

For other Board and Board Professional Committee meetings, reasonable notice will generally be given. The agenda and the accompanying board papers will be dispatched to the Directors or members of a Board Professional Committee at least 3 days before the meetings to ensure that they have sufficient time to review the papers and can adequately prepare for the meetings. When Directors or members of a Board Professional Committee are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the Chairman of the Committee prior to the meeting.

Minutes of the Board meetings and Board Professional Committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Professional Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Professional Committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

According to the Articles of Association, a Director shall not vote nor be counted in the quorum on any resolution of the Board approving any contract or arrangement in which the Director or the Director's associates is materially interested.

During the year ended 31 December 2021, 15 board meetings were held.

DIRECTORS' ATTENDANCE RECORDS AT BOARD MEETINGS, BOARD PROFESSIONAL COMMITTEES' MEETINGS AND GENERAL MEETINGS

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2021 are set out below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Budget Committee meeting	Strategy and Development Committee meeting	General meeting
Mr. Zhang Xin (appointed on 10 June 2021, and resigned with effect from 20 April 2022)	8/8						2/2
Ms. Zhang Ying (appointed on 11 January 2021)	15/15	3/3	3/3		1/1	1/1	2/5
Mr. Zhao Jinwen (appointed on 10 June 2021)	8/8	5/5					1/5
Mr. Yang Heng (6 July 2021)	7/7						0/1
Mr. Xing Jiangze (appointed on 8 May 2020)	15/15	8/8	3/3	2/2	1/1		5/5
Ms. Chow Yue Hwa Jade (appointed on 10 June 2021)	8/8	5/5					2/2
Mr. Zhu Xiaozhe (appointed on 8 May 2020)	15/15		3/3	2/2		1/1	3/5
Mr. Wu Jinying (appointed on 22 February 2021 and resigned with effect from 10 June 2021)	5/5				1/1	1/1	1/1
Ms. Zhang Danling (appointed on 8 May 2020 and resigned with effect from 10 June 2021)	8/8				1/1	1/1	3/3
Mr. Yin Xinzai (appointed on 8 May 2020 and resigned with effect from 30 April 2021)	5/5			1/1	1/1	1/1	2/2
Ms. Wong Sze Wing (appointed on 11 January 2021 and resigned with effect from 10 June 2021)	8/8	3/3			1/1	1/1	0/2

Attendance at the above meetings by an alternate Director has not been counted as attendance by the Director himself or herself.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the former controlling shareholders (as defined in the Listing Rules) of the Company has confirmed to the Company and declared that he/it has complied with the non-compete undertaking given by them to the Company on 10 September 2014 during the period from 1 January 2021 to 22 March 2021 (i.e. the date when he/it ceased to be the controlling shareholders of the Company as defined in the Listing Rules). The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2021.

Note: Each of Mr. Xing Jiaxing and Shanghai Hexia ceased to be a controlling shareholder of the Company under the Listing Rules since 23 March 2021. For details, please refer to the announcements of the Company dated 31 January 2021, 1 March 2021, 7 March 2021, 22 March 2021, 23 March 2021, 25 March 2021, 28 March 2021, 16 April 2021 and 21 April 2021.

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. The remunerations paid to a total of 2 Senior Management (excluding Directors and Supervisors) by remuneration bands for the year ended 31 December 2021 are set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	1
RMB1,000,001 to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	0

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2021.

RISK MANAGEMENT AND INTERNAL CONTROLS

As a public company listed both in Shanghai and Hong Kong, the Company strives to improve its internal governance and build a favorable corporate risk monitoring environment by strictly abiding by the laws and regulations and other regulatory requirements of the listing locations.

Continue to improve and optimize risk monitoring system

During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, the Fundamental Norms on Corporate Internal Control, the Application Guidance on Corporate Internal Control, the Guidance on Corporate Internal Control and Assessment, the Audit Guidance on Corporate Internal Control as well as the relevant requirements with regard to the reviewing of the risk management and internal control systems by the Hong Kong Stock Exchange, the Company, along with its subsidiaries and relevant departments, carried out a comprehensive check on its existing system and procedures in light of organizational structure, development strategy, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, merchandizing, financial reports, comprehensive budget, contract management, internal communications and information system, and formed a virtuous cycle of detecting risks, identifying risks and facilitating business development through risk identification, risk assessment and gradual optimization, so as to further strengthen and standardize internal corporate monitoring, enhance operational management and risk control capability as well as to guarantee stakeholders' legitimate interests and facilitate the realization of the Company's strategic goal and sustainable development.

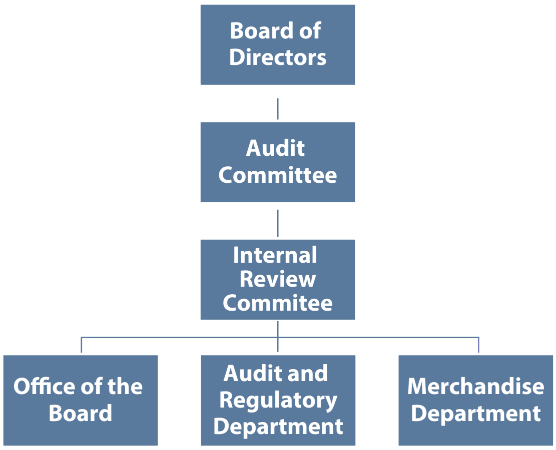
Effectively prevent operational risks to strengthen corporate control

The Company further normalized and perfected its internal control system to enhance the efficiency and effectiveness of the construction and implementation of the internal control system. The Company further improved its management and control measures with regard to strategic risks, financial risks, operational risks and market risks to prevent all kinds of risks, lay a solid foundation for corporate development as well as facilitate sustainable development. The Company further enhanced the learning and training of all employees so as to build up employee recognition and identification. The Company continued to enhance staff competency and skills by encouraging the learning of new management concepts and internal control methods through external and internal trainings, thus forming a benign atmosphere within the Company that "everyone learns internal control, everyone emphasizes risks and everyone is checked", and consequently facilitating the development of internal control and management mechanism and risk prevention mechanism that are systematic, normative and efficient.

The Company has established a scientific and efficient internal control system to identify, assess and manage the significant risks of the Company. The Board of Directors has confirmed its responsibility to supervise the Company's risk management and internal control systems, and reviewed their effectiveness at least annually through the Audit Committee. The Audit Committee generally supervises the effective implementation and self-evaluation of internal control, and is responsible for reviewing risk management and internal control systems and supervision. Besides reviewing the annual reports by the external auditors, the Audit Committee also reviews the periodic internal audit reports compiled by the audit department concerning the Company's core businesses in order to review the effectiveness of the internal control system and risk management mechanism as well as to resolve any material inadequacies found in relation to internal control. The Internal Review Committee manages and supervises the internal risk management system within the relevant departments of the Company, guarantees the implementation and enhancement of risk management system and measures, and manages the disclosure of inside information. The Internal Review Committee, led by the Audit Committee, reports to the Audit Committee.

Corporate Governance Report

The management is responsible for the daily operation of the internal control within the Company. The Office of the Board, Audit and Regulatory Department and Merchandise Department constitute the functioning departments within the Company responsible for the implementation of internal control and the assessment of the soundness and effectiveness of all the internal control systems within the Company. As the implementation units of the internal control, the Company's functioning departments, affiliates, wholly-owned and holding subsidiaries appoint designated persons to improve and evaluate the internal control system. The Company's internal risk management organizational structure is illustrated below:



The Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of the Company's risk management and internal control systems. Currently, the Company formulated rules and regulations to tackle problems concerning matters such as regional management, logistics operations and disposal of obsolete inventories, namely Administrative Measures on Donations, Administrative Measures on Inventory-taking in Logistics Warehouse and Administrative Measures on Disposal of Obsolete Inventories, in an effort to improve the Company's internal system and avoid operational risks. The Company's Regulatory Department participated in and organized anti-corruption trainings, involving a total of around 130,000 attendances. It has also opened a WeChat subscription account named La Chapelle with Integrity. All of the abovementioned the efforts have contributed to the improvement of the Company's network for anti-corruption and internal control.

For the year ended 31 December 2021, the Board carried out annual review on the effectiveness of the Company's risk management system, procedures and internal control system, and continuously advised on various means of improvement. The review involved all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and the Company's budget on accounting and financial reporting function. The Board discovered certain failures in the risk management and internal control system., and were not entirely effective and sufficient. The Company will continue to improve its risk management and internal control systems in order to protect the interests of the Company and its shareholders.

The Company's risk management and internal control systems aim to manage, rather than eliminate, the risks involved with failing to meet the business goals, and can only provide reasonable, but not absolute, guarantee on material misrepresentations or losses.

Strengthen insider filing to improve insider information management

During the Reporting Period, the Company carried out the management of insider information strictly in accordance with the regulatory requirements both under the Shanghai Stock Exchange Listing Rules and Hong Kong Listing Rules, and its internal system. The Company strengthened the management of its confidentiality policy of insider information and seriously performed its duty with respect to confidentiality and filing of persons with knowledge of inside information. The Company has been able to truly, accurately and completely record the persons who has knowledge of insider information by being involved in the processes of counseling and planning, argumentation and consultation and compiling and reviewing of such insider information. The Company timely performed filing of directors, supervisors and senior management, relevant staff and intermediary agents as well as carried out self-examination on insider trading from time to time, so as to ensure that the relevant information is collected, delivered, organized and disclosed legally in accordance with the relevant laws and regulations. During the Reporting Period, no person with knowledge of insider information was found to be trading the Company's shares based on insider information.

Enhance corporate governance system to improve corporate governance

In order to enhance corporate governance and build a favorable internal control environment, the Company further enhanced the relevant mechanisms such as the rules of procedure regarding General Meeting, the Board of Directors and the Supervisory Committee, and terms of reference of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. The Company's General Meeting, the Board of Directors, the Supervisory Committee, senior management and board secretary were able to operate independently and legally, and fulfilled their respected rights and duties based on the powers as set out in the Articles of Association and relevant regulations. No violation of laws and regulations had been found. All Board Professional Committees performed their duties in accordance with the Articles of Association and the corresponding terms of reference. Each Board Professional Committee has set up its own meeting system and submits written resolutions regarding reviewed matters to the Board, which act as an important basis for the decision-making of the Board and the General Meeting and thus play a positive role in corporate governance.

The Company will continue to enhance its internal control and improve self-assessment. It will also continue to develop and improve its risk management and internal control systems that meet the demand of its development and management needs so as to ensure that the Company's operational management is legal, its assets are reliable, and financial reports and relevant information are true and complete, thus providing a reasonable guarantee for realizing the Company's strategic development goals.

DESCRIPTION OF OTHER SIGNIFICANT INTERNAL CONTROL RELATED MATTERS

A. Identification of deficiencies in internal control over financial reporting and status of rectification.

(I) Takeover of subsidiaries by the creditor, untimely disclosure of the information in respect of the takeover, and untimely adjustments to the scope of the Company's consolidated financial statements;

1. The Company has accepted the opinion of Da Hua Certified Public Accountants (Special Limited Partnership) ("**Da Hua**") to adjust the time of excluding LaCha Fashion I and its subsidiaries (including Naf Naf SAS) from the scope of its consolidated financial statements to 25 February 2020. At the same time, the Company has at the annual board meeting held on 29 April 2021 reviewed, approved and made supplemental disclosure of the impact of such matters on the first quarterly report, the interim report and the third quarterly report for 2020 of the Company, and the amendments to the relevant financial accounts, so as to facilitate investors' understanding.

2. The Company's Finance Department arranged regular self-inspection activities and made them a regular feature to ensure the regularity of accounting and financial management and to guarantee the quality of the financial reporting information. In addition, the Company has convened the 25th meeting of the Fourth Session of the Board on 29 September 2021 and formulated the "Accountability System for Major Errors in Information Disclosure in Annual Report"* (《年報信息披露重大差錯責任追究制度》), which sets out clear provisions on matters such as the identification of errors in the annual report process, the handling procedures and the pursuit of responsibility.

3. The Company convened the 27th meeting of the Fourth Session of the Board on 10 December 2021, during which the resolution in relation to establishing the "Internal Reporting Policy for Important Information"* (《關於制定<重大信息內部報告制度>的議案》) was considered and approved, which further clarifies the responsible persons for information reporting in the relevant departments and subsidiaries. The policy emphasise that all departments and subsidiaries should pay close attention to and follow up on matters relating to information disclosure in their daily affairs and provide timely feedback on material information of the Company to ensure timely, fair, true, accurate and complete information disclosure of the Company.

4. The Company organised a number of training sessions on business skills in 2021 for staff from the relevant departments and implemented management of the entire process of preparing, provided and analysing financial reports to prevent the recurrence of similar problems.

(II) Untimely disclosure of litigation information in accordance with the relevant laws and regulations.

1. The Company has strengthened its internal information disclosure and transmission mechanism, and required all departments and subsidiaries to promptly forward any litigation materials received (including the express form sent by the court to confirm the time when the Company becomes aware of the litigation case) to the Company's legal department. For major litigation cases, the legal department must be informed on the day the Company becomes aware of the cases, and the office of the Board will arrange for disclosure accordingly.

2. The Company has also established a statistical ledger for litigation matters to record and analyse the specific information required to be disclosed in litigation cases (including the time of knowledge, case number, parties, amount involved, content of the complaint and subsequent progress, etc.).Disclosure will be made when the cumulative amount involved in litigation cases triggers the requirement for disclosure. On 25 January 2021, 5 March 2021, 4 August 2021, 29 September 2021, 28 October 2021, 29 November 2021, 29 December 2021 and 27 January 2022, the Company disclosed the new accumulated cases in a timely manner. On 29 April 2021, 9 August 2021, and 27 August 2021, 29 September 2021, 28 October 2021, 29 November 2021, 29 December 2021, 27 January 2022, 1 March 2022 and 1 April 2022, the Company also disclosed the latest situation regarding the progress of cumulative litigation cases and asset freezes.

3. The Company organised information disclosure compliance training targeting all directors, supervisors, senior management and persons in charge of the relevant departments and key positions of the Company, in which external compliance intermediaries systematically explained the regulatory trends, the disclosure practices and regulatory cases under the new securities law to enhance the compliance awareness of the relevant personnel and the standard of information disclosure of the Company.

B. Identification of deficiencies in internal control over non-financial reporting and status of rectification:

(I) Frequent changes in senior management personnel, loss of personnel in key positions, and the lack of a dedicated secretary to the Board;

1. A continuous and stable composition of the Board, the Supervisory Committee and other governance personnel has been formed during the Reporting Period to ensure a smooth operation of the Board and specialised committees. The Company held the 2020 annual general meeting on 10 June 2021, during which the "Resolution on the appointment of directors" and the "Resolution on the appointment of an independent non-executive director" were considered and passed. The Company held the 21st meeting of the fourth session of the Board on 10 June 2021, during which the "Resolution on the appointment of the chairman of the Board", the "Resolution on the changes in composition of the specialised committees of the Board", and the "Resolution on the appointment of a secretary to the Board" were considered

and approved. The Company held the third extraordinary general meeting of 2021 on 6 July 2021, during which the "Resolution for the appointment of a director" was considered and approved. As at the date of this report, the Company has formed a reasonable and sustainable Board member structure after taking into account the nominations by shareholders and the Board, internal appointments and governance needs.

2. During the Reporting Period, the Company formed a management team which is commensurate with the actual situation of the Company, and can further the core aims of improving the quality of operation and increasing profitability of the Company. The Company will also continue to adjust the human resources policy, improve its business, job delegation, risk management and control procedures, enhance the stability of the management and key personnel, and actively ensure the normal operation and development of the Company.

3. The Company has convened a board meeting on 10 June 2021 to appoint a designated A shares secretary to the Board; and will increase the allocation of the Company's internal governance-related personnel and improve the Company's daily information disclosure and standardized operation.

(II) Not completing the share repurchase plan within the commitment period and not performing the corresponding decision-making procedures in a timely manner to change or exempt the plan;

The Company considered and approved the resolution in relation to the termination of the repurchase of A Shares of the Company at the eighth meeting of the fourth session of the Board and the seventh meeting of the fourth session of the supervisory committee of the Company on 29 September 2020. For details, please refer to the announcement of the Company dated 29 September 2020. At the fourth extraordinary general meeting of the Company convened on 21 October 2020 (the "**EGM**"), the same resolution was considered and approved by the shareholders. For details, please refer to the announcement of the Company dated 21 October 2020 in relation to the voting results of the EGM. The Company promptly explained to investors, in particular small-and-medium-sized investors, the reasons for the termination of the repurchase of A Shares, the difficulties and related risks involved, the current business operations, and the subsequent development direction. In the future, the Company will conduct thorough investigations into the relevant decision-making resolutions, carry out comprehensive evaluations for prudent decision-making, and ensure that relevant matters are implemented in strict accordance with the statutory procedures and the internal approval procedures, so that the Company's management and operations will be compliant and normative.

(III) Not acquiring complete financial and operation information of the companies invested by the Company during the Reporting Period and not effectively managing and following up on external investment.

Since 2018, the Company has started to dispose of businesses that are not in line with the Company's strategy, and has disposed of some investment brands (in the form of equity interests) that failed to achieve the Company's expected goals. In 2021, the Company continued to sort out and rectify investee companies and integrate the resources of investee companies that have synergy with existing businesses. During the Reporting Period, the Company improved the reporting system and consideration procedures for significant matters of its subsidiaries and formulated the Internal Reporting System for Material Information, which is also applicable to its subsidiaries, to improve the risk management procedures and information reporting mechanism of its subsidiaries. The Company strengthened the promotion and implementation of financial investment management staff and obtained the financial and operation information of its subsidiaries in a timely manner to strengthen the Company's financial management over its subsidiaries. At the same time, the Company strengthened the supervision of the internal audit department over the implementation of the Company's and its subsidiaries' departmental internal control system, and increased the depth and breadth of the Company's and its subsidiaries' internal audit work.

2. Description of other significant matters

During the year ended 31 December 2021, it was found that there was an appropriation of funds in 2019. During the Reporting Period and upon internal investigation by the Company, the funds of RMB8.0 million and RMB1.5 million (RMB9.5 million in total) paid by the Company to its customer Shanghai Xiang'an Information Technology Co., Ltd.* (上海湘安信息技術有限公司) ("**Shanghai Xiang'an**") on 19 July 2019 and 29 August 2019 in the name of refund were appropriated by Shanghai Hexia Investment Co., Ltd.* (上海合夏投資有限公司) ("Shanghai Hexia"), a person acting in concert with the former de facto controller of the Company. This constituted a non-operational appropriation of funds of the listed company by a related party. The Company's ongoing supervisory body has verified the relevant matters and issued a specific verification opinion. As of the date this report, the shares of the Company held by the former de facto controller and its concert parties had been judicially auctioned and the controlling shareholder and de facto controller of the Company had changed. In response to the matter, the Company has repeatedly urged the parties concerned to repay the appropriated funds as soon as possible and has taken judicial measures to recover the funds. At the same time, the Company has formulated the "Policy for Preventing Appropriation of Funds by Controlling Shareholders and Related Parties"* (《防範控股股東及關聯方資金佔用制度》) to provide institutional basis and implementation guidelines for the prevention of capital appropriation. The Company has strengthened the implementation and supervision of the fund payment management system, and strictly enforced the application, approval, review and expenditure process for the use of funds during the Reporting Period. Moreover, personnel in key positions are required to acquaint themselves with the relevant laws and regulations in a timely manner, so as to enhance their awareness of risk prevention and to effectively prevent similar incidents from occurring again.

COMPANY SECRETARY

During the year ended 31 December 2021, Ms. Wong Wai Ling, the Company Secretary, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Ms. Wong Wai Ling is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and Mr. Zhao Jinwen, an executive Director, is her primary contact person at the Company. The biographical details of the Company Secretary is set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

Having been authorized by the Chairman, the Company Secretary is responsible for working out meeting agenda, organising Board meetings, and offering relevant documents to the Directors in advance, so as to ensure that the Directors have obtained sufficient and accurate information for making effective and well-grounded decisions.

The Company Secretary assists in convening and holding Board meetings in accordance with all applicable laws and regulations,, as well as the procedures specified in the Articles of Association. In addition, the Company Secretary would prepare relevant minutes and circulate them to the Directors for their comments.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021 in accordance with statutory requirements and applicable accounting standards.

The Board is responsible for providing to the shareholders a clear and balanced assessment on the Company's financial position and prospects, and is accountable to the shareholders in this regard. The management of the Company provides all relevant information and records to the Board, which enable the Board to prepare the accounts of the Company and to make the above assessments.

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2021. Save as disclosed below, the Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report.

GOING CONCERN CAPABILITY

The net loss of the Group in fiscal 2021 was RMB822,762 thousand and has consecutive loss for three years. As of 31 December 2021, the Company's total liabilities exceed total assets by RMB1,509,570 thousand. The Company is facing litigation matters, major bank accounts and equity interests in subsidiaries have been frozen and real estate has been seized due to default of large debts (Refer to Note VI/(I), Note VI/(XII), Note VI/(LVIII), Note XII/(II)/1, and Note XIII/(I)/1, respectively). The Company has been listed as a defaulter. These matters or circumstances indicate the existence of material doubts and uncertainties that may lead to the Company's ability to continue as a going concern. According to the note III/(II), the board of directors of the Company is taking various active measures to ensure the Company's continuous operation ability based on current actual operation situation.

AUDITORS

Da Hua Certified Public Accountants (Special General Partnership) ("**Da Hua**") was appointed as the domestic and international auditors of the Company for the year ended 31 December 2021. The resolution regarding the appointment of the auditor for the year ending 31 December 2022 will be tabled at the 2021 AGM.

The remuneration paid to Da Hua in respect of the audit services rendered for the year ended 31 December 2021 was RMB3.48 million.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The shareholders' communication policy of the Company is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors. General meetings of the Company are formal channels for communication between shareholders and the Board. The chairman of the Board and the chairmen of the Board Professional Committees (or, in their absence, other members of the respective committees) will make themselves available at the general meetings to have direct communication with the shareholders. The Company publishes its announcements, financial information, and other relevant information on its website (group.lachapelle.cn) and the website of Hong Kong Stock Exchange (www.hkexnews.hk), as a channel to facilitate effective communication.

The Company has a shareholders' communication policy in place and is satisfied that the current policy is adequate and effective.

Shareholders may also send their enquiries and concerns to the Board by sending them to the investor relations department of the Company at the following address:

Address: 12F, Building 4, No, 50. Lane 2700 South Lianhua Road, Minhang District, Shanghai, China 200241
Email: ir@lachapelle.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting or Class Meeting by Shareholders

Pursuant to the Articles of Association, shareholders severally or jointly holding 10% or more of the shares carrying the right to vote at the proposed meeting may request the Board to convene an extraordinary general meeting or a class meeting. The agenda of the proposed meeting shall be stated therein.

When the Company convenes an annual general meeting, a notice to notify all registered shareholders must be given no later than 20 business days before the meeting date; when the Company convenes an extraordinary general meeting, a notice to notify all registered shareholders must be given no later than 10 business days or 15 days, whichever is longer, before the meeting date. Such notice shall contain the matters to be considered at the meeting as well as the date and venue of the meeting.

Putting Forward Proposals at General Meetings

When the Company decides to convene an annual general meeting, any shareholders that severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company, and may raise ad hoc proposals and submit them in writing to the Board ten days prior to the general meeting. The Board shall, within two days after receipt of such proposal, issue a supplemental notice of the general meeting and announce the contents of the ad hoc proposals.

The contents of the proposals to be raised shall be within the scope of duties of the general meetings. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws, administrative regulations and the Articles of Association.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, the Company proposed to make certain amendments to the existing Articles of Association (the "Proposed Amendments"). The Proposed Amendments were approved by the shareholders at the 2020 annual general meeting held on 10 June 2021 and the 2021 fourth extraordinary general meeting held on 31 December 2021.

Audit Report

D.H.S.Z.[2022] 005231

To the Shareholders of Xinjiang La Chapelle Fashion Co., Ltd:

I. AUDIT OPINION

We have audited the financial statements of Xinjiang La Chapelle Fashion Co., Ltd (hereinafter as "La Chapelle"), which comprised the consolidated and parent company's balance sheet as of 31 December 2021, the consolidated and parent company's income statements, the consolidated and parent company's cash flow statement, the consolidated and parent company's statement of changes in shareholder's equity for the fiscal year 2021, and notes to the financial statements.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section, the consolidated and parent company financial statements present fairly, in all material respects, for the results of operations and cash flows for the fiscal year 2021.

II. BASIS FOR QUALIFIED OPINION

(I) Effect of comparative figures on financial statement as a result of losing control over foreign subsidiaries

On 25 February 2020, FASHION I, a subsidiary of La Chapelle, was taken over by HTI Advisory Company Limited due to overdue of loan payments, La Chapelle lost control of FASHION I and its subsidiaries APPAREL I, APPAREL II and Naf Naf SAS. Naf Naf SAS was transferred to judicial liquidation on 19 June 2020 (local time in France) and this liquidation progress has not been settled as of the reporting date. The consolidated statements of La Chapelle for fiscal year 2020 recognized a loss based on the net assets of the above company.

As a result of the above, we were unable to obtain the relevant financial information of the foreign subsidiary as of the date of the audit report, and we were unable to audit the accounting statements of FASHION I and its subsidiaries for fiscal year 2020, so we are unable to judge the impact of this matter on the comparability of the corresponding data for the current period.

(II) Litigation

As described in Note XII/(II)/1 “Litigation Matters” section of the financial statements, the amount of unadjudicated litigation and arbitration was RMB465,588 thousand as of 31 December 2021, due to the debt default of La Chapelle, of which the amount of the litigation and arbitration for which judgment was handed down as of the audit report date was RMB17,124 thousand. As described in Note XIII/(I)/1 “Effects of New Litigation or Arbitration” section of the financial statements, from 1 January 2022 to the report date, lawsuits involving a total amount of RMB23,625 thousand were filed against La Chapelle. Because the number of cases and amounts of lawsuit continue to increase, we are unable to obtain sufficient and appropriate audit evidence to determine the potential loss arising from the litigation matters, and the accuracy and completeness of the estimated liabilities related.

We conducted our audit in accordance with CRAAS (China Registered Accountants Auditing Standards). Our responsibilities under these standards are further described in the "Responsibilities of Certified Public Accountants for the Audit of Financial Statements" section of our audit report. We are independent of La Chapelle and have fulfilled our other responsibilities in accordance with the Code of Ethics for Certified Public Accountants in China. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw the attention of the users of the financial statements to the fact that, as described in Note III/(II) “Going concern” of the financial statements, La Chapelle incurred a net loss of RMB822,762 thousand in fiscal year 2021 and had recorded loss for three consecutive years; as of 31 December 2021, La Chapelle's total liabilities were higher than its total assets of RMB1,509,570 thousand. La Chapelle is facing litigation matters, its major bank accounts and equity interests in subsidiaries have been frozen and real estate has been seized due to large outstanding debts; La Chapelle has also been listed as a defaulter. These matters or circumstances, together with the contingencies listed in Note XII/(II) “The Significant Contingencies Existing at the Balance Sheet Date” of the financial statements, indicate that a material uncertainty that may cast significant doubt on the ability of La Chapelle to continue as a going concern. This matter does not affect the issued audit opinion.

IV. KEY AUDIT MATTER

Key audit matters are, in our professional judgment, highly significant to the audit we have conducted. Addressing these matters serve as basis for audit opinion, and we do not express opinion on these matters individually.

We identified impairment testing of fixed assets and construction in progress as key audit matters which discussed in the audit report.

1. Description of Matter

As shown in Financial Statement Note VI (XII) and (XIII), the carrying value of fixed assets and construction in progress as of 31 December 2021, in La Chapelle's consolidated financial statements was RMB1,591,195 thousand, accounting for 66.11% of La Chapelle's total assets. The book value of "Building-Taicang Logistic Park", "Building-Chengdu Logistics Park", and "Building-Tianjin Logistics Park" was RMB335,245, 91,405, and 124,527 thousand, respectively; "Construction in progress-Tianjin Logistics Park" was RMB75,000 thousand. Since the Company had an operating loss for three consecutive years, the above assets may have indications of impairment, therefore, we will consider the impairment test of fixed assets and construction in progress as key audit matter.

2. Audit Response

The core audit procedures we implement on the impairment of fixed assets and construction in progress included the following:

Evaluate the design and operating effectiveness of internal controls (including estimated useful life and salvage value) related to the completeness, existence and accuracy of fixed assets and construction in progress.

Obtain information of fixed assets and construction in progress; conduct field observation and sampling of important fixed assets and construction in progress; check the condition of corresponding assets and their consuming status during the year, etc.

Analysis of management's judgment on whether there is an indication of possible impairment of fixed assets and construction in progress, and the reasonableness of the key assumptions used in performing the impairment test of construction in progress.

Evaluate the competence, professional quality and objectivity of the third-party appraiser engaged by the management; obtain the valuation report of the construction in progress, analyze, and review the method, basis of the valuation, and key indicators; discuss with the external appraiser and analyze the appropriateness of the valuation method adopted by the management.

Examine the relevant disclosures in the financial statements notes of La Chapelle.

Based on the audit work performed, we believe that the relevant judgments and estimates made by management in the impairment testing of property, plant and equipment and construction in progress are reasonable and the impairment charges for property, plant and equipment and construction in progress are adequate and appropriate.

V. OTHER INFORMATION

The management of La Chapelle is responsible for other information. Other information includes the information covered in the 2021 annual report but excludes the financial statements and our audit report.

Our audit opinion on the financial statements does not cover other information, and we do not express an assurance conclusion of any kind on other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether the other information is materially inconsistent with, or appears to be materially misstated in, the financial statements during the audit.

Based on the work we have performed, if we determine that other information is materially misstated, we should report that fact. As discussed in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient appropriate audit evidence about the accounting and disclosures related to prior period comparative data and litigation matters. Accordingly, we were unable to determine whether the other information related to these matters was materially misstated.

VI. RESPONSIBILITIES OF MANAGEMENT AND GOVERNANCE FOR FINANCIAL STATEMENTS

The management of La Chapelle is responsible for preparing financial statements that present a fair view in accordance with accounting standards for business enterprises and for designing, implementing, and maintaining such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, La Chapelle's management is responsible for assessing La Chapelle's ability to continue as a going concern, disclosing matters related to going concern (if applicable) and applying the going concern assumptions, unless management plans to liquidate La Chapelle, discontinue operations, or has no other realistic option.

Governance is responsible for overseeing La Chapelle’s financial reporting process.

VII. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes an audit opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit performed in accordance with auditing standards will always detect a material misstatement that existed. Misstatements may result from fraud or error and are generally considered to be material if there is a reasonable expectation that, individually or in the aggregate, the misstatement could have affected the economic decisions made by users of the financial statements.

In performing our audit work in accordance with auditing standards, we use professional judgment and maintain professional skepticism. At the same time, we perform the following:

1. Identify and assess the risks of material misstatement of the financial statements due to fraud or error, design and perform audit procedures to address those risks, and obtain sufficient and appropriate audit evidence as a basis for expressing an audit opinion. The risk of failing to detect a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement due to error because fraud may involve collusion, forgery, intentional omissions, misrepresentation, or override of internal control.

2. Understand the internal controls relevant to the audit in order to design appropriate audit procedures.

3. Evaluate the appropriateness of management's selection of accounting policies and the reasonableness of the accounting estimates and related disclosures.

4. Draw conclusions about the appropriateness of management's use of the going concern assumption. Also, based on the audit evidence obtained, we draw conclusions about whether there is a material uncertainty about matters or circumstances that may cast significant doubt about La Chapelle's ability to continue as a going concern. If we conclude that a material uncertainty exists, auditing standards require that we draw the attention of the users of the report to the relevant disclosures in the financial statements; if the disclosures are not adequate, we should express a non-unqualified opinion. Our conclusion is based on information available to us as of the date of the audit report. However, future events or circumstances may cause La Chapelle to fail to continue as a going concern.

5. Evaluate the overall presentation, structure, and content of the financial statements and whether the financial statements present fairly the related transactions and events.

6. Obtain sufficient and appropriate audit evidence about the financial information of the entities or business activities in La Chapelle to express an opinion on the financial statements. We are responsible for directing, supervising and performing the group audit. We assume full responsibility for the audit opinion.

Audit Report

We communicate with governance on matters such as planned audit scope, time schedule, and significant audit findings, including internal control deficiencies identified during our audit.

We also provide a statement to governance regarding compliance with ethical requirements related to independence and communicate with governance about all relationships and other matters that could reasonably be perceived to affect our independence, as well as related precautions, if applicable.

From the matters communicated with governance, we determine which matters are most significant to the audit of the current financial statements and therefore constitute the key audit matter. We describe these matters in our audit report, except public disclosure of such matters is prohibited by law or regulation, or in rare cases, that a matter should not be presented in the audit report if we reasonably expect that the negative consequences of presenting the matter in the audit report would exceed the benefits for the public interest.

Da Hua Certified Public Accountants	CICPA:	薛祈明
(Special General Partnership)	(Engagement Partner)	Qiming Xue
Beijing, China	CICPA	胡進科
		Jinke Hu
	30 March 2022	

Consolidated Balance Sheet

As at 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

	Note VI	Closing Balance	Opening Balance
Assets			
Current assets:			
Monetary Funds	(I)	**167,456**	206,477
Financial assets held for trading		**–**	–
Derivative financial assets		**–**	–
Notes receivable		**–**	–
Accounts receivable	(II)	**88,718**	270,637
Accounts receivable financing		**–**	–
Prepayments	(III)	**11,050**	35,582
Other receivables	(IV)	**53,453**	125,636
Inventories	(V)	**60,865**	438,716
Contract assets		**–**	–
Held-for-sale assets		**–**	–
Non-current assets due within a year	(VI)	**–**	25,844
Other current assets	(VII)	**26,544**	88,952
Total current assets		**408,086**	1,191,844
Non-current assets:			
Debt investments		**–**	–
Other debt investments		**–**	–
Long-term receivables	(VIII)	**–**	4,447
Long-term equity investments	(IX)	**144,603**	180,825
Other equity instruments investment	(X)	**2,580**	4,741
Other non-current financial assets	(XI)	**101,641**	94,050
Investment properties		**–**	
Fixed assets	(XII)	**1,516,195**	1,624,902
Construction in progress	(XIII)	**75,000**	69,054
Productive biological assets		**–**	–
Oil and Gas assets		**–**	–
Right-of-use assets	(XIV)	**3,837**	47,846
Intangible assets	(XV)	**152,674**	166,856
Development expenditure		**–**	–
Goodwill	(XVI)	**–**	78,231
Long-term prepaid expenses	(XVII)	**2,247**	22,984
Deferred tax assets	(XVIII)	**–**	–
Other non-current assets	(XIX)	**–**	–
Total non-current assets		**1,998,777**	2,293,936
Total assets		**2,406,863**	3,485,780

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

Consolidated Balance Sheet

As at 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

	Note VI	Closing Balance	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings	(XXI)	**1,149,220**	1,167,400
Financial liabilities held for trading		**–**	–
Derivative financial liabilities		**–**	–
Notes payable		**–**	–
Accounts payable	(XXII)	**826,501**	1,134,586
Advance from customers	(XXIII)	**10,851**	1,428
Contract liabilities	(XXIV)	**20,395**	7,330
Payroll Payable	(XXV)	**9,833**	65,636
Tax payable	(XXVI)	**203,777**	163,914
Other payables	(XXVII)	**914,134**	854,555
Held-for-sale liabilities		**–**	–
Non-current liability due within one year	(XXVIII)	**349,910**	368,670
Other current liabilities	(XXIX)	**1,874**	–
Total current liabilities		**3,486,495**	3,763,519
Non-current liabilities:			
Long-term borrowings	(XXX)	**–**	–
Bonds payable		**–**	–
Including: Preferred stock		**–**	–
Perpetual debt		**–**	–
Lease liabilities	(XXXI)	**1,897**	36,263
Long-term payables		**–**	–
Long-term payroll payable		**–**	–
Estimated liabilities	(XXXII)	**420,032**	350,585
Deferred income		**–**	–
Deferred tax liabilities	(XVIII)	**2,110**	13,911
Other non-current liabilities	(XXXIII)	**5,899**	8,150
Total non-current liabilities		**429,938**	408,909
Total liabilities		**3,916,433**	4,172,428

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

Consolidated Balance Sheet

As at 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

	Note VI	Closing Balance	Opening Balance
Equity:			
Share capital	(XXXIV)	**547,672**	547,672
Other equity instruments		**–**	–
Including: Preferred stock		**–**	–
Perpetual debt		**–**	–
Capital surplus	(XXXV)	**1,910,806**	1,910,806
Less: Treasury share	(XXXVI)	**20,010**	20,010
Other comprehensive income	(XXXVII)	**(41,026)**	(38,866)
Special reserves		**–**	–
Surplus reserve	(XXXVIII)	**246,788**	246,788
Undistributed profits	(XXXIX)	**(4,075,526)**	(3,254,246)
Equity attributable to Shareholders of the Company		**(1,431,296)**	(607,856)
Non-controlling interests		**(78,274)**	(78,792)
Total equity		**(1,509,570)**	(686,648)
Total liabilities and equity		**2,406,863**	3,485,780

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Consolidated Income Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note VI	2021	2020
1. Revenue	(XL)	**430,128**	1,819,317
Less: Costs of sales	(XL)	**219,366**	933,721
Taxes and surcharges	(XLI)	**20,116**	25,892
Selling and distribution expenses	(XLII)	**215,376**	1,637,841
Administrative expenses	(XLIII)	**158,473**	264,580
Research and development expenses		**–**	–
Finance expenses	(XLIV)	**199,731**	152,739
Including: Interest expenses		**209,670**	138,859
Interest income		**5,080**	8,645
Add: Other income	(XLV)	**108,431**	23,606
Investment income	(XLVI)	**31,792**	(46,201)
Including: Investment income from associates and joint ventures		**(11,265)**	(7,095)
Derecognition of financial assets at amortized cost		**–**	–
Gain/(Loss) from net exposure hedging		**–**	–
Gain/(Loss) on fair value changes	(XLVII)	**7,591**	(3,727)
Credit impairment losses	(XLVIII)	**(186,505)**	(149,409)
Asset impairment losses	(XLIX)	**(310,182)**	(341,184)
Gain/(Loss) on disposal of assets	(L)	**7,209**	214,334
2. Operating profit		**(724,598)**	(1,498,037)
Add: Non-operating income	(LI)	**7,813**	2,034
Less: Non-operating expenses	(LII)	**118,901**	17,000
3. Profit before tax		**(835,686)**	(1,513,003)
Less: Income tax expenses	(LIII)	**(12,924)**	363,933
4. Net profit		**(822,762)**	(1,876,936)
I. Classified by continuity of operations			
Net profit from continuing operations		**(822,762)**	(1,822,084)
Net profit from discontinuing operations		**–**	(54,852)
II. Classified by ownership of the equity			
Net profit attributable to shareholders of the parent company		**(821,280)**	(1,839,543)
Net profit attributable to non-controlling interests		**(1,482)**	(37,393)

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

Consolidated Income Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note VI	2021	2020
5. Other comprehensive income, net of tax		**(2,160)**	1,092
Other comprehensive income after tax attributable to parent company		**(2,160)**	1,092
I. Items of other comprehensive income that cannot be reclassified into profit and loss		**(2,160)**	19,182
i. Changes in fair value of investments in equity instruments		**(2,160)**	19,182
II. Items of other comprehensive income reclassified to profit or loss		**–**	(18,090)
i. Translation differences on translation of foreign currency financial statement		**–**	(18,090)
Other comprehensive income attributable to non-controlling interests after tax		**–**	–
6. Total comprehensive income		**(824,922)**	(1,875,844)
Attributable to shareholders of the parent company		**(823,440)**	(1,838,451)
Attributable to non-controlling interests		**(1,482)**	(37,393)
7. Earnings per share			
I. Basic earnings per share		**(1.51)**	(3.38)
II. Diluted earnings per share		**(1.51)**	(3.38)

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note VI	2021	2020
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**429,678**	2,285,276
Tax and surcharge refunds		**–**	–
Cash received relating to other operating activities	(LVI)	**38,149**	256,525
Total cash inflows from operating activities		**467,827**	2,541,801
Cash paid for goods and services		**64,416**	1,140,348
Cash paid to and for employees		**124,622**	596,440
Taxes and surcharges paid		**9,997**	58,373
Other cash payments related to operating activities	(LVI)	**230,895**	647,044
Total cash outflows from operating activities		**429,930**	2,442,205
Net cash flows from operating activities		**37,897**	99,596
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		**1,093**	2,676
Net cash received from disposal of subsidiaries and other business units		**17,124**	52,836
Cash received relating to other investing activities		**–**	–
Total cash inflows from investing activities		**18,217**	55,512
Cash paid for fixed assets, intangible assets, and other long-term assets		**4,899**	45,035
Cash paid for investments		**–**	–
Net cash paid for acquiring subsidiaries and other business units		**–**	8,449
Cash paid relating to other investing activities		**–**	7,223
Total cash outflows from investing activities		**4,899**	60,707
Net cash flows from investing activities		**13,318**	(5,195)

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

Consolidated Cash Flow Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note VI	2021	2020
3. Cash flows from financing activities			
Cash received from investments by others		**2,000**	–
Including: Cash received by subsidiaries from non-controlling investors		**2,000**	–
Cash received from borrowings		**–**	358,000
Other cash receipts related to other financing activities		**–**	–
Total cash inflows from financing activities		**2,000**	358,000
Cash repayments of borrowings		**4,980**	283,038
Cash payments for distribution of dividends, profits or interest expenses		**3,377**	51,389
Including: Dividends or profit paid by subsidiaries to non-controlling investors		**–**	–
Other cash payments related to financing activities		**7,821**	268,920
Total cash outflows from financing activities		**16,178**	603,347
Net cash flows from financing activities		**(14,178)**	(245,347)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		**–**	(284)
5. Net increase in cash and cash equivalents		**37,037**	(151,230)
Add: Opening balance of cash and cash equivalents		**24,319**	175,549
6. Closing balance of cash and cash equivalents		**61,356**	24,319

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	2021											
	Equity attributable to the shareholders of the parent company											
		Other equity instruments										
	Share capital	Preferred stock	Perpetual debt	Others	Capital reserves	Less: Treasury share	Other com-prehensive income	Special reserves	Surplus reserve	Un-distributed profits	Non-controlling interests	Total equity
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	-	-	-	-	-	-	(2,160)	-	-	(821,280)	518	(822,922)
I. Total comprehensive income	-	-	-	-	-	-	(2,160)	-	-	(821,280)	(1,482)	(824,922)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	2,000	2,000
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	2,000	2,000
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	-	-	1,910,806	20,010	(41,026)	-	246,788	(4,075,526)	(78,274)	(1,509,570)

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	2020											
	Equity attributable to the shareholders of the parent company											
		Other equity instruments										
	Share capital	Preferred stock	Perpetual debt	Others	Capital reserves	Less: Treasury share	Other com-prehensive income	Special reserves	Surplus reserve	Un-distributed profits	Non-controlling interests	Total equity
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	–	–	–	–	6	9,845	1,092	–	–	(1,839,543)	35,446	(1,812,844)
I. Total comprehensive income	–	–	–	–	–	–	1,092	–	–	(1,839,543)	(37,393)	(1,875,844)
II. Shareholders invest and reduce capital	–	–	–	–	6	9,845	–	–	–	–	–	(9,839)
i. Common stock contributed/paid-in capital by shareholders/owners	–	–	–	–	–	–	–	–	–	–	–	–
ii. Capital contributed by other equity instruments holders	–	–	–	–	–	–	–	–	–	–	–	–
iii. Share-based payments to owners' equity	–	–	–	–	6	–	–	–	–	–	–	6
iv. Others	–	–	–	–	–	9,845	–	–	–	–	–	(9,845)
III. Profits distribution	–	–	–	–	–	–	–	–	–	–	72,839	72,839
i. Appropriation of surplus reserve	–	–	–	–	–	–	–	–	–	–	–	–
ii. Distribution to owners	–	–	–	–	–	–	–	–	–	–	72,839	72,839
iii. Others	–	–	–	–	–	–	–	–	–	–	–	–
IV. Transfers within owners' equity	–	–	–	–	–	–	–	–	–	–	–	–
i. Capital surplus transferred to paid-in capital	–	–	–	–	–	–	–	–	–	–	–	–
ii. Surplus reserve transferred to paid-in capital	–	–	–	–	–	–	–	–	–	–	–	–
iii. Use of surplus reserve to cover previous losses	–	–	–	–	–	–	–	–	–	–	–	–
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–
v. Other comprehensive income transferred to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–
vi. Others	–	–	–	–	–	–	–	–	–	–	–	–
V. Special reserves	–	–	–	–	–	–	–	–	–	–	–	–
i. Appropriated during current year	–	–	–	–	–	–	–	–	–	–	–	–
ii. Used during current year	–	–	–	–	–	–	–	–	–	–	–	–
VI. Others	–	–	–	–	–	–	–	–	–	–	–	–
4. Closing balance of current year	547,672	–	–	–	1,910,806	20,010	(38,866)	–	246,788	(3,254,246)	(78,792)	(686,648)

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Company Balance Sheet

As at 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

	Note XVI	**Closing Balance**	Opening Balance
Assets			
Current assets:			
Monetary Funds		**57,883**	146,321
Financial assets held for trading		**–**	–
Derivative financial assets		**–**	–
Notes receivable		**–**	–
Accounts receivable	(I)	**2,528,297**	2,606,863
Accounts receivable financing		**–**	–
Prepayments		**4,741**	24,473
Other receivables	(II)	**271,235**	413,944
Inventories		**51,536**	399,261
Contract assets		**–**	–
Held-for-sale assets		**–**	–
Non-current assets due within a year		**–**	25,844
Other current assets		**5,611**	15,039
Total current assets		**2,919,303**	3,631,745
Non-current assets:			
Debt investments		**–**	–
Other debt investments		**–**	–
Long-term receivables		**–**	53
Long-term equity investments	(III)	**642,420**	645,539
Other equity instruments		**–**	–
Other non-current financial assets		**31,846**	27,032
Investment properties		**–**	–
Fixed assets		**5,705**	11,871
Construction in progress		**–**	–
Productive biological assets		**–**	–
Oil and Gas assets		**–**	–
Right-of-use assets		**–**	130
Intangible assets		**8,396**	17,725
Development expenditure		**–**	–
Goodwill		**–**	–
Long-term prepaid expenses		**18,052**	25,597
Deferred tax assets		**–**	–
Other non-current assets		**–**	–
Total non-current assets		**706,419**	727,947
Total assets		**3,625,722**	4,359,692

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

Consolidated Balance Sheet

As at 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

	Note XVI	**Closing Balance**	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings		**599,220**	617,400
Financial liabilities held for trading		**–**	–
Derivative financial liabilities		**–**	–
Notes payable		**–**	–
Accounts payable		**1,090,911**	1,379,620
Advance from customers		**1,734**	–
Contract liabilities		**1,281**	–
Payroll payable		**1,219**	13,862
Tax payables		**96,249**	66,615
Other payables		**1,220,338**	1,360,665
Held-for-sale liabilities		**–**	–
Non-current liability due within a year		**–**	2,985
Other current liabilities		**166**	–
Total current liabilities		**3,011,118**	3,441,147
Non-current liabilities:			
Long-term borrowings		**–**	–
Bonds payable		**–**	–
Including: Preferred stock		**–**	–
Perpetual debt		**–**	–
Lease liabilities		**–**	–
Long-term payables		**–**	–
Long-term payroll payable		**–**	–
Estimate liabilities		**47,739**	1
Deferred income		**–**	–
Deferred tax liabilities		**–**	2,240
Other non-current liabilities		**–**	–
Total non-current liabilities		**47,739**	2,241
Total liabilities		**3,058,857**	3,443,388

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

Consolidated Balance Sheet

As at 31 December 2021

(All amounts in RMB'000 unless otherwise stated)

	Note XVI	**Closing Balance**	Opening Balance
Equity:			
Share capital		**547,672**	547,672
Other equity instruments		**–**	–
Including: Preferred stock		**–**	–
Perpetual debt		**–**	–
Capital surplus		**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		**(2,104,855)**	(1,755,416)
Total equity		**566,865**	916,304
Total liabilities and equity		**3,625,722**	4,359,692

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Company Income Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note XVI	2021	2020
1. Revenue	(IV)	**241,901**	775,458
Less: Costs of sales	(IV)	**196,348**	686,139
Taxes and surcharges		**3,073**	6,899
Selling and distribution expenses		**34,958**	257,417
Administrative expenses		**58,102**	101,164
Research and development expenses		**–**	–
Finance expenses		**76,789**	26,849
Including: Interest expenses		**–**	36,956
Interest income		**–**	10,425
Add: Other income		**81,302**	14,584
Investment income	(V)	**24,902**	(21,166)
Including: Investment income from associates and joint ventures		**(42)**	(5,619)
Derecognition of financial assets at amortized cost		**–**	–
Gain/(Loss) from net exposure hedging		**–**	–
Gain/(Loss) on fair value changes		**4,814**	4,255
Credit impairment losses		**(139,983)**	(8,849)
Asset impairment losses		**(124,513)**	(317,943)
Gain/(Loss) on disposal of assets		**(406)**	26,115
2. Operating profit		**(281,253)**	(606,014)
Add: Non-operating income		**2,881**	135
Less: Non-operating expenses		**73,268**	4,860
3. Profit before tax		**(351,640)**	(610,739)
Less: Income tax expenses		**(2,201)**	76,366
4. Net profit		**(349,439)**	(687,105)
i. Net profit from continuing operations		**(349,439)**	(687,105)
ii. Net profit from discontinuing operations		**–**	–
5. Other comprehensive income, net of tax		**–**	–
I. Items of other comprehensive income that cannot be reclassified into profit and loss		**–**	–
II. Items of other comprehensive income reclassified to profit or loss		**–**	–
6. Total comprehensive income		**(349,439)**	(687,105)

Legal representative: **Zhang Xin**

Principal in charge of accounting: **Hu Zhiguo**

Head of accounting department: **Hu Zhiguo**

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

Company Cash Flow Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note XVI	2021	2020
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**25,452**	420,098
Tax and surcharge refunds		**–**	–
Cash received relating to other operating activities		**4,873**	448,442
Total cash inflows from operating activities		**30,325**	868,540
Cash paid for goods and services		**–**	485,525
Cash paid to and for employees		**10**	169,693
Taxes and surcharges paid		**–**	34,429
Other cash payments related to operating activities		**30,307**	144,967
Total cash outflows from operating activities		**30,317**	834,614
Net cash flows from operating activities		**8**	33,926
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		**–**	1,193
Net cash received from disposal of subsidiaries and other business units		**–**	54,976
Cash received relating to other investing activities		**–**	–
Total cash inflows from investing activities		**–**	56,169
Cash paid for fixed assets, intangible assets, and other long-term assets		**–**	247
Cash paid for investments		**–**	–
Net cash paid for acquiring subsidiaries and other business units		**–**	–
Cash paid relating to other investing activities		**–**	6,012
Total cash outflows from investing activities		**–**	6,259
Net cash flows from investing activities		**–**	49,910

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

Company Cash Flow Statement

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	Note XVI	2021	2020
3. Cash flows from financing activities			
Cash received from investments by others		**–**	–
Cash received from borrowings		**–**	576,450
Other cash receipts related to other financing activities		**–**	–
Total cash inflows from financing activities		**–**	576,450
Cash repayments of borrowings		**–**	637,600
Cash payments for distribution of dividends, profits or interest expenses		**–**	25,789
Other cash payments related to financing activities		**–**	986
Total cash outflows from financing activities		**–**	664,375
Net cash flows from financing activities		**–**	(87,925)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		**–**	–
5. Net increase in cash and cash equivalents		**8**	(4,089)
Add: Opening balance of cash and cash equivalents		**10**	4,099
6. Closing balance of cash and cash equivalents		**18**	10

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Zhang Xin	**Hu Zhiguo**	**Hu Zhiguo**

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	2021										
		Other equity instruments									
	Share capital	Preferred stock	Perpetual debt	Other	Capital reserves	Less: Treasury share	Other com-prehensive income	Special reserves	Surplus reserve	Un-distributed 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	-	-	-	-	-	-	-	-	-	(349,439)	(349,439)
I. Total comprehensive income	-	-	-	-	-	-	-	-	-	(349,439)	(349,439)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	-
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	-
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(2,104,855)	566,865

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

Items	2020										
		Other equity instruments									
	Share capital	Preferred stock	Perpetual debt	Others	Capital reserves	Less: Treasury share	Other com-prehensive income	Special reserves	Surplus reserve	Un-distributed 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	–	–	–	–	6	9,845	–	–	–	(687,105)	(696,944)
I. Total comprehensive income	–	–	–	–	–	–	–	–	–	(687,105)	(687,105)
II. Shareholders invest and reduce capital	–	–	–	–	6	9,845	–	–	–	–	(9,839)
i. Common stock contributed/paid-in capital by shareholders/owners	–	–	–	–	–	–	–	–	–	–	–
ii. Capital contributed by other equity instruments holders	–	–	–	–	–	–	–	–	–	–	–
iii. Share-based payments to owners' equity	–	–	–	–	6	–	–	–	–	–	6
iv. Others	–	–	–	–	–	9,845	–	–	–	–	(9,845)
III. Profits distribution	–	–	–	–	–	–	–	–	–	–	–
i. Appropriation of surplus reserve	–	–	–	–	–	–	–	–	–	–	–
ii. Distribution to owners	–	–	–	–	–	–	–	–	–	–	–
iii. Others	–	–	–	–	–	–	–	–	–	–	–
IV. Transfers within owners' equity	–	–	–	–	–	–	–	–	–	–	–
i. Capital surplus transferred to paid-in capital	–	–	–	–	–	–	–	–	–	–	–
ii. Surplus reserve transferred to paid-in capital	–	–	–	–	–	–	–	–	–	–	–
iii. Use of surplus reserve to cover previous losses	–	–	–	–	–	–	–	–	–	–	–
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	–	–	–	–	–	–	–	–	–	–	–
v. Other comprehensive income transferred to retained earnings	–	–	–	–	–	–	–	–	–	–	–
vi. Others	–	–	–	–	–	–	–	–	–	–	–
V. Special reserves	–	–	–	–	–	–	–	–	–	–	–
i. Appropriated during current year	–	–	–	–	–	–	–	–	–	–	–
ii. Used during current year	–	–	–	–	–	–	–	–	–	–	–
VI. Others	–	–	–	–	–	–	–	–	–	–	–
4. Closing balance of current year	547,672	–	–	–	1,897,270	20,010	–	–	246,788	(1,755,416)	916,304

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Zhang Xin	**Hu Zhiguo**	**Hu Zhiguo**

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

Notes to the financial statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION

(I) Registered Address, the Type of Organization and the Address of the Headquarter

Xinjiang La Chapelle Fashion Co., Ltd. (hereinafter referred to as "Company") is a joint stock company, shareholding reformed by Shanghai Xuhui La Chapelle Apparel Co. (hereinafter referred to as "Shanghai Xuhui La Chapelle"). Shanghai Xuhui La Chapelle is a limited liability company incorporated in Xuhui District, Shanghai on 14 March 2001. On 26 February 2004, the company changed its name to Shanghai La Chapelle Fashion Limited (hereinafter referred to as "Shanghai La Chapelle"). On 23 May 2011, the Company was converted into a joint stock company with limited liabilities according to the plan approved by the original board of directors and the terms in the agreement made by the company's sponsors. The A-share of RMB-denominated shares and H-share 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".

As of 31 December 2021, the Company accumulatively issued 547.6716 million shares with a registered share capital of RMB547.6716 million. Registered address: Room 2008, 20/F, Tower D, Chuangxin Square, Si Ping Road, Xin Shi District, Urumqi, Xinjiang, PRC; office address: 12/F, Building 4, No. 50, Lane 2700, Lianhua South Road, Minhang District, Shanghai.

(II) Business Nature and Major Activities of the Company

The main business activity of the Company and its subsidiaries is design, promotion and sale of apparel products in the PRC.

Industry: During the reporting period, the Company was a diversified group integrating apparel products and leasing.

During the reporting period, the major activities of the Company include apparel sales, brand licensing and property leasing.

(III) Approval of Financial Statements for Reporting

These financial statements are approved by Company's Board of Directors on 30 March 2022.

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

II SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The total number of subsidiaries in the scope of consolidated financial statements for the period is 28, including:

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

(All amounts in RMB'000 unless otherwise stated)

II SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During the period, 28 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
Taicang Xiawei Fashion Co., Ltd. ("Taicang Xiawei")	Wholly-owned subsidiary	First	100	100
Xinjiang Tongrong Fashion Co., Ltd. ("Xinjiang Tongrong")	Wholly-owned subsidiary	First	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
Taicang Jiashang Storage Co., Ltd. ("Taicang Jiashang")	Wholly-owned subsidiary	Second	100	100
Taicang Chongan Fashion Co., Ltd. ("Taicang Chongan")	Wholly-owned subsidiary	First	100	100
Taicang Xiawei Storage Co., Ltd. ("Taicang Xiawei Cangchu")	Wholly-owned subsidiary	Second	100	100
Shanghai Geraopu Fashion Co., Ltd ("Shanghai Geraopu")	Wholly-owned subsidiary	Second	100	100
Anhui Xinshang Fashion Co., Ltd ("Anhui Xinshang")	Controlling subsidiary	Second	51	51

In this fiscal year, 2 entities were newly joined in, and 2 entities were subtracted from the scope of consolidation, details below:

II SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Subsidiaries added to scope of consolidation:

Name of subsidiary	Reasons of changes
Shanghai Geraopu	Investment establishment
Anhui Xinshang	Investment establishment

(II) Subsidiaries which no longer in scope of consolidation:

Name of subsidiary	Reasons of changes
Tianjin Xiawei Storage Co., Ltd. ("Tianjin Xiawei Cangchu")	Deregistration
Chengdu Xiawei Storage Co., Ltd. ("Chengdu Xiawei Cangchu")	Deregistration

Details of the changes are presented in Note VII "Changes in Scope of Consolidation"

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of Preparation of the Financial Statements

The Company prepares financial statements based on transactions and events that actually occurred and in accordance with the Accounting Standards for Business Enterprises-Basic Standards, Specific Accounting Standards for Business Enterprises, Application Guidelines for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises, and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "Accounting Standards for Business Enterprises") for recognition and measurement. On this basis, the financial statements are prepared in conjunction with the provisions of the China Securities Regulatory Commission's "Rules Governing the Preparation of Information Disclosures by Companies Issuing Public Securities No. 15-General Provisions on Financial Reporting" (revised in 2014).

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(II) Going Concern

The net loss of the Company in fiscal 2021 was RMB822,762 thousand and has consecutive loss for three years. As of 31 December 2021, the Company's total liabilities exceed total assets by RMB1,509,570 thousand. The Company is facing litigation matters, major bank accounts and equity interests in subsidiaries have been frozen and real estate has been seized due to default of large debts (Refer to Note VI/(I), Note VI/(XII), Note VI/(LVIII), Note XII/(II)/1, and Note XIII/(I)/1, respectively). The Company has been listed as a defaulter. These matters or circumstances indicate the existence of material doubts and uncertainties that may lead to the Company's ability to continue as a going concern.

Based on the current actual operating conditions of the Company, the Board of Directors of the Company is taking active measures to improve the Company's ability to continue operations and profitability, the main measures are as follows:

1. Promoting the clearance of historical legacy issues and improve the store efficiency, area efficiency, and profitability. After large-scale store closures, the Company has basically bottomed out the number of offline channel outlets, the future channel strategy will change to "open new stores, open good stores", it is proposed to adopt direct operation in the core business district and co-operate with franchising, joint operating and trusteeship in the remaining areas to achieve optimizing the management radius and saving expenditure of working capital, reasonably expanding the scale of business. At the same time, in 2022, the Company will continue to improve the level of refinement of the management of the stores by adjusting the structure of goods and employee, to promote the clearance of legacy issues from each store, and improve the store efficiency, area efficiency and profitability.

2. Strengthen the construction of brand echelon, rejuvenation, and quality to provide new growth points for the Company's business development. The Company's original five women's, one child's and two men's brands have accumulated large number of customers throughout long-term development and have high level of brand influence and recognition. The Company will follow the business development motto of "one brand, one strategy, priorities defined", integrating management resources to promote the rejuvenation of the brand, develop corresponding high-quality new products and expand the potential customer scale. Up to now, the Company is building the new "Puella" brand, its positioning, product style and target group are more in line with the fashion trend and market rhythm, helping to enhance brand vitality and business scale growth. In addition, the Company has launched two new brands, "USHGEE" and "EYEHI", through internal incubation and external cooperation, to reserve new business opportunities for future growth.

3. The Company will continue to transform into an asset-light, high-margin, fast-turnover business model in accordance with the basic idea of "rebranding and protecting the brand ". In fiscal 2021, the Company achieved operating revenue of approximately RMB60,448 thousand by expanding brand licensing business, which effectively improved the Company's business turnover speed and profitability. The Company will continue to enhance the promotion of brand empowerment, further expand the brands, categories and platform channels covered by the online brand business, extend more business chains on the basis of the original business, and strive to build its brands into remarkable brands in various segments.

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(II) Going Concern (continued)

4. As soon as to achieve "Unload the heavy burden, keep going lightly." In fiscal 2021, the Company's income from leasing real estate reaches RMB51,922 thousand, which effectively improved the efficiency of the Company's asset consumption and reduced operating costs. The Company will continue to negotiate with creditors, courts, and financial institutions for the disposal of relevant assets, promoting the leasing or disposal of existing inefficient property assets (including headquarters campus properties and warehousing assets), and strive to achieve disposal at the maximum premium, and get back capital by divesting assets that are not in line with the Company's strategy in order to improve liquidity and asset structure and provide financial support for core business development.

5. Actively plan to resolve debt problems and reduce the burden of business development. On the one hand, the Company will negotiate with the court, creditors, and financial institutions, etc. to seek a certain percentage of debt discount or installment payment terms to avoid the uncertainty brought to the Company by new litigation cases. According to the Company's communication with some creditors, they are willing to support the Company's sustainable development through debt extension, discount, waiver, etc. On the other hand, planning for an overall solution to the debt problem, including but not limited to debt restructuring, reaching a settlement, creditors' arrangement, etc., in order to eliminate the debt burden through a package solution and help the company back to the right track of development.

6. While taking measures to extricate itself from the crisis, the Company will also leverage the resources and advantages of its major shareholder, Shanghai Wensheng Asset Management and Haitong Security's Asset Management Project, in terms of financing credit, capital strength and professional capabilities to restore and enhance the Company's credit and financing capabilities through overall business optimization, restructuring and seeking additional capital.

7. The Company will continue to strengthen its management system and standardized operation level to provide support for the healthy, benign, and sustainable development of its business. The Company is reorganizing its management system and performance appraisal system, advocating a performance contribution-oriented internal corporate allocation mechanism, and improving the incentive and restraint mechanism that combines the interests of management and employees with the long-term interests of the Company to better stimulate the development of the Company. Meanwhile, the Company will continue to improve the weak links in the internal control system and optimize the functions of each control link and each department to provide support for healthy, benign, and sustainable development of the business.

(III) Basis of Accounting and Valuation Principles

The Company's accounting is carried out on the accrual basis of accounting. The financial statements are measured at historical cost, except for other equity instruments and other non-current financial assets, which are measured at fair value. If an asset is impaired, a corresponding accrual for impairment is made in accordance with the relevant regulations.

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement of Compliance with Corporate Accounting Standards

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

(II) Accounting Period

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

(III) 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 company adopts 12 months as an operating cycle, which is the classification standard of the liquidity of its asset and liability.

(IV) Currency of Accounts

The company adopts Chinese Yuan as its currency of accounts.

(V) Accounting for business combinations under common control and non-common control

1. The terms, conditions and economic effects of each transaction in a step-by-step business combination are one or more of the following, and multiple transactions are accounted for as a package

(1) These transactions occurred simultaneously or mutually influence have been considered;

(2) These transactions lead to achieve a complete business result;

(3) The occurrence of a transaction depends on the occurrence of at least one other transaction;

(4) A transaction is not economical on its own, but it is economical when considered together with other transactions.

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(V) Accounting for business combinations under common control and non-common control (continued)

2. Business combination under the same common control

Assets and liabilities acquired in a business combination are measured at their book value in the consolidated financial statements of the ultimate controlling party at the date of combination (including goodwill resulting from the acquisition of the consolidated party by the ultimate controlling party). The difference between the book value of the net assets acquired in the merger and the book value of the merger consideration paid (or the aggregate nominal value of shares issued) is adjusted against the equity premium in capital surplus, and if the equity premium in capital surplus is not sufficient for elimination, it is adjusted against retained earnings.

If a contingent consideration exists and requires recognition of an estimated liability or asset, the difference between the amount of such estimated liability or asset and the settlement amount of the subsequent contingent consideration is adjusted to capital surplus (capital premium or equity premium), and if capital surplus is insufficient, retained earnings are adjusted.

For a business combination that is ultimately achieved through multiple transactions, if it is a package transaction, each transaction is accounted for as one transaction to obtain control; if it is not a package transaction, the difference between the initial investment cost of the long-term equity investment, and the sum of the book value of the long-term equity investment before reaching the merger plus the book value of the new consideration paid for further acquisition of shares at the date of the merger is adjusted to capital surplus; if capital surplus is not sufficient to offset the difference, adjust retained earnings. For equity investments held before the date of consolidation, other comprehensive income recognized as a result of the adoption of the equity method of accounting or accounting under the Standard on Recognition and Measurement of Financial Instruments is not accounted for until the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee; other comprehensive income recognized in the net assets of the investee as a result of the adoption of the equity method of accounting, other than net profit or loss, other comprehensive income and profit distribution, is not accounted for until the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee. The changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution recognized by the equity method are not accounted for until the investment is disposed of and transferred to current profit or loss.

IV SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(V) Accounting for business combinations under common control and non-common control (continued)

3. Business combination not under common control

The date of purchase is the date on which the company obtains control over the acquiree, i.e., the date on which control over the acquiree's net assets or production and operation decisions is transferred to the company. The company generally considers that the transfer of control is achieved when the following conditions are also met:

① The business combination contract or agreement has been adopted by the company's internal authority.

② The matter of business combination requiring approval by the relevant state authorities has been approved.

③ The necessary procedures for the transfer of property rights have been completed.

④ The Company has paid the majority of the merger price and has the ability and plan to pay the remaining amount.

⑤ The Company has effectively controlled the financial and operating policies of the acquiree and enjoys the corresponding benefits and bears the corresponding risks.

The Company measures assets paid for, liabilities incurred or assumed as consideration for a business combination at fair value at the date of purchase, and the difference between the fair value and book value is recognized in profit or loss for the current period.

The Company recognizes goodwill if the cost of the merger larger than the share of the fair value of the acquiree's identifiable net assets acquired in the merger; if the cost of the merger less than the share of the fair value of the acquiree's identifiable net assets acquired in the merger, after review, is recognized in profit or loss for the current period.

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)

If a business combination under non-identical control is achieved in stages through multiple exchange transactions, each transaction is accounted for as a same transaction to obtain control if it is a package transaction; if it is not a package transaction, the equity investment held before the date of consolidation is accounted for under the equity method, the sum of the book value of the equity investment in the investee held before the date of purchase and the cost of the new investment at the date of purchase is used as the initial investment cost of that investment If the equity investment held prior to the date of purchase is accounted for under the equity method, other comprehensive income recognized on the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee. If an equity investment held prior to the date of consolidation is accounted for using the standard on recognition and measurement of financial instruments, the sum of the fair value of the equity investment at the date of consolidation plus the cost of the additional investment is used as the initial investment cost at the date of consolidation. The difference between the fair value and the carrying amount of the equity interest originally held and the accumulated changes in fair value previously recognized in other comprehensive income should be transferred in full to investment income for the period at the date of consolidation.

4. Costs incurred in connection with the merger

Intermediary fees such as auditing, legal services, appraisal and consulting, and other directly related costs incurred for the business combination are charged to current profit or loss as incurred; transaction costs for equity securities issued for the business combination are deducted from equity if they are directly attributable to the equity transaction.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements

1. Scope of consolidation

The scope of consolidation of the Company's consolidated financial statements is determined on the basis of control, and all subsidiaries (including separate entities controlled by the Company) are included in the consolidated financial statements.

2. Consolidated procedure

The Company prepares consolidated financial statements on the basis of its own financial statements and those of its subsidiaries, and other relevant information. The Company prepares consolidated financial statements by considering the entire enterprise group as one accounting entity, reflecting the financial position, results of operations and cash flows of the enterprise group as a whole in accordance with the recognition, measurement and presentation requirements of relevant accounting standards for enterprises and in accordance with uniform accounting policies.

The accounting policies and accounting periods adopted by all subsidiaries included in the scope of consolidation of the consolidated financial statements are consistent with those of the Company. If the accounting policies and accounting periods adopted by the subsidiaries are not consistent with those of the Company, the necessary adjustments will be made in accordance with the Company's accounting policies and accounting periods when preparing the consolidated financial statements.

The effect on the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows, and consolidated statement of changes in shareholders' equity of internal transactions that occur between the Company and each subsidiary and between each subsidiary is offset in the consolidated financial statements. If the transaction is recognized differently from the perspective of the consolidated financial statements of the enterprise group than if the same transaction is recognized with the Company or a subsidiary as the accounting entity, the transaction is adjusted from the perspective of the enterprise group.

The share of the subsidiary's ownership interest, net profit or loss for the period and comprehensive income attributable to minority shareholders are presented separately in the consolidated balance sheet under the item of ownership interest, in the consolidated income statement under the item of net profit and in the consolidated statement of total comprehensive income, respectively. The balance resulting from the excess of the minority shareholders' share of the subsidiary's loss for the period over the minority shareholders' share of the subsidiary's ownership interest at the beginning of the period is eliminated to reduce shareholders' equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

For a subsidiary acquired through a business combination under the same control, its financial statements are adjusted on the basis of the carrying value of its assets and liabilities (including goodwill resulting from the acquisition of the subsidiary by the ultimate controlling party) in the financial statements of the ultimate controlling party.

For subsidiaries acquired through business combinations not under common control, their financial statements are adjusted based on the fair value of identifiable net assets at the date of purchase.

(1) Addition to subsidiary or business

During the reporting period, if a subsidiary or business is added as a result of a business combination under the same control, the opening balance of the consolidated balance sheet is adjusted; the revenues, expenses and profits of the subsidiary or business combination from the beginning of the period to the end of the reporting period are included in the consolidated income statement; and the cash flows of the subsidiary or business combination from the beginning of the period to the end of the reporting period are included in the consolidated cash flow statement, while the relevant items in the comparative statements are adjusted as if the consolidated reporting entity had been in existence since the point when the ultimate controlling party began to control it.

If it is possible to exercise control over an investee under the same control due to additional investment, etc., the parties involved in the consolidation are treated as if they existed in their current state at the time when the ultimate controlling party began to exercise control for adjustment purposes. For equity investments held prior to the acquisition of control of the consolidated party, the related gains or losses, other comprehensive income and other changes in net assets recognized between the later of the date of acquisition of the original equity interest and the date when the consolidated party and the consolidated party are under the same control and the date of consolidation are eliminated from opening retained earnings or current profit or loss, respectively, in the period of the comparative statements.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(1) Addition to subsidiary or business (continued)

During the reporting period, if a subsidiary or business is added as a result of a business combination not under common control, the opening balance of the consolidated balance sheet is not adjusted; the revenue, expenses and profit of such subsidiary or business from the date of purchase to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiary or business from the date of purchase to the end of the reporting period are included in the consolidated cash flow statement.

If the Company can exercise control over an investee not under common control due to additional investment, etc., the company remeasures the equity interest in the investee held prior to the date of purchase at the fair value of the equity interest at the date of purchase, and the difference between the fair value and carrying amount is recognized as investment income for the current period. If the equity interest in the investee held before the date of purchase involves other comprehensive income under the equity method of accounting and other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, the related other comprehensive income and other changes in owners' equity are transferred to investment income for the current period to which they belong at the date of purchase, except for other comprehensive income resulting from the remeasurement of the investee's net liabilities or changes in net assets of the defined benefit plan. Other comprehensive income arising from the remeasurement of the net liabilities or net assets of the defined benefit plan is excluded.

(2) Disposal of subsidiaries or business

1) General treatment

During the reporting period, if the Company disposes of a subsidiary or business, the revenue, expenses and profit of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business (continued)

1) General treatment (continued)

When control over an investee is lost due to the disposal of a portion of the equity investment or for other reasons, the company remeasures the remaining equity investment after disposal at its fair value at the date of loss of control. The difference between the sum of the consideration received for the disposal of the equity interest and the fair value of the remaining equity interest, less the sum of the share of the net assets of the original subsidiary calculated on a continuing basis from the date of purchase or the date of consolidation in proportion to the original shareholding and goodwill, is recognized as investment income in the period in which control is lost. Other comprehensive income or changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution related to the equity investment in the original subsidiary is transferred to investment income in the period when control is lost, except for other comprehensive income arising from the remeasurement of the investee's net liabilities or changes in net assets of the defined benefit plan.

2) Disposal of subsidiary achieved by stages

Where an equity investment in a subsidiary is disposed of in steps through multiple transactions until control is lost, the terms, conditions and economic effects of each transaction to dispose of the equity investment in the subsidiary are such that one or more of the following circumstances normally indicate that the multiple transaction event should be accounted for as a package transaction:

A. The transactions were entered into simultaneously or after consideration of their mutual effects;

B. The transactions as a whole are necessary to achieve a complete business result;

C. The occurrence of one transaction is dependent on the occurrence of at least one other transaction;

D. A transaction is uneconomic when viewed alone but is economic when considered together with other transactions.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) 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 each transaction for the disposal of an equity investment in a subsidiary until the loss of control is a package transaction, the company accounts for each transaction as a disposal of a subsidiary and loss of control; however, the difference between the disposal price and the share of the net assets of the subsidiary corresponding to the disposal of the investment for each disposal prior to the loss of control is recognized in the consolidated financial statements as other comprehensive income and is transferred to profit or loss in the period in which control is lost.

If the various transactions for the disposal of equity investments in subsidiaries until the loss of control are not a package transaction, prior to the loss of control, the accounting treatment is based on the policies related to partial disposal of equity investments in subsidiaries without loss of control; upon the loss of control, the accounting treatment is based on the general treatment of disposal of subsidiaries.

(3) Acquisition of minority interest of subsidiary

The difference between the company's newly acquired long-term equity investment due to the purchase of minority interest and its share of the net assets of the subsidiary calculated on a continuing basis from the date of purchase (or the date of consolidation) based on the newly acquired shareholding is adjusted to the equity premium in capital surplus in the consolidated balance sheet, and if the equity premium in capital surplus is not sufficient for elimination, it is adjusted to retained earnings.

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

The difference between the disposal price obtained from partial disposal of long-term equity investments in subsidiaries without loss of control and the share in the net assets of the subsidiaries calculated on an ongoing basis from the date of purchase or the date of consolidation corresponding to the disposal of long-term equity investments is adjusted against the equity premium in capital surplus in the consolidated balance sheet, and if the equity premium in capital surplus is not sufficient to cover the reduction, retained earnings is adjusted.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Classification of joint venture arrangements

The Company classifies joint venture arrangements into joint operations and joint ventures based on the structure of the joint venture arrangement, its legal form and the terms agreed upon in the joint venture arrangement, and other relevant facts and circumstances.

Joint venture arrangements that are not entered into through separate entities are classified as joint operations; joint venture arrangements entered into through separate entities are usually classified as joint ventures; however, there is conclusive evidence that any of the following conditions are met and that the joint venture arrangement is classified as a joint operation in accordance with relevant laws and regulations:

(1) The legal form of the joint venture arrangement indicates that the joint venture parties have separate rights and obligations with respect to the relevant assets and liabilities of the arrangement.

(2) The contractual terms of the joint venture arrangement stipulate that the joint venture parties have rights and obligations, respectively, with respect to the relevant assets and liabilities of the arrangement.

(3) Other relevant facts and circumstances indicate that the joint venture party has rights and obligations, respectively, with respect to the relevant assets and liabilities in the arrangement, such as the joint venture party's enjoyment of substantially all of the output associated with the joint venture arrangement and the ongoing dependence on the joint venture party for the satisfaction of the liabilities in the arrangement.

2. Accounting for joint operations

The Company recognizes the following items in its share of interest in joint operations that relate to the Company and accounts for them in accordance with the relevant corporate accounting standards:

(1) Recognition of assets held separately and of jointly held assets in proportion to their shares;

(2) Recognition of liabilities held separately, and of liabilities held jointly in proportion to their shares;

(3) Recognition of income from the sale of its share of the output of a joint operation;

(4) Recognition of revenue from the sale of output from joint operations in its share;

(5) Recognition of expenses incurred separately and, in proportion to their shares, jointly.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

2. Accounting for joint operations (continued)

When the Company contributes or sells assets, etc. to a joint operation (except when such assets constitute a business), only the portion of the gain or loss attributable to the other participants in the joint operation arising from the transaction is recognized until such assets, etc. are sold by the joint operation to a third party. If an impairment loss is incurred on assets contributed or sold in accordance with the provisions of Business Accounting Standards No. 8-Impairment of Assets, etc., the company recognizes such loss in full.

When the Company purchases assets, etc. from a joint operation (except when such assets constitute a business), it recognizes only the portion of the gain or loss attributable to the other participants in the joint operation arising from the transaction until the assets, etc. are sold to a third party. If an impairment loss on an asset acquired in accordance with the provisions of Business Accounting Standards No. 8-Impairment of Assets, etc. occurs, the Company recognizes the portion of the loss that is attributable to the Company's share.

The Company does not enjoy common control over the joint operation, if the Company enjoys the assets related to the joint operation and bears the liabilities related to the joint operation, the accounting treatment shall still be based on the above principles, otherwise, the accounting treatment shall be in accordance with the provisions of relevant enterprise accounting standards.

(VIII) Criteria for determining cash and cash equivalents

In preparing the statement of cash flows, the Company recognizes cash on hand and deposits that are readily available for payment as cash. Investments that have all four conditions: short maturity (generally maturing within three months from the date of purchase), high liquidity, easy conversion to known amounts of cash, and minimal risk of changes in value are identified as cash equivalents.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Foreign currency operations and translation of foreign currency statements

1. Foreign currency operations

On initial recognition, foreign currency transactions are recorded in Chinese Yuan using the spot exchange rate on the date of the transaction as the translation rate.

At the balance sheet date, monetary items denominated in foreign currencies are translated at the spot exchange rate at the balance sheet date, and the resulting exchange differences are recognized in profit or loss, except for those arising from special borrowings in foreign currencies related to the acquisition of assets eligible for capitalization, which are treated in accordance with the principle of capitalizing borrowing costs. Non-monetary items measured in terms of historical cost in foreign currencies are still translated using the spot exchange rate at the date of the transaction, without changing the amount of the local currency of account.

Non-monetary items measured at fair value in foreign currencies are translated using the spot exchange rate at the date the fair value is determined. The difference between the translated amount in the carrying amount and the amount in the original carrying amount is treated as a change in fair value (including exchange rate changes) and recognized in current profit or loss or as other comprehensive income.

2. Translation of foreign currency in financial statements

Assets and liabilities in the balance sheet are translated using the spot rate of exchange at the balance sheet date; items in owners' equity, except for "undistributed earnings", are translated using the spot rate of exchange at the time of occurrence. Income and expense items in the income statement are translated using the spot exchange rate at the date of the transaction. Translation differences arising from the above translation are recognized in other comprehensive income.

When a foreign operation is disposed of, the foreign currency translation difference shown in the balance sheet under other comprehensive income and related to the foreign operation is transferred from other comprehensive income to profit or loss in the period of disposal; when a portion of the equity investment is disposed of or the proportion of interest in the foreign operation is reduced for other reasons but control over the foreign operation is not lost, the foreign currency translation difference related to the disposed portion of the foreign operation is The difference in translation of foreign currency statements related to the disposal of foreign operations will be attributed to minority interests and will not be transferred to profit or loss for the current period. When a foreign operation is disposed of as part of an associate or joint venture, the foreign currency translation differences related to the foreign operation are transferred to profit or loss in the period of disposal in proportion to the disposal of the foreign operation.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to a financial instrument contract.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense to each accounting period.

The effective interest rate is the rate used to discount the estimated future cash flows of a financial asset or financial liability through its expected life to the carrying amount of the financial asset or the amortized cost of the financial liability. In determining the effective interest rate, the expected cash flows are estimated taking into account all contractual terms of the financial asset or financial liability (such as early repayment, rollover, call option or other similar options, etc.), but not the expected credit losses.

The amortized cost of a financial asset or financial liability is the accumulated amortization resulting from the initial recognition amount of the financial asset or financial liability, less the principal repaid, plus or minus the difference between that initial recognition amount and the maturity amount using the effective interest method, less accumulated accrual for impairment losses (applicable only to financial assets).

1. Classification, Recognition, and Measurement of Financial Instruments

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

(1) Financial assets measured at amortized cost.

(2) Financial assets at fair value through other comprehensive income.

(3) Financial assets at fair value through profit and loss.

Financial assets are measured at fair value on initial recognition, except for accounts receivable or notes receivable arising from the sale of goods or services that do not contain a significant financing component or do not consider a financing component of less than one year, which are initially measured at transaction price.

For financial assets at fair value through profit and loss, the related transaction costs are recognized directly in profit and loss, while for other categories of financial assets, the related transaction costs are recognized in their initial recognition amounts.

The subsequent measurement of a financial asset depends on its classification, and all relevant financial assets affected are reclassified when, and only when, the Company changes its business model for managing financial assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

(1) Financial assets classified as measured at amortized cost

If the contractual terms of a financial asset provide that the cash flows arising on a specific date are solely payments of principal and interest based on the outstanding principal amount, and the business model for managing the financial asset is to collect the contractual cash flows, the company classifies the financial asset as a financial asset measured at amortized cost. The company's financial assets classified as financial assets carried at amortized cost include monetary funds, notes receivable, accounts receivable, other receivables, long-term receivables, and debt investments.

The Company uses the effective interest rate method to recognize interest income on such financial assets and subsequently measures them at amortized cost. Gains or losses arising from their impairment or derecognition or modification are recognized in profit or loss for the current period. The Company determines interest income based on the carrying amount of the financial assets multiplied by the effective interest rate, except for the following cases:

1) For financial assets acquired or originated with credit impairment, the Company determines the interest income from the initial recognition on the basis of the amortized cost of the financial assets and the effective interest rate adjusted for credit.

2) For financial assets acquired or originated that are not credit impaired but become credit impaired in a subsequent period, the company determines interest income in the subsequent period based on the amortized cost of the financial asset and the effective interest rate. If the financial instrument is no longer credit impaired in a subsequent period because its credit risk has improved, the Company determines interest income by multiplying the effective interest rate by the carrying amount of the financial asset.

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

If the contractual terms of a financial asset provide that the only cash flows arising on a specific date are payments of principal and interest based on the principal amount outstanding, and the business model for managing the financial asset is to both collect the contractual cash flows and sell the financial asset, the Company classifies the financial asset as a financial asset measured at fair value through other comprehensive income.

The Company uses the effective interest rate method to recognize interest income on such financial assets. Except for interest income, impairment loss and exchange differences recognized in profit or loss, the remaining changes in fair value are recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income and recognized in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

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

Notes receivable and accounts receivable measured at fair value through other comprehensive income are reported as financing receivables, and other such financial assets are reported as other debt investments, of which: other debt investments maturing within one year from the balance sheet date are reported as non-current assets maturing within one year, and other debt investments with original maturities of less than one year are reported as other current assets.

(3) Financial assets designated as at fair value through other comprehensive income

On initial recognition, the Company may irrevocably designate investments in non-trading equity instruments as financial assets at fair value through other comprehensive income on the basis of a single financial asset.

Changes in the fair value of such financial assets are recognized in other comprehensive income and no impairment allowance is required. Upon derecognition of such financial assets, the cumulative gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income and included in retained earnings. Dividend income is recognized and recognized in profit or loss over the period in which the Company holds the investment in this equity instrument, when the Company's right to receive dividends has been established, it is probable that the economic benefits associated with the dividends will flow to the Company, and the amount of the dividends can be measured reliably. The Company reports such financial assets under the item of investment in other equity instruments.

An investment in equity instruments is a financial asset at fair value through profit or loss if it meets one of the following conditions, it was acquired principally for the purpose of selling in the near term; it is part of a portfolio of centrally managed identifiable financial asset instruments at initial recognition and there is objective evidence of a recent actual pattern of short-term profit-taking; it is a derivative (other than those that meet the definition of a financial guarantee contract and those that are designated as effective hedging instruments).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

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

Financial assets that do not qualify for classification as financial assets at amortized cost or at fair value through other comprehensive income and are not designated as at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss.

The Company uses fair value for the subsequent measurement of such financial assets and recognizes gains or losses arising from changes in fair value and dividend and interest income related to such financial assets in profit or loss for the current period.

The Company presents such financial assets under the items of financial assets held for trading and other non-current financial assets according to their liquidity.

(5) Financial assets designated as at fair value through profit or loss

At initial recognition, the company may irrevocably designate a financial asset as at fair value through profit or loss on an individual basis in order to eliminate or significantly reduce accounting mismatches.

If a hybrid contract contains one or more embedded derivatives and its main contract is not one of the above financial assets, the Company may designate the whole of it as a financial instrument at fair value through profit or loss. However, except for the following cases:

1) Embedded derivatives do not materially change the cash flows of hybrid contracts.

2) When first determining whether a similar hybrid contract requires a spin-off, little analysis is required to clarify that the embedded derivatives it contains should not be spun off. If an early repayment right embedded in a loan allows the holder to repay the loan early at an amount close to amortized cost, the early repayment right does not require a spin-off.

The Company uses fair value for the subsequent measurement of such financial assets and recognizes gains or losses arising from changes in fair value and dividend and interest income related to such financial assets in profit or loss for the current period.

The Company presents such financial assets under the items of financial assets held for trading and other non-current financial assets according to their liquidity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

2. Classification, recognition, and measurement of financial liabilities

The Company classifies a financial instrument or its components as financial liabilities or equity instruments at initial recognition based on the contractual terms of the financial instrument issued and the economic substance reflected therein, rather than solely in legal form, in conjunction with the definitions of financial liabilities and equity instruments. Financial liabilities are classified at initial recognition as follows: financial liabilities at fair value through profit or loss, other financial liabilities, derivatives designated as effective hedging instruments.

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

The subsequent measurement of financial liabilities depends on their classification:

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

Such financial liabilities include financial liabilities held for trading (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss on initial recognitions.

A financial liability is classified as a financial liability held for trading if one of the following conditions is met: the financial liability is assumed primarily for the purpose of selling or repurchasing in the near future; it is part of a portfolio of centrally managed identifiable financial instruments and there is objective evidence that the enterprise has recently adopted a pattern of short-term profit-taking; it is a derivative instrument, except for derivatives that are designated and are effective hedging instruments, derivatives that qualify as financial guarantee contracts Exceptions. Trading financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value, and all changes in fair value are recognized in profit or loss, except in relation to hedge accounting.

On initial recognition, for the purpose of providing more relevant accounting information, the company irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities at fair value through profit or loss:

1) Ability to eliminate or significantly reduce accounting mismatches.

2) Management and performance evaluation of a portfolio of financial liabilities or a portfolio of financial assets and financial liabilities on a fair value basis in accordance with the enterprise's risk management or investment strategy as set out in formal written documentation, and reporting to key management personnel on this basis within the enterprise.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

2. Classification, recognition, and measurement of financial liabilities (continued)

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

The Company uses fair value for the subsequent measurement of such financial liabilities and recognizes changes in fair value in profit or loss, except for changes in fair value arising from changes in the Company's own credit risk, which are recognized in other comprehensive income. The company recognizes all changes in fair value, including the amount of the effect of changes in its own credit risk, in profit or loss unless the inclusion of changes in fair value in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

(2) Other financial liabilities

The Company classifies financial liabilities as financial liabilities measured at amortized cost, except for the following, for which the Company applies the effective interest method and subsequently measures them at amortized cost, with gains or losses arising from derecognition or amortization recognized in profit or loss for the current period:

1) Financial liabilities at fair value through profit or loss.

2) Financial liabilities arising from the transfer of financial assets that do not qualify for derecognition or continue to be involved in the transferred financial assets.

3) Financial guarantee contracts that do not fall under the first two categories of this article, as well as loan commitments that do not fall under category 1) of this article to lend at below-market interest rates.

A financial guarantee contract is a contract that requires the issuer to pay a specified amount to the contract holder who has suffered a loss when a specified debtor is unable to pay its debt when due in accordance with the terms of the original or modified debt instrument. Financial guarantee contracts that are not financial liabilities designated as at fair value through profit or loss are measured, after initial recognition, at the higher of the amount of the allowance for loss and the amount initially recognized, less accumulated amortization over the guarantee period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

3. Derecognition of financial assets and liabilities

(1) A financial asset is derecognized, i.e., reversed from its accounts and balance sheet, if one of the following conditions is met:

1) Termination of contractual rights to receive cash flows from the financial asset.

2) The financial asset has been transferred and the transfer satisfies the requirements for derecognition of the financial asset.

(2) Conditions for derecognition of financial liabilities

A financial liability (or part of a financial liability) is derecognized when the present obligation is discharged from the financial liability (or part of the financial liability).

If an agreement is entered into between the company and the lender to replace an original financial liability by the assumption of a new financial liability, and the contractual terms of the new financial liability are materially different from those of the original financial liability, or the contractual terms of the original financial liability (or part thereof) are materially modified, the original financial liability is derecognized and a new financial liability is recognized, and the difference between the carrying amount and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognized in profit or loss for the period.

If the Company repurchases a portion of a financial liability, the carrying amount of the financial liability as a whole is allocated to the respective fair values of the continuing recognized portion and the derecognized portion as a percentage of the overall fair value at the date of repurchase. The difference between the carrying amount allocated to the derecognized portion and the consideration paid (including the non-cash assets transferred or liabilities assumed) should be recognized in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

4. Recognition basis and measurement method of financial asset transfer

The Company assesses the extent to which it retains the risks and rewards of ownership of a financial asset when a transfer of the financial asset occurs, and treats each case separately as follows:

(1) If substantially all the risks and rewards of ownership of a financial asset are transferred, the financial asset is derecognized, and the rights and obligations arising or retained from the transfer are recognized separately as assets or liabilities.

(2) If substantially all the risks and rewards of ownership of a financial asset are retained, the financial asset continues to be recognized.

(3) If it neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset (i.e., in cases other than (1) and (2) of this Article), it is treated as follows, depending on whether it retains control over the financial assets:

1) If control over the financial asset is not retained, the financial asset is derecognized and the rights and obligations arising from or retained in the transfer are recognized separately as assets or liabilities.

2) If control over the financial asset is retained, the company continues to recognize the relevant financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes the related liability accordingly. The extent of continuing involvement in the transferred financial assets is the extent to which the company bears the risk or reward of changes in value of the transferred financial assets.

In determining whether a transfer of financial assets meets the above conditions for derecognition of financial assets, the principle of substance over form is applied. The Company distinguishes between transfers of financial assets as a whole and partial transfers of financial assets:

(1) When a transfer of a financial asset as a whole satisfies the derecognition condition, the difference between the following two amounts is recognized in profit or loss:

1) Carrying value of the transferred financial asset at the date of derecognition.

2) The sum of the consideration received for the transfer of a financial asset and the amount corresponding to the derecognized portion of the cumulative amount of changes in fair value previously recognized directly in other comprehensive income (financial assets involved in the transfer are those measured at fair value through other comprehensive income).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

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

(2) If a portion of a financial asset is transferred and the transferred portion as a whole meets the derecognition condition, the carrying amount of the financial asset as a whole before the transfer is apportioned between the derecognized portion and the continuing recognized portion (in which case the retained service asset shall be treated as part of the continuing recognized financial asset) according to their respective relative fair values at the date of transfer, and the difference between the following two amounts is recognized in profit or loss:

1) Carrying value of derecognized portion at the date of derecognition.

2) The sum of the consideration received for the derecognized portion and the amount corresponding to the derecognized portion of the accumulated changes in fair value originally recognized in other comprehensive income (financial assets involved in the transfer are financial assets at fair value through other comprehensive income).

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

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

The fair value of a financial asset or financial liability for which there is an active market is determined using quoted prices in an active market unless there is a restricted period for the financial asset specific to the asset itself. The fair value of financial assets with an inherently restricted period is determined based on quoted prices in active markets, less any compensation required by market participants for assuming the risk that the financial assets will not be available for sale in the open market within a specified period. Quoted prices in active markets include quotations for the relevant assets or liabilities that are readily and regularly available from exchanges, dealers, brokers, industry groups, pricing agencies or regulators, etc. and are representative of actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets initially acquired or derived, or financial liabilities assumed is determined on the basis of market transaction prices.

Financial assets or financial liabilities for which no active market exists are valued using valuation techniques to determine their fair value. In valuation, the company uses valuation techniques that are applicable in the current circumstances and supported by sufficient available data and other information, selects inputs that are consistent with the characteristics of the asset or liability considered by market participants in transactions for the relevant asset or liability, and gives priority to the use of relevant observable inputs whenever possible. Use unobservable inputs when relevant observable inputs are not available or not practicable to obtain.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments

The Company accounts for financial assets measured at amortized cost, financial assets classified as at fair value through other comprehensive income and financial guarantee contracts that do not meet the derecognition criteria for transfer of financial assets or continue to be involved in the financial liabilities arising from the transferred financial assets on the basis of expected credit losses and recognizes a provision for losses.

Expected credit losses, which are the weighted average of credit losses on financial instruments weighted by the risk of default. Credit loss is the difference between all contractual cash flows receivable under the contract and all cash flows expected to be received by the company, discounted at the original effective interest rate, which is the present value of all cash shortages. In particular, for financial assets purchased or originated by the company that are credit impaired, the credit-adjusted effective interest rate of the financial assets shall be discounted.

For receivables resulting from transactions governed by the revenue standard, the company applies a simplified measurement approach and measures the allowance for losses at an amount equal to the expected credit loss over the entire life of the receivable.

For financial assets that are purchased or originated with credit impairment, only the cumulative changes in expected credit losses throughout their lives since initial recognition are recognized as a provision for losses at the balance sheet date. At each balance sheet date, the amount of the change in expected credit losses over the entire life of the asset is recognized as an impairment loss or gain in profit or loss. A favorable change in expected credit losses is recognized as an impairment gain even if the expected credit losses determined at that balance sheet date for the entire life of the asset are less than the amount of expected credit losses reflected in the estimated cash flows at initial recognition.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

For financial assets other than those for which simplified measurement methods and purchased or originated credit impairment have been applied as described above, the company assesses at each balance sheet date whether the credit risk of the relevant financial instruments has increased significantly since initial recognition, and measures the allowance for losses, recognizes expected credit losses and changes therein, respectively, in accordance with the following circumstances:

(1) If the credit risk of the financial instrument has not increased significantly since initial recognition and is in the first stage, the allowance for losses is measured at an amount equal to the expected credit loss of the financial instrument over the next 12 months and interest income is calculated based on the carrying amount and effective interest rate.

(2) If the credit risk of the financial instrument has increased significantly since initial recognition but no credit impairment has occurred, it is in the second stage, the allowance for losses is measured at an amount equal to the expected credit loss over the entire life of the financial instrument, and interest income is calculated based on the carrying amount and effective interest rate.

(3) If the financial instrument has been credit impaired since initial recognition and is in the third stage, the Company measures its loss allowance at an amount equal to the expected credit loss over the entire life of the financial instrument and calculates interest income at amortized cost and effective interest rate.

The amount of increase or reversal of the allowance for credit losses on financial instruments is recognized as impairment loss or gain in profit or loss. Except for financial assets classified as financial assets at fair value through other comprehensive income, the allowance for credit losses is offset against the carrying amount of the financial assets. For financial assets classified as at fair value through other comprehensive income, the Company recognizes a provision for credit losses in other comprehensive income without reducing the carrying amount of the financial assets presented in the balance sheet.

If the Company has measured the provision for losses in the previous accounting period at an amount equal to the expected credit losses over the entire life of the financial instrument, but at the balance sheet date of the current period, the financial instrument is no longer subject to a significant increase in credit risk since initial recognition, the Company measures the provision for losses on the financial instrument at the balance sheet date of the current period at an amount equal to the expected credit losses over the next 12 months, and the resulting reversal of the provision for losses is recognized as an impairment gain in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(1) Credit risk increased significantly

The Company determines whether the credit risk of a financial instrument has increased significantly since initial recognition by comparing the risk of default of the financial instrument at the balance sheet date with the risk of default at the date of initial recognition using reasonable and substantiated forward-looking information that is available. For financial guaranteed contracts, the company uses the date the Company becomes a party to the irrevocable commitment as the initial recognition date when applying the accrual for impairment of financial instruments.

The Company considers the following factors when assessing whether there is a significant increase in credit risk:

1) Whether there is a significant change in the actual or expected results of operations of the debtor;

2) Whether there has been a significant adverse change in the regulatory, economic or technological environment in which the debtor operates;

3) Whether there have been significant changes in the value of collateral pledged as security for the debt or in the quality of guarantees or credit enhancements provided by third parties that are expected to reduce the debtor's economic incentive to repay the debt by the contractual deadline or to affect the probability of default;

4) Whether there are significant changes in the debtor's expected performance and repayment behavior;

5) Whether there are changes in the Company's approach to credit management of financial instruments, etc.

At the balance sheet date, if the Company determines that a financial instrument has only low credit risk, the Company assumes that the credit risk of the financial instrument has not increased significantly since initial recognition. A financial instrument is considered to have low credit risk if the risk of default is low, the borrower's ability to meet its contractual cash flow obligations in the short term is strong, and the borrower's ability to meet its contractual cash flow obligations may not necessarily be reduced even if there are adverse changes in economic conditions and business environment in the longer term.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(2) Financial assets that are credit impaired

A financial asset becomes credit impaired when one or more events occur that have an adverse effect on the expected future cash flows of the financial asset. Evidence that a financial asset is credit impaired includes the following observable information:

1) Significant financial difficulty of the issuer or debtor;

2) Breach of contract by the debtor, such as default or delinquency in interest or principal payments;

3) Creditors granting concessions to the debtor that the debtor would not otherwise make because of economic or contractual considerations related to the debtor's financial difficulties;

4) A high probability of bankruptcy or other financial reorganization of the debtor;

5) The disappearance of an active market for the financial asset as a result of the financial difficulties of the issuer or the debtor;

6) A financial asset is purchased or originated at a significant discount that reflects the fact that a credit loss has occurred.

A credit impairment of a financial asset may be the result of a combination of events and may not necessarily be the result of separately identifiable events.

(3) Determination of expected credit losses

The Company evaluates expected credit losses on financial instruments on an individual and portfolio basis, taking into account reasonable and substantiated information about past events, current conditions and projections of future economic conditions when assessing expected credit losses.

The Company classifies financial instruments into different portfolios based on common credit risk characteristics. The common credit risk characteristics used by the Company include type of financial instrument, credit risk rating, ageing portfolio, past due ageing portfolio, contractual settlement cycle, and industry in which the debtor is located. The individual evaluation criteria and portfolio credit risk characteristics of the related financial instruments are detailed in the accounting policies of the related financial instruments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments

(3) Determination of expected credit losses (continued)

The Company determines the expected credit losses on the related financial instruments in accordance with the following methods:

1) For financial assets, credit losses are the present value of the difference between the contractual cash flows receivable by the Company and the cash flows expected to be collected.

2) For lease receivables, credit losses are the present value of the difference between the contractual cash flows receivable by the Company and the cash flows expected to be collected.

3) For financial guaranteed contracts, credit losses are the present value of the difference between the expected payment to be made by the Company to the holder of such contract for credit losses incurred, less the amount expected to be collected by the company from the holder of such contract, the debtor, or any other party.

4) For financial assets that are credit impaired at the balance sheet date but not purchased or originated with credit impairment, the credit loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original effective interest rate.

The Company's approach to measuring expected credit losses on financial instruments reflects factors such as: the weighted average amount of unbiased probabilities determined by evaluating a range of possible outcomes; the time value of money; and reasonable and substantiated information about past events, current conditions and projections of future economic conditions that is available at the balance sheet date without undue additional cost or effort.

(4) Write-down of financial assets

When the Company no longer has a reasonable expectation that the contractual cash flows from a financial asset will be fully or partially recovered, the carrying amount of the financial asset is written down directly. Such write-down constitutes derecognition of the related financial asset.

7. Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset against each other. However, they are presented in the balance sheet as net amounts after offsetting each other if the following conditions are also met:

(1) The Company has a legal right to offset the recognized amounts and such legal right is currently enforceable;

(2) The Company plans to settle on a net basis, or to realize the financial asset and settle the financial liability at the same time.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Notes receivable

The Company determines the expected credit losses on notes receivable and accounts for them as described in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on notes receivable resulting from transactions governed by the income guidelines.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the Company classifies notes receivable into certain portfolios based on credit risk characteristics, considering historical credit loss experience, current conditions and judgments about future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Banker's Acceptance Note Portfolio	Accepting Institution	Calculation of expected credit losses by reference to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, through default exposures and expected credit loss rates over the entire duration.
Commercial Promissory Note Portfolio	Acceptor	Prepare a table comparing the aging of notes receivable with expected credit losses throughout the life of the notes by referring to historical credit loss experience, taking into account current conditions and forecasts of future economic conditions, and calculate expected credit losses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Accounts receivable

The Company's method of determining expected credit losses on accounts receivable and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on accounts receivable resulting from transactions governed by the income guidelines.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the company classifies accounts receivable into certain portfolios based on credit risk characteristics by referring to historical credit loss experience, taking into account current conditions and judgment of future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Full amount of expected credit loss portfolio	Account receivables which have full impairment of bad debts.	Accounts receivable with expected credit losses are individually evaluated with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and are classified into the corresponding portfolio for bad debt provisioning
Age of accounts risk portfolio	All accounts receivable except those for which full impairment of bad debts have been applied.	Calculate expected credit losses by referring to historical credit loss experience, combining current conditions and forecasts of future economic conditions, through default exposures and expected credit loss rates over the entire duration

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Receivable's financing

The Company's method of determining expected credit losses on receivables financing and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

(XIV) Other receivables

The Company's method of determining and accounting for expected credit losses on other receivables is detailed in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on other receivables for which sufficient evidence of expected credit losses can be assessed at the individual instrument level at a reasonable cost.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the Company classifies other receivables into certain portfolios based on credit risk characteristics by referring to historical credit loss experience, taking into account current conditions and judgment of future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Full amount of expected credit loss portfolio	Other account receivables which have full impairment of bad debts.	Other receivables with expected credit losses are individually evaluated with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and are classified in the appropriate portfolio for bad debt provisioning
Age of accounts risk portfolio	All other account receivables except those for which full impairment of bad debts have been applied.	Calculate expected credit losses based on reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and prepare a comparison table of the aging of other receivables over the next 12 months or the entire duration.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Inventory

1. Classification of inventories

Inventories are finished goods or merchandise held for sale in the ordinary course of the company's activities, work-in-progress in the production process, materials and supplies consumed in the production process or in the provision of labor services, etc. They mainly include raw materials, goods in stock, and low-value consumables.

2. Inventory valuation method

Inventories are initially measured at cost when acquired, including purchase cost, processing cost and other costs. Inventories are valued by the weighted-average method when they are issued.

3. The basis for determining the net realizable value of inventories and the impairment for inventory

The impairment for inventories is made or adjusted at the lower of cost or net realizable value at the end of the period after a comprehensive inventory check. The net realizable value of finished goods, inventory and materials for sale, which are directly used for sale, is determined in the normal course of production and operation as the estimated selling price of the inventory less estimated selling expenses and related taxes; the net realizable value of materials for processing is determined in the normal course of production and operation as the estimated selling price of the finished goods produced less estimated costs to be incurred to completion, estimated selling expenses and related taxes. The net realizable value of inventories held for the execution of sales contracts or labor contracts is calculated based on the contract price. If the quantity of inventories held exceeds the quantity ordered in the sales contract, the net realizable value of the excess inventories is calculated on the basis of the general sales price.

Impairment of inventories is made at period end on the basis of individual inventory items; however, for inventories with large quantities and lower unit prices impairment of inventories is made according to inventory categories; inventories that are related to product lines manufactured and sold in the same region, have the same or similar end use or purpose, and are difficult to be measured separately from other items are combined and impairment for inventory is made.

If the factors affecting previous write-down of inventory value have disappeared, the amount of the write-down is restored and reversed within the amount of the original impairment of inventories, and the amounts reversed are charged to current period profit or loss.

4. Inventory system for inventories

Adopt perpetual inventory counting system.

5. Amortization method of low-value consumables and packaging

Low-value consumables are amortized using the one-time reversal method

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Other debt investment

The method of determining expected credit losses and the accounting treatment of the company's other debt investments is detailed in Note X/6 "Impairment of financial instruments".

(XVII) Long-term receivables

The Company's method of determining expected credit losses on long-term receivables and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

(XVIII) Long-term equity instruments

1. Initial determination of investment costs

(1) Long-term equity investments resulting from business combinations are accounted for as described in Note V "Accounting for business combinations under common control and non-common control".

(2) Long-term equity investments acquired by other methods.

Long-term equity investments acquired by cash payment are recorded at initial investment cost based on the actual purchase price paid. The initial investment cost includes expenses directly related to the acquisition of long-term equity investments, taxes and other necessary expenses.

Long-term equity investments acquired by issuing equity securities are recorded at the fair value of the equity securities issued as the initial investment cost; transaction costs incurred in issuing or acquiring its own equity instruments that are directly attributable to equity transactions are deducted from equity.

On the premise that the exchange of non-monetary assets has commercial substance and the fair value of the assets exchanged or exchanged can be measured reliably, the initial investment cost of long-term equity investments acquired in exchange for non-monetary assets is determined on the basis of the fair value of the assets exchanged, unless there is conclusive evidence that the fair value of the assets exchanged is more reliable; for non-monetary asset exchanges that do not satisfy the above premise, the initial investment cost is determined on the basis of the book value of the assets exchanged and the related tax payable. For non-monetary asset exchanges that do not meet the above prerequisites, the book value of the assets exchanged, and the related taxes and fees payable are used as the initial investment cost of the long-term equity investment exchanged.

The initial investment cost of long-term equity investments acquired through debt restructuring is determined on the basis of fair value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

2. Subsequent measurement and profit or loss recognition

(1) Cost method

Long-term equity investments in which the Company is able to exercise control over the investee are accounted for using the cost method and are carried at initial investment cost, with additional or recovered investments adjusting the cost of long-term equity investments.

Except for the declared but unpaid cash dividends or profits included in the actual price or consideration paid when acquiring the investment, the Company recognizes as current investment income the cash dividends or profits declared and distributed by the investee according to its entitlement.

(2) Equity method

The Company accounts for its long-term equity investments in associates and joint ventures using the equity method; for a portion of these equity investments in associates held indirectly through venture capital institutions, mutual funds, trust companies or similar entities including investment-linked insurance funds, they are measured at fair value and the changes are recognized in profit or loss.

The difference between the initial investment cost of a long-term equity investment and its share of the fair value of the identifiable net assets of the investee at the time of investment is not adjusted; the difference between the initial investment cost and its share of the fair value of the identifiable net assets of the investee at the time of investment is recognized in profit or loss for the current period.

Upon acquisition of a long-term equity investment, the Company recognizes investment income and other comprehensive income, respectively, based on the share of net profit or loss and other comprehensive income realized by the investee, and adjusts the carrying value of the long-term equity investment; and reduces the carrying value of the long-term equity investment accordingly, based on the portion of profit or cash dividends declared by the investee to which the Company is entitled; for the investee The carrying value of long-term equity investments is adjusted and recognized in owners' equity for changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution.

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 (continued)

The Company recognizes its share of the net profit or loss of the investee on the basis of the fair value of each identifiable asset, etc. of the investee at the time of acquisition of the investment, after adjusting the net profit of the investee. Unrealized gains or losses on internal transactions between the Company and its associates or joint ventures are recognized on the basis of the proportionate share of the gains or losses attributable to the Company, which is offset by the recognition of investment gains or losses on this basis.

When the Company recognizes its share of losses incurred by an investee, it is treated in the following order: First, the carrying amount of the long-term equity investment is reduced. Second, if the carrying value of long-term equity investments is not sufficient for elimination, investment losses continue to be recognized to the extent of the carrying value of other long-term equity interests that substantially constitute the net investment in the investee, and the carrying value of long-term receivables, etc. is eliminated. Finally, after the above treatment, if, according to the investment contract or agreement, the enterprise still assumes additional obligations, an estimated liability is recognized for the expected obligations assumed and included in the current investment loss.

If the investee achieves profitability in subsequent periods, the company, after deducting the unrecognized share of loss, treats the investment in the reverse order of the above, and resumes recognition of investment income after writing down the carrying amount of recognized estimated liabilities and restoring the carrying amount of other long-term equity interests and long-term equity investments that substantially constitute the net investment in the investee.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. Conversion of accounting method for long-term equity investments

(1) Transfer from fair value measurement to equity method accounting

If the equity investment originally held by the Company that does not have control, joint control or significant influence over the investee and is accounted for under the recognition and measurement of financial instruments standard is able to exercise significant influence or joint control over the investee but does not constitute control due to additional investment, etc., the sum of the fair value of the originally held equity investment plus the cost of the additional investment determined in accordance with AS 22-Recognition and Measurement of Financial Instruments", the sum of the fair value of the equity investment originally held plus the cost of the additional investment shall be used as the initial investment cost to be accounted for under the equity method instead.

The difference between the initial investment cost accounted for under the equity method and the share of the fair value of the identifiable net assets of the investee at the date of additional investment, determined in accordance with the new percentage of shareholding after the additional investment, is adjusted to the carrying amount of the long-term equity investment and recognized as non-operating income for the period.

(2) Transfer from fair value measurement or equity method accounting to cost method accounting

If the Company originally holds equity investments that are not controlled, jointly controlled or significantly influenced by the investee and are accounted for in accordance with the Guidelines on Recognition and Measurement of Financial Instruments, or if the Company originally holds long-term equity investments in associates or joint ventures and is able to exercise control over investees not under common control due to additional investments, etc., the carrying value of the equity investments originally held is used in the preparation of individual financial statements as The sum of the book value of the original equity investment plus the cost of the additional investment shall be used as the initial cost of investment to be accounted for under the cost method.

Other comprehensive income recognized as a result of the equity method of accounting for equity investments held prior to the date of purchase is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee upon the disposal of the investment.

If an equity investment held before the date of purchase is accounted for in accordance with the relevant provisions of AS 22-Recognition and Measurement of Financial Instruments, the accumulated changes in fair value previously recognized in other comprehensive income are transferred to current profit or loss when the investment is accounted for under the cost method instead.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. Conversion of accounting method for long-term equity investments (continued)

(3) Conversion of equity method accounting to fair value measurement

If the Company loses joint control or significant influence over an investee for reasons such as disposal of a portion of its equity investment, the remaining equity interest after disposal is accounted for in accordance with AS 22-"Recognition and Measurement of Financial Instruments", and the difference between its fair value and book value at the date of loss of joint control or significant influence is recognized in the current period. Profit or loss.

Other comprehensive income recognized as a result of the equity method accounting for the former equity investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee when the equity method accounting is discontinued.

(4) Conversion from cost method to equity method

If the Company loses control over an investee for reasons such as the disposal of a portion of its equity investment, the Company will change to the equity method of accounting if the remaining equity interest after disposal is capable of exercising joint control or significant influence over the investee in the preparation of individual financial statements and adjust the remaining equity interest as if it had been accounted for under the equity method from the time of acquisition.

(5) Conversion from cost method to fair value measurement

If the Company loses control over an investee for reasons such as the disposal of a portion of its equity investment, in preparing the individual financial statements, if the remaining equity interest after disposal cannot exercise joint control or significant influence over the investee, it is instead accounted for in accordance with the relevant provisions of AS 22-"Recognition and Measurement of Financial Instruments". The difference between its fair value and book value at the date of loss of control is recognized in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

4. Disposal of long-term equity investment

The difference between the carrying amount and the actual acquisition price of a long-term equity investment disposed of shall be recognized in profit or loss for the current period. When a long-term equity investment accounted for using the equity method is disposed of, the same basis as that used for the direct disposal of the related assets or liabilities by the investee is used to account for the portion of the investment that was previously recognized in other comprehensive income at a corresponding rate.

The terms, conditions, and economic effects of each transaction to dispose of an equity investment in a subsidiary are accounted for as a package transaction for multiple transactions if one or more of the following conditions apply:

(1) The transactions are entered into simultaneously or after consideration of their effects on each other;

(2) The transactions as a whole are necessary to achieve a complete business result;

(3) The occurrence of one transaction is dependent on the occurrence of at least one other transaction;

(4) One transaction is uneconomic when viewed in isolation but is economic when considered together with other transactions.

If control over the original subsidiary is lost due to the disposal of part of the equity investment or for other reasons, it is not a package transaction, and the relevant accounting treatment is distinguished between individual financial statements and consolidated financial statements:

(1) In the individual financial statements, the difference between the carrying amount of the equity interest disposed of and the actual acquisition price is recognized in profit or loss for the current period. If the remaining equity interest after disposal can exercise joint control or significant influence over the investee, it is accounted for under the equity method instead, and the remaining equity interest is adjusted as if it had been accounted for under the equity method since its acquisition; if the remaining equity interest after disposal cannot exercise joint control or significant influence over the investee, it is accounted for in accordance with the relevant provisions of AS 22--The difference between the fair value and the carrying amount at the date of loss of control is recognized in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

(2) In the consolidated financial statements, for each transaction prior to the loss of control over a subsidiary, the difference between the disposal price and the corresponding share of the long-term equity investment in the net assets of the subsidiary calculated on an ongoing basis from the date of purchase or the date of consolidation is adjusted to capital surplus (equity premium), and if capital surplus is not sufficient to offset the difference, retained earnings are adjusted; upon loss of control over a subsidiary, the remaining equity interest is recognized in accordance with Upon loss of control over a subsidiary, the remaining equity interest is remeasured at its fair value at the date of loss of control. The difference between the sum of the consideration received for the disposal of the equity interest and the fair value of the remaining equity interest, less the share of the net assets of the original subsidiary calculated on a continuing basis from the date of purchase in proportion to the original shareholding, is recognized as investment income in the period in which control is lost and goodwill is eliminated. Other comprehensive income related to the equity investment in the original subsidiary, etc., is transferred to investment income in the current period when control is lost.

If each transaction of the disposal of equity investment in a subsidiary until the loss of control is a package transaction, each transaction is accounted for as a disposal of equity investment in a subsidiary and loss of control, and the relevant accounting treatment is distinguished between individual financial statements and consolidated financial statements:

(1) In the individual financial statements, the difference between the disposal price and the carrying amount of the long-term equity investment corresponding to the equity interest disposed of before the loss of control is recognized as other comprehensive income and transferred to profit or loss in the period in which control is lost.

(2) In the consolidated financial statements, the difference between the disposal price and the share of the net assets of the subsidiary corresponding to the disposed investment for each disposal prior to the loss of control is recognized as other comprehensive income and is transferred to profit or loss in the period in which control is lost when control is lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

5. Judgment criteria for joint control and significant influence

If the Company collectively controls an arrangement with other participants in accordance with the relevant agreement, and a decision on activities that significantly affect the return of the arrangement exists only when the unanimous consent of the participant's sharing control is required, the arrangement is considered to be a joint venture arrangement when the Company and the other participants jointly control the arrangement.

If a joint venture arrangement is entered into through a separate entity, if the Company is judged to have rights to the net assets of the separate entity based on the relevant agreement, the separate entity is accounted for as a joint venture using the equity method. If it is judged that the Company does not have rights to the net assets of the separate entity based on the relevant agreement, the separate entity is accounted for as a joint venture, and the Company recognizes items related to the share of interest in the joint venture and accounts for them in accordance with the provisions of the relevant ASBEs.

Significant influence means that the investor has the power to participate in decision-making over the financial and operating policies of the investee, but does not control, or jointly control with other parties, the formulation of those policies. The Company determines that it has significant influence over the investee through one or more of the following circumstances, taking into account all facts and circumstances: (1) having representatives on the board of directors or similar authority of the investee; (2) participating in the process of setting financial and operating policies of the investee; (3) having significant transactions with the investee; (4) sending management personnel to the investee; (5) providing the investee unit with key technical information.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset

1. Recognition of fixed assets

Fixed assets are tangible assets that are held for the production of goods and services, rental or operation management and have a useful life of more than one fiscal year. A fixed asset is recognized when both of the following conditions are met:

(1) It is probable that the economic benefits associated with the fixed asset will flow to the enterprise;

(2) The cost of the fixed asset can be measured reliably.

2. Initial measurement of fixed assets

The Company's fixed assets are initially measured at cost.

(1) The cost of purchased fixed assets includes the purchase price, import duties and other related taxes, and other expenses directly attributable to the fixed assets until they reach their intended useable state.

(2) The cost of self-constructed fixed assets consists of the necessary expenditures incurred before the construction of the asset reaches its intended useable state.

(3) Fixed assets invested by investors shall be recorded at the value agreed in the investment contract or agreement, except that the value agreed in the contract or agreement is not fair, which is recorded at fair value.

(4) Where the purchase price of a fixed asset is deferred beyond normal credit terms and is substantially of a financing nature, the cost of the fixed asset is determined on the basis of the present value of the purchase price. The difference between the actual price paid and the present value of the purchase price is recognized in profit or loss over the credit period, except for those that should be capitalized.

(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

Depreciation on fixed assets is provided over their estimated useful lives based on their recorded value less estimated net salvage value. For fixed assets for which accrual for impairment has been made, depreciation is determined in future periods on the basis of the carrying amount net of impairment and based on the remaining useful life; fixed assets that are fully depreciated and continue to be used are not depreciated.

The Company determines the useful lives and estimates net residual values of fixed assets based on the nature and use of fixed assets. At the end of the year, the useful life, estimated net salvage value and depreciation method of fixed assets are reviewed and adjusted accordingly if there is any difference from the original estimate.

The depreciation methods, depreciable lives and annual depreciation rates of various types of fixed assets are as follows:

Classification	Depreciation method	Year of depreciation (year)	Residual value rate (%)	Annual depreciation rate (%)
House and Building	Straight-line method	10 to 20 years	0	5% to 10%
Machinery equipment	Straight-line method	5 to 10 years	5	9.5% to 19%
Transportation equipment	Straight-line method	4 to 5 years	5	19% to 23.75%
Office and electric equipment	Straight-line method	3 to 5 years	5	19% to 31.67%

(2) Subsequent measurements of fixed assets

Subsequent expenditures related to fixed assets that meet the conditions for recognition of fixed assets are included in the cost of fixed assets; those that do not meet the conditions for recognition of fixed assets are included in the current profit and loss when incurred.

(3) Disposal of fixed assets

A fixed asset is derecognized when it is disposed of or when no economic benefits are expected to arise from its use or disposal. The disposal proceeds from the sale, transfer, scrapping or destruction of fixed assets, net of their book value and related taxes and fees, are recognized in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Construction in progress

1. Initial measurement of construction in process

The Company's self-constructed construction in progress is valued at actual cost, which consists of necessary expenditures incurred before the construction of the asset reaches its intended useable state, including the cost of construction materials, labor costs, related taxes and fees paid, borrowing costs to be capitalized and overhead costs to be apportioned, etc.

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

Construction-in-progress projects are recorded as fixed assets at the value of all expenditures incurred before the construction of the asset reaches its intended useable state. If the construction in progress has reached its intended useable state but the final account has not yet been completed, the estimated value is transferred to fixed assets based on the budget, cost or actual cost of the project from the date it reaches its intended useable state, and the depreciation of fixed assets is recorded in accordance with the Company's depreciation policy for fixed assets, and after the final account is completed, the original accrued estimated value is adjusted according to the actual cost, but not the original depreciated value. Depreciation amount.

(XXI) Borrowing costs

1. Principles of recognizing capitalization of borrowing costs

Borrowing costs incurred by the Company that are directly attributable to the acquisition or production of assets eligible for capitalization are capitalized and charged to the cost of the related assets; other borrowing costs are recognized as expenses when incurred and charged to current profit or loss in accordance with the amounts incurred.

Assets eligible for capitalization are fixed assets, investment properties and inventories that require a substantial period of time to reach their intended use or saleable condition.

Borrowing costs begin to be capitalized when both of the following conditions are met:

(1) Expenditure on assets has been incurred, which includes expenditure incurred in the form of cash payments, transfers of non-cash assets or the assumption of interest-bearing debt for the acquisition or production of assets eligible for capitalization;

(2) Borrowing costs have been incurred;

(3) The acquisition or production activities necessary to bring the asset to its intended use or saleable condition have begun.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Borrowing costs (continued)

2. Capitalization period of borrowing costs

The capitalization period refers to the period from the point when capitalization of borrowing costs commences to the point when capitalization ceases, excluding the period when capitalization of borrowing costs is suspended.

Borrowing costs cease to be capitalized when the acquisition or production of assets eligible for capitalization reaches its intended use or saleable condition.

Borrowing costs cease to be capitalized when a portion of the assets eligible for capitalization is separately completed and available for separate use.

If each part of an asset purchased or produced is completed separately, but must wait until the whole is completed before it can be used or sold to the public, the capitalization of borrowing costs ceases when the asset is completed as a whole

3. Suspension of capitalization period

Borrowing costs are suspended if there is an unusual interruption in the process of acquisition or production of an asset eligible for capitalization and the interruption lasts for more than three consecutive months; if the interruption is necessary to bring the asset eligible for capitalization to its intended useable or marketable condition, the borrowing costs continue to be capitalized. Borrowing costs incurred during the interrupted period are recognized as current profit or loss until the acquisition or production of the asset is restarted and the borrowing costs continue to be capitalized.

4. Calculation of capitalization of borrowing cost

Interest expenses on special borrowings (net of interest income earned on unused borrowed funds deposited in banks or investment income earned on temporary investments) and their ancillary expenses are capitalized until the assets purchased or produced that qualify for capitalization reach their intended use or saleable condition.

The amount of interest to be capitalized on general borrowings is determined by multiplying the weighted-average amount of accumulated asset expenditures in excess of the portion of special borrowings by the capitalization rate of the general borrowings occupied. The capitalization rate is determined based on the weighted-average interest rate on general borrowings.

If there is a discount or premium on borrowings, the amount of discount or premium to be amortized for each accounting period is determined by the effective interest rate method, and the amount of interest is adjusted for each period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Right-of-use assets

The Company initially measures right-of-use assets at cost, which consists of:

1. the amount of the initial measurement of the lease liability;

2. the amount of lease payments made on or before the commencement date of the lease term, net of amounts related to lease incentives taken, if any, exist;

3. the initial direct costs incurred by the Company;

4. costs expected to be incurred by the Company to disassemble and remove the leased asset, restore the site where the leased asset is located, or restore the leased asset to the condition agreed upon under the terms of the lease (excluding costs incurred to produce inventory).

Subsequent to the commencement date of the lease term, the Company uses the cost model for subsequent measurement of right-of-use assets.

Where it is reasonably certain that ownership of the leased asset will be obtained at the end of the lease term, the Company provides depreciation over the remaining useful life of the leased asset. If it is not reasonably certain that ownership of the leased asset can be obtained at the end of the lease term, the Company depreciates the asset over the shorter of the lease term and the remaining useful life of the leased asset. Right-of-use assets for which impairment has been made are depreciated in future periods at their carrying amounts net of impairment, with reference to the above principles

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets

Intangible assets are identifiable non-monetary assets without physical form owned or controlled by the Company, including land use rights, trademark use rights, outsourced software.

1. Initial measurement of intangible assets

The cost of an externally acquired intangible asset includes the purchase price, related taxes and other expenses directly attributable to bringing the asset to its intended use. Where the purchase price of an intangible asset is deferred beyond normal credit terms and is substantially of a financing nature, the cost of the intangible asset is determined on the basis of the present value of the purchase price.

When a debt restructuring acquires an intangible asset used to offset a debt, the fair value of the intangible asset is used to determine its recorded value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible asset used to offset the debt is recognized in profit or loss for the current period.

Provided that the exchange of non-monetary assets has commercial substance and the fair value of the asset being exchanged or the asset being exchanged can be measured reliably, the recorded value of the intangible asset acquired in exchange for non-monetary assets is determined on the basis of the fair value of the asset being exchanged, unless there is conclusive evidence that the fair value of the asset being exchanged is more reliable; for non-monetary asset exchanges that do not meet the above prerequisites, the carrying amount of the asset being exchanged and the related tax payable are used as the basis for determining the recorded value of the asset being exchanged. In the case of a non-monetary asset exchange that does not meet the above prerequisites, the carrying amount of the asset to be exchanged and the related taxes and fees to be paid are recognized as the cost of the intangible asset, and no gain or loss is recognized.

Intangible assets acquired by way of absorption and consolidation of enterprises under common control are recorded at the carrying value of the party being consolidated; intangible assets acquired by way of absorption and consolidation of enterprises not under common control are recorded at fair value.

The cost of an intangible asset developed internally includes materials used in developing the intangible asset, labor costs, registration fees, amortization of other patents and licenses used in the development process and interest costs that satisfy the conditions for capitalization, and other direct costs incurred to bring the intangible asset to its intended use.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets (continued)

2. Subsequent measurement of intangible assets

The Company analyzes and determines the useful life of intangible assets at the time of acquisition and classifies them into those with finite useful lives and those with indefinite useful lives.

(1) Intangible assets with limited useful life

Intangible assets with finite useful lives are amortized on a straight-line basis over the period that they provide economic benefits to the Company. The estimated useful lives of intangible assets with finite useful lives and the bases 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 to 10 years	Benefit period
Purchased software	2 to 10 years	Benefit period

At the end of each period, the useful lives and amortization methods of intangible assets with finite useful lives are reviewed and adjusted accordingly if they differ from the original estimates.

After the review, the useful lives and amortization methods of intangible assets at the end of the period were not different from the previous estimates.

(2) Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are considered to be those with indefinite useful lives if it is not foreseeable that the intangible assets will provide economic benefits to the enterprise.

Intangible assets with indefinite useful lives are not amortized during the holding period, and the lives of intangible assets are reviewed at the end of each period. If they are still indefinite after re-review at the end of the period, they continue to be tested for impairment in each accounting period.

After the review, the useful life of such intangible assets is still indefinite

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Impairment of long-term assets

The Company determines at the balance sheet date whether there is an indication that a long-lived asset may be impaired. If there is an indication that a long-lived asset is impaired, the recoverable amount of the asset is estimated on an individual asset basis; if it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group is determined on the basis of the asset group to which the asset belongs:

The recoverable amount of an asset is estimated based on the higher of its fair value less costs of disposal and the present value of the asset's estimated future cash flows.

If the recoverable amount measurement indicates that the recoverable amount of a long-lived asset is less than book value, the carrying amount of the long-lived asset is written down to its recoverable amount, and the amount written down is recognized as an asset impairment loss and recognized in profit or loss, with a corresponding asset impairment. Once an asset impairment loss is recognized, it cannot be reversed in subsequent accounting periods.

After an asset impairment loss is recognized, the depreciation or amortization expense of the impaired asset is adjusted accordingly in future periods so that the adjusted carrying amount of the asset (net of estimated net salvage value) is apportioned systematically over the remaining useful life of the asset.

Goodwill and intangible assets with indefinite useful lives resulting from business combinations are tested annually for impairment, regardless of whether there is any indication of impairment.

When goodwill is tested for impairment, the carrying amount of goodwill is apportioned to the asset group or combination of asset groups that are expected to benefit from the synergies of the business combination. When testing for impairment of the relevant asset group or combination of asset groups containing goodwill, if there is an indication of impairment of the asset group or combination of asset groups related to goodwill, the asset group or combination of asset groups not containing goodwill is first tested for impairment, and the recoverable amount is calculated and compared with the relevant carrying amount, and a corresponding impairment loss is recognized. The impairment test is then performed on the asset group or combination of asset groups containing goodwill, and the carrying amount of these related asset groups or combination of asset groups (including the portion of the carrying amount of goodwill apportioned) is compared with their recoverable amounts, and if the recoverable amount of the related asset group or combination of asset groups is lower than their carrying amounts, an impairment loss on goodwill is recognized.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Long-term prepaid expenses

1. Amortization method

Long-term amortization refers to all expenses that have been incurred but should be borne by the Company in the current and future periods and are apportioned over a period of more than one year. Long-term amortization is amortized on a straight-line basis over the benefit period.

2. Amortization period

Categories	Amortization periods	Notes
Improvement of fixed assets under operating lease	2 to 5 years	Benefit period

(XXVI) Contract liabilities

The Company recognizes the portion of the obligation to transfer goods to customers for which consideration has been received or receivable from customers as a contract liability.

(XXVII) Employee benefits

Employee compensation refers to various forms of remuneration or compensation given by the Company for services rendered by employees or for the termination of employment relationships. Employee compensation includes short-term compensation, post-employment benefits, severance benefits and other long-term employee benefits.

1. Short-term employee benefits

Short-term compensation is defined as employee compensation, excluding post-employment benefits and termination benefits, that is payable in full within twelve months after the end of the annual reporting period in which the employees render the related services. The Company recognizes short-term compensation payable as a liability in the accounting period in which the employee provides services and includes it in the cost of related assets and expenses according to the beneficiary of the services provided by the employee.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Employee benefits (continued)

2. Post-employment benefits

Post-employment benefits are all forms of compensation and benefits, except short-term compensation and termination benefits, provided by the Company to obtain services rendered by employees after their retirement or termination of employment with the Company.

The Company's post-employment benefit plan is defined contribution plan.

The defined contribution plans for post-employment benefits are mainly for participation in basic social pension insurance and unemployment insurance organized and implemented by local labor and social security agencies. During the accounting period in which the employees provide services to the Company, the amount of contributions payable under the defined contribution plan is recognized as a liability and recognized in current profit or loss or the cost of related assets.

After the Company makes regular contributions to these amounts in accordance with national standards and the annuity plan, it has no further payment obligations.

3. Termination benefits

Termination benefits are compensation given by the Company to employees for the termination of their employment relationship prior to the expiration of their employment contracts or to encourage employees to voluntarily accept redundancy. A liability is recognized for compensation given for the termination of the employment relationship with employees when the Company cannot unilaterally withdraw the termination plan or the proposed redundancy and at the earlier of the recognition of costs associated with the restructuring involving the payment of termination benefits The Company recognizes the liability arising from the termination of the employment relationship with the employee, which is simultaneously recognized in profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Estimated liabilities

1. Criteria for recognition of a contingent liability

The Company recognizes an estimated liability when the obligation associated with a contingency meets both of the following conditions:

The obligation is a present obligation to be assumed by the Company;

It is probable that the performance of the obligation will result in an outflow of economic benefits to the Company;

The amount of the obligation can be measured reliably.

2. Measurement of estimated liabilities

The Company's estimated liabilities are initially measured at the best estimate of the expenditure required to satisfy the related present obligation.

In determining the best estimate, the Company considers the risks associated with the contingencies, uncertainties and the time value of money. For those with a significant impact on the time value of money, the best estimate is determined by discounting the related future cash outflows.

The best estimates are treated separately as follows:

Where a continuous range (or interval) of required expenditures exists and it is equally probable that various outcomes will occur within that range, the best estimate is determined as the average of the middle of the range, i.e., the upper and lower amounts.

If there is no continuous range (or interval) of expenditures, or if there is a continuous range but the probabilities of various outcomes within the range are different, the best estimate is determined as the most probable amount if the contingency relates to a single item; if the contingency relates to multiple items, the best estimate is determined based on various probable outcomes and related probabilities.

If all or part of the expenditures required to settle the estimated liability are expected to be reimbursed by a third party, the amount of reimbursement is recognized separately as an asset when it is substantially certain that it will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the estimated liability.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Lease liabilities

The Company initially measures the lease liability at the present value of the lease payments outstanding at the commencement date of the lease term. In calculating the present value of the lease payments, the Company uses the interest rate embedded in the lease as the discount rate; if the interest rate embedded in the lease cannot be determined, the Company's incremental borrowing rate is used as the discount rate. The lease payment amount includes:

1. fixed payments after deducting amounts related to lease incentives and material fixed payments;

2. variable lease payments that depend on an index or rate;

3. lease payments that include the exercise price of the purchase option if the Company is reasonably certain that the option will be exercised;

4. where the lease term reflects that the Company will exercise the option to terminate the lease, the lease payment amount includes the amount required to be paid to exercise the option to terminate the lease;

5. the amount expected to be paid based on the residual value of the guarantee provided by the Company.

The Company calculates the interest expense on the lease liability for each period of the lease term at a fixed discount rate and includes it in the current profit or loss or cost of the related assets.

Variable lease payments that are not included in the measurement of the lease liability should be charged to current profit or loss or the cost of the related assets when they are actually incurred.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments

1. Classification of share-based payments

The Company's share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

2. Determination of fair value of equity instruments

For equity instruments such as options granted for which there is an active market, the fair value is determined based on quoted prices in the active market. For equity instruments such as options granted for which no active market exists, the fair value is determined using an option pricing model, etc. The option pricing model selected considers the following factors: (1) the exercise price of the option; (2) the term of the option; (3) the prevailing price of the underlying shares; (4) the expected volatility of the share price; (5) the expected dividends on the shares; and (6) the risk-free interest rate during the term of the option.

In determining the fair value of equity instruments on the grant date, the effect of market conditions and non-viable conditions in the viability conditions specified in the share-based payment agreements are considered. If non-viable conditions exist for share-based payments, the cost expense corresponding to the services received is recognized as long as the employee or other parties satisfy all the non-market conditions of the viable conditions (such as the service period, etc.).

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

At each balance sheet date during the waiting period, the number of equity instruments expected to be feasible is revised based on the best estimate based on the latest available subsequent information such as changes in the number of feasible employees. The final estimated number of exercisable equity instruments at the date of exercise corresponds to the actual number of exercisable equity instruments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

4. Accounting treatment method

Equity-settled share-based payments are measured at the fair value of the equity instruments granted to employees. If an equity instrument is exercisable immediately after the grant, it is recorded at the fair value of the equity instrument at the date of grant at the relevant cost or expense, with a corresponding increase in capital surplus. If the rights are not exercisable until the completion of the service within the waiting period or when the specified performance conditions are met, the services acquired during the period are recognized in the relevant cost or expense and capital surplus at each balance sheet date within the waiting period, based on the best estimate of the number of exercisable equity instruments and at the fair value of the equity instruments at the date of grant. No adjustment is made to the related costs or expenses and total owners' equity recognized after the exercise date.

Share-based payments settled in cash are measured at the fair value of the liabilities assumed by the Company that are determined on the basis of shares or other equity instruments. If the right is exercisable immediately after the grant, the liability is increased accordingly by the fair value of the liability assumed by the Company at the date of grant to the relevant cost or expense. For cash-settled share-based payments that become exercisable after the completion of the services within the waiting period or after the fulfillment of specified performance conditions, the services acquired during the period are recorded at cost or expense and a corresponding liability at each balance sheet date within the waiting period, based on the best estimate of the circumstances under which they will become exercisable and the amount of the fair value of the liability assumed by the Company. At each balance sheet date prior to settlement of the related liability and at the settlement date, the fair value of the liability is remeasured, and the change is recognized in profit or loss for the period.

If an equity instrument granted is cancelled during the waiting period, the Company treats the cancellation of the equity instrument granted as an accelerated exercise and recognizes the amount to be recognized over the remaining waiting period immediately in profit or loss, together with capital surplus. If employees or other parties are able to elect to satisfy the non-viable option condition but fail to do so during the waiting period, the Company treats the cancellation as a cancellation of the equity instruments granted.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue

The Company's revenues are derived from the following business types:

(1) retail sales

(2) Wholesale sales

(3) Brand licensing

(4) Property leasing

1. General principles of revenue recognition

The Company recognizes revenue based on the transaction price apportioned to that performance obligation when the Company has satisfied the performance obligation in the contract, i.e., when the customer obtains control of the relevant goods or services.

A performance obligation is a contractual commitment by the Company to transfer clearly distinguishable goods or services to a customer.

The acquisition of control of the relevant goods is the ability to dominate the use of the goods and derive substantially all of the economic benefits therefrom.

The Company evaluates the contract as of the contract commencement date, identifies each individual performance obligation contained in that contract, and determines whether each individual performance obligation is to be performed within a certain period of time or at a certain point in time. If one of the following conditions is met, the performance obligation is performed within a certain period of time, and the Company recognizes revenue over a period of time in accordance with the progress of performance: (1) the customer obtains and consumes the economic benefits resulting from the Company's performance at the same time as the Company's performance; (2) the customer is able to control the goods under construction during the Company's performance; (3) the goods produced during the Company's performance have irreplaceable uses and the Company is entitled to receive payment for the cumulative portion of performance completed to date throughout the contract period. Otherwise, the Company recognizes revenue at the point at which the customer obtains control of the relevant goods or services.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

1. General principles of revenue recognition (continued)

The Company uses the output method/input method to determine the appropriate schedule of performance for performance obligations to be performed within a given time period, depending on the nature of the goods and services. The output method determines the progress of performance based on the value to the customer of the goods that have been transferred to the customer (the input method determines the progress of performance based on the Company's inputs to satisfy the performance obligation). When the progress of performance cannot be reasonably determined, the company recognizes revenue in the amount of costs already incurred until the progress of performance can be reasonably determined, if the costs already incurred are expected to be reimbursed.

2. Specific methods of revenue recognition

Retail: The Company sells directly to customers at retail, which is a performance obligation to be fulfilled at a point in time and recognizes revenue when the customer has purchased the product, has received the price or acquired the right to receive payment, and it is probable that the related economic benefits will flow.

Wholesale sales: The Company sells goods to franchisees in various locations. The Company recognizes revenue when the merchandise is shipped or accepted by the franchisee. The Company provides sales discounts to franchisees based on sales volume. The Company determines the amount of discounts based on the expected value method based on historical experience, and recognizes revenue based on the net amount of the contract consideration less the expected discount amount.

Brand licensing: The brand licensing service business is a business in which the Company provides customers with the right to use each brand and receives brand licensing royalties. Revenue from brand licensing is recognized over the agreed usage period of each brand, apportioned over the period.

Property leasing: The Company recognizes revenue on a straight-line basis over the lease term as agreed in the lease contract.

3. Accounting treatment principle on the revenue of specific transactions

(1) Contracts with sales return clause

Revenue is recognized at the amount of consideration expected to be received for the transfer of goods to the customer (i.e., excluding the amount expected to be returned as a result of the sale) when the customer obtains control of the goods, and a liability is recognized at the amount expected to be returned as a result of the sale.

The balance of the book value of merchandise expected to be returned upon sale, net of the costs expected to be incurred to recover the merchandise (including impairment of the value of the returned merchandise), is accounted for under "cost of returned merchandise".

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

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

(2) Reward points program

The Company will grant customers reward points with the sale of merchandise, which they can redeem for free or discounted merchandise provided by the Company. This reward point program provides a significant right to the customer, which the Company treats as a single performance obligation, apportions a portion of the transaction price to the reward points in the relative proportion of the individual selling price of the merchandise offered and the reward points, and recognizes revenue when the customer obtains control of the merchandise for which the points are redeemed or when the points lapse.

(3) Primary responsible/agent

For the Company's retail model in a department store counter, the Company is able to control the merchandise before transferring it to the customer, and therefore the Company is the primary responsible party and recognizes revenue based on the total consideration received or receivable.

(XXXII) Contract costs

1. Contract performance costs

The Company recognizes as an asset the cost incurred to perform a contract that does not fall within the scope of other ASBEs other than the revenue standard and that also meets the following conditions as contract performance costs:

(1) The cost is directly related to a current or expected contract to be obtained, including direct labor, direct materials, manufacturing costs (or similar costs), costs explicitly borne by the customer, and other costs incurred solely in connection with that contract;

(2) The cost increases the resources available to the business to meet future performance obligations;

(3) The cost is expected to be recovered;

The asset is reported in inventories or other noncurrent assets based on whether its amortization period at initial recognition exceeds one normal operating cycle.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contract costs (continued)

2. Contract acquisition costs

Incremental costs incurred by the Company to acquire a contract that are expected to be recovered are recognized as an asset as contract acquisition costs. Incremental costs are costs that would not have been incurred had the Company not acquired the contract, such as sales commissions. For amortization periods not exceeding one year, they are recognized in profit or loss as incurred.

3. Amortization of contract costs

The above assets related to contract costs are amortized to current profit or loss using the same basis as revenue recognition for goods or services related to the asset, either at the point of performance of the performance obligation or in accordance with the progress of performance of the performance obligation.

4. Impairment of contract costs

If the carrying value of the above assets related to contract costs is higher than the difference between the remaining consideration expected to be received by the Company for the transfer of the commodity related to the asset and the estimated costs to be incurred for the transfer of the related commodity, the excess should be provided for impairment and recognized as an asset impairment loss.

After the accrual for impairment is made, if there is a change in the factors for impairment in previous periods, such that the above two differences are higher than the carrying amount of the asset, the original impairment is reversed and recognized in profit or loss, provided that the carrying amount of the asset after the reversal does not exceed the carrying amount of the asset at the date of reversal assuming no impairment is made.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants

1. Classification

Government grants, which are monetary and non-monetary assets acquired by the Company from the government without consideration. Government grants are classified as asset-related government grants and revenue-related government grants according to the grant objects specified in the relevant government documents.

For government grants for which the government documents do not specify the grant objects, the Company classifies them as asset-related government grants or revenue-related government grants according to the actual grant objects, and the related judgment bases are described in Note VI/(XXXIII) "Deferred income"/(LI) "Non-operating income" of these financial statements.

Government grants related to assets are government grants acquired by the Company for the acquisition and construction or other formation of long-term assets. Government grants related to revenue are government grants other than those related to assets.

2. Recognition of government grants

Government grants are recognized at the amount receivable if there is evidence that the company can meet the relevant conditions set forth in the financial support policy at the end of the period and the company expects to receive the financial support funds. Other than that, government grants are recognized when they are actually received.

Government grants are measured at the amount received or receivable if they are monetary assets. Government grants that are non-monetary assets are measured at fair value; if the fair value cannot be reliably obtained, they are measured at a nominal amount (RMB1). Government grants measured at nominal amount are directly recognized in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants (continued)

3. Accounting treatment method

The Company determines whether a particular type of government grant operation should be accounted for using the gross method or the net method based on the substance of the economic operation. Normally, the Company selects only one method for the same type or similar government grant operations and applies the method consistently to such operations.

Government grants related to assets should be written down to the carrying amount of the related assets or recognized as deferred income. Government grants related to assets that are recognized as deferred income are recognized in profit or loss over the useful life of the assets constructed or purchased in accordance with a reasonable and systematic method.

Government grants related to income, which are used to compensate the enterprise for relevant expenses or losses in subsequent periods, are recognized as deferred income and charged to current profit or loss or reduced to relevant costs in the period in which the relevant expenses or losses are recognized; if they are used to compensate the enterprise for relevant expenses or losses already incurred, they are directly charged to current profit or loss or reduced to relevant costs when acquired.

Government subsidies related to the daily activities of the enterprise are included in other income or reduced by related costs and expenses; government subsidies not related to the daily activities of the enterprise are included in non-operating income and expenses.

Government subsidies received in connection with policy-based preferential interest rate loans are reduced by the related borrowing costs; if a policy-based preferential interest rate loan is obtained from a lending bank, the actual amount of the loan received is used as the recorded value of the loan, and the related borrowing costs are calculated based on the principal amount of the loan and the policy-based preferential interest rate.

When recognized government subsidies need to be returned, the carrying value of the assets is adjusted if the carrying value of the relevant assets is reduced upon initial recognition; if there is a balance of relevant deferred income, the carrying value of the relevant deferred income is reduced and the excess is recognized in profit or loss for the period; if there is no relevant deferred income, it is recognized.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIV) Deferred tax assets and deferred tax liabilities

Deferred income tax assets and deferred income tax liabilities are recognized based on the difference between the tax bases of assets and liabilities and their carrying amounts (temporary differences). At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is recovered, or the liability is settled.

1. Criteria for recognition of deferred income tax assets

The Company recognizes deferred income tax assets arising from deductible temporary differences to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized and taxable losses and tax credits can be carried forward to future years. However, deferred income tax assets arising from the initial recognition of assets or liabilities are not recognized if the transaction has the following characteristics: (1) the transaction is not a business combination; (2) the transaction neither affects accounting profit nor taxable income or deductible losses when it occurs.

For deductible temporary differences associated with investments in associates, deferred tax assets are recognized if the following conditions are met, it is probable that the temporary differences will reverse in the foreseeable future, and it is probable that taxable income will be available against which the deductible temporary differences can be utilized in the future.

2. Criteria for recognition of deferred income tax liabilities

The Company recognizes deferred income tax liabilities for unpaid taxable temporary differences between the current and prior periods. However, they do not include:

(1) Temporary differences arising from the initial recognition of goodwill;

(2) Temporary differences arising from transactions or events not resulting from business combinations and which, when they occur, affect neither accounting profit nor taxable income (or deductible losses);

(3) For taxable temporary differences associated with investments in subsidiaries or associates, the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

3. Deferred income tax assets and deferred income tax liabilities are presented on a net basis after offsetting when the following conditions are met

(1) The enterprise has the legal right to settle current income tax assets and current income tax liabilities on a net basis;

(2) Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same tax authority on the same taxable entity or to different taxable entities, but in each future period in which the deferred income tax assets and deferred income tax liabilities are materially reversed, the taxable entities involved intend to settle the current income tax assets and current income tax liabilities on a net basis or acquire the assets and The taxable entity intends to settle current income tax assets and current income tax liabilities with net amount or acquire assets and settle liabilities simultaneously.

(XXXV) Lease

At the inception date of the contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if one party to the contract cedes the right to control the use of one or more identified assets for a specified period of time in exchange for consideration

1. Splitting of leased and non-leased portions

If the contract contains both lease and non-lease parts, the Company, as the lessor, will split the lease and non-lease parts for accounting purposes; when the Company is the lessee, the leased assets will not be split, and each lease part and its related non-lease parts will be separately combined as a lease for accounting purposes.

2. Consolidation of lease contracts

Two or more contracts containing leases entered into by the Company and the same counterparty or its related parties at the same or similar times are combined into one contract for accounting purposes when one of the following conditions is met:

(1) The two or more contracts are entered into based on an overall business purpose and constitute a package transaction, the overall business purpose of which cannot be understood if not considered as a whole.

(2) The amount of consideration for one of the two or more contracts depends on the pricing or performance of the other contracts.

(3) The rights to use the assets transferred by the two or more contracts, taken together, constitute a separate lease.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

3. Accounting treatment of the Company as a lessee

At the commencement date of the lease term, the Company recognizes right-of-use assets and lease liabilities for leases, except for short-term leases and low-value asset leases to which simplified treatment is applied.

(1) Short-term leases and leases of low-value assets

Short-term leases are leases that do not contain purchase options and have a lease term of not more than 12 months. Low-value asset leases are leases with a lower value when the individual leased asset is a brand-new asset.

The Company recognizes right-of-use assets and lease liabilities for leases other than short-term leases and leases of low-value assets.

(2) The accounting policies for right-of-use assets and lease liabilities are detailed in Note IV/(XXII) and (XXIX).

4. Accounting treatment of the Company as a lessor

(1) Classification of leases

The Company classifies leases as finance leases and operating leases at the commencement date of the lease. A finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of the leased asset, and the ownership of which may or may not be transferred eventually. Operating leases refer to leases other than finance leases.

A lease is usually classified as a finance lease by the Company if one or more of the following circumstances exist:

1) At the expiration of the lease term, ownership of the leased asset is transferred to the lessee.

2) The lessee has an option to purchase the leased asset and the purchase price entered into is sufficiently low compared with the fair value of the leased asset at the time the option is expected to be exercised so that it is reasonably certain that the lessee will exercise the option at the inception date of the lease.

3) Although ownership of the asset does not pass, the lease term represents the majority of the useful life of the leased asset.

4) At the lease commencement date, the present value of the lease receipt amount is almost equal to the fair value of the leased asset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

4. Accounting treatment of the Company as a lessor (continued)

(1) Classification of leases (continued)

5) The leased asset is special in nature and can only be used by the lessee if no major alterations are made.

A lease may also be classified as a finance lease by the Company if one or more of the following indications exist:

1) If the lessee revokes the lease, the loss to the lessor caused by the revocation is borne by the lessee.

2) Gains or losses arising from fluctuations in the fair value of the residual value of the asset are attributed to the lessee.

3) The lessee has the ability to continue the lease to the next period at a rent much lower than the market level.

(2) Accounting for finance leases

At the commencement date of the lease term, the Company recognizes finance lease receivables for finance leases and derecognizes finance lease assets.

When the finance lease receivable is initially measured, the sum of the unguaranteed residual value and the present value of the amount of lease receipts not yet received at the commencement date of the lease term discounted at the interest rate embedded in the lease is used as the recorded value of the finance lease receivable. The amount of lease receipts includes:

1) fixed payments net of amounts related to lease incentives and material fixed payments;

2) variable lease payments that depend on an index or rate;

3) the amount of lease receipts including the exercise price of the purchase option if it is reasonably certain that the lessee will exercise the purchase option;

4) where the lease term reflects that the lessee will exercise the option to terminate the lease, the lease receipt amount includes the amount to be paid by the lessee to exercise the option to terminate the lease

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

4. Accounting treatment of the Company as a lessor (continued)

(2) Accounting for finance leases (continued)

5) The residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee, and an independent third party with the financial ability to meet the guarantee obligation.

The Company calculates and recognizes interest income for each period of the lease term at a fixed interest rate embedded in the lease. Variable lease payments acquired that are not included in the net lease investment measurement are recognized in profit or loss when they are actually incurred.

(3) Accounting for operating leases

The Company recognizes lease receipts from operating leases as rental income using the straight-line method or other systematic and reasonable method in each period of the lease term; the initial direct costs incurred in connection with operating leases are capitalized and amortized over the lease term on the same basis as rental income is recognized, and are recognized in profit or loss in the current period; variable lease payments acquired in connection with operating leases that are not included in the lease receipts are recognized in profit or loss in the current period when they are actually incurred..

(XXXVI) Termination of business

The Company recognizes a discontinued operation component as a separately distinguishable component if one of the following conditions is met and the component has been disposed of or classified as held for sale:

(1) The component represents a separate major business or a separate major operating area.

(2) The component is part of an associated plan to dispose of a separate major business or a separate major area of operation.

(3) The component is a subsidiary acquired exclusively for resale.

Gains or losses from operations such as impairment losses and reversals of amounts from discontinued operations and gains or losses on disposals are presented in the income statement as gains or losses from discontinued operations.

(XXXVII) Repurchase of the Company's shares

Consideration and transaction costs paid by the Company to repurchase its own equity instruments reduce shareholders' equity. Issuance (including refinancing), repurchase, sale or cancellation of own equity instruments, other than share-based payments, are treated as changes in equity

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVIII) Distribution of profits

The Company's cash dividends are recognized as a liability upon approval by the shareholders' meeting.

(XXXIX) Fair value measurement

The Company measures other investments in equity instruments, other noncurrent financial assets, and trading financial assets at fair value at each balance sheet date. Fair value, which is the price that a market participant would receive to sell an asset or pay to transfer a liability in an orderly transaction that occurs on the measurement date. The Company measures the relevant asset or liability at fair value assuming that the orderly transaction to sell the asset or transfer the liability takes place in the principal market for the relevant asset or liability; if no principal market exists, the Company assumes that the transaction takes place in the most advantageous market for the relevant asset or liability. The principal market (or most advantageous market) is the market for the transaction to which the Company has access at the measurement date. The Company uses the assumptions used by market participants in pricing the asset or liability to maximize their economic benefits.

Where a non-financial asset is measured at fair value, consideration is given to the ability of the market participant to generate economic benefits from the use of the asset for its best use or to generate economic benefits from the sale of the asset to other market participants who are able to use it for its best use.

The Company uses valuation techniques that are applicable in the current circumstances and supported by sufficient available data and other information, giving preference to relevant observable inputs and using unobservable inputs only when observable inputs are unavailable or impracticable to obtain.

(XL) Significant accounting judgments and estimates

Assets and liabilities that are measured or disclosed at fair value in the financial statements are identified within the fair value hierarchy based on the lowest level of inputs that are significant to the fair value measurement as a whole: Level 1 inputs, unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date; Level 2 inputs, inputs other than Level 1 inputs that are directly or indirectly observable for the related assets or liabilities; and Level 3 inputs, unobservable inputs for the related assets or liabilities. Level 2 inputs are inputs other than Level 1 inputs that are observable for the relevant asset or liability; and Level 3 inputs are unobservable inputs for the relevant asset or liability.

At each balance sheet date, the Company reassesses the assets and liabilities recognized in the financial statements that are measured at fair value on an ongoing basis to determine whether a transition between levels of the fair value measurement hierarchy has occurred.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their disclosures, as well as the disclosure of contingent liabilities at the balance sheet date. Uncertainties in these assumptions and estimates in the process of applying the Company's accounting policies, management has made the following that have a significant effect on the amounts recognized in the financial statements.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

1. Judgments

In the process of applying the Company's accounting policies, management has made the following judgments that have a significant effect on the amounts recognized in the financial statements:

(1) Business model

The classification of financial assets at initial recognition depends on the Company's business model for managing financial assets. In making judgments about the business model, the Company considers, among other things, the manner in which the enterprise evaluates and reports the performance of financial assets to key management personnel, the risks affecting the performance of financial assets and the manner in which they are managed, and the manner in which the relevant business management personnel are compensated. In evaluating whether the objective is to collect contractual cash flows, the Company is required to analyze and judge the reasons, timing, frequency and value of sales of financial assets before their maturity dates.

(2) Contractual cash flow characteristics

The classification of a financial asset at initial recognition depends on the contractual cash flow characteristics of the financial asset, and the Company is required to determine whether the contractual cash flows are only payments of principal and interest based on the principal outstanding, and whether they are significantly different from the benchmark cash flows, etc., when evaluating revisions to the time value of money.

(3) Lease term-Lease contracts that include renewal options

The lease term is the period during which the Company has the right to use the leased assets and is irrevocable. If there is an option to renew the lease and it is reasonably certain that the option will be exercised, the lease term also includes the period covered by the option to renew the lease. Some of the Company's leases have renewal options. In assessing whether it is reasonably certain that the renewal option will be exercised, the Company considers all relevant facts and circumstances relating to the economic benefits resulting from the Company's exercise of the renewal option, including anticipated changes in facts and circumstances between the commencement of the lease term and the date of exercise of the option. The Company believes that the lease term includes the period covered by the renewal option because it is reasonably certain that the Company will exercise the renewal option due to the conditions associated with the exercise of the option and the probability of satisfying the relevant conditions.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

1. Judgments (continued)

(4) Deferred income tax assets

Deferred tax assets should be recognized for all unused deductible losses to the extent that it is probable that sufficient taxable income will be available to offset the deductible losses. This requires management to use significant judgment to estimate the timing and amount of future taxable income, combined with tax planning strategies, to determine the amount of deferred tax assets to be recognized.

2. Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that could result in significant adjustments to the carrying amounts of assets and liabilities in future accounting periods.

(1) Impairment of financial instruments

The Company uses the expected credit loss model to assess the impairment of financial instruments. The application of the expected credit loss model requires significant judgments and estimates, taking into account all reasonable and substantiated information, including forward-looking information. In making these judgments and estimates, the Company inferred expected changes in debtors' credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the impairment, and the impairment made may not equal the actual amount of future impairment losses.

(2) Impairment of goodwill

The Company tests goodwill for impairment at least annually. This requires an estimate of the present value of future cash flows of the asset group or combination of asset groups to which goodwill has been allocated. When estimating the present value of future cash flows, the Company is required to anticipate the future cash flows generated by the asset group or combination of asset groups, and at the same time select an appropriate discount rate to determine the present value of future cash flow.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(3) The fair value of an unlisted equity investment

The valuation of unlisted equity investments is based on the expected future cash flows discounted at the current discount rate for other financial instruments with similar contractual terms and risk characteristics. This requires the Company to estimate the expected future cash flows, credit risk, volatility and discount rate, and is therefore subject to uncertainty.

(4) Sales return

The Company uses a sales return policy for sales customers and estimates the amount of sales returns at the balance sheet date based on agreements related to sales agreements, historical experience, etc.

(5) Impairment of inventories

In accordance with the Company's inventory accounting policy, inventories are measured at the lower of cost or net realizable value, and a inventory write-downs is made for inventories whose cost is higher than net realizable value and for obsolete and slow-moving inventories. The impairment of inventories to net realizable value is based on an assessment of the marketability of inventories and their net realizable value. The identification of inventory impairment requires management to make judgments and estimates based on obtaining conclusive evidence and considering factors such as the purpose for which the inventory is held and the impact of post-balance sheet events. Differences between actual results and original estimates will affect the carrying value of inventories and the impairment or reversal of inventories in the period in which the estimates are changed.

(6) Estimated useful lives and estimated net residual values of property, plant and equipment, intangible assets and long-term amortization (improvements to property, plant and equipment leased from operations)

The estimated useful lives and estimated net salvage values of the Company's property, plant and equipment, intangible assets and long-term amortization (operating leasehold improvements) are based on the actual useful lives of property, plant and equipment, intangible assets and long-term amortization (operating leasehold improvements) of similar nature and function in the past and are estimated based on historical experience. If the useful lives of such assets are shortened or the estimated net salvage value is reduced, the Company will increase the depreciation and amortization rate, obsolete or technically renew such assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(7) Interest rate on lessee's incremental borrowings

For leases where the interest rate embedded in the lease cannot be determined, the Company uses the lessee's incremental borrowing rate as the discount rate to calculate the present value of the lease payments. In determining the incremental borrowing rate, the Company uses the observable interest rate as the reference basis for determining the incremental borrowing rate in accordance with the economic environment in which it operates. On this basis, the reference rate is adjusted to arrive at the applicable incremental borrowing rate in accordance with its own circumstances, the condition of the subject asset, the lease term and the amount of the lease liability and other specific circumstances of the leasing business.

(8) Long-term impairment losses

The Company performs impairment tests on each asset for which there is an indication of impairment at the balance sheet date. The recoverable amounts of assets and asset groups are determined based on value-in-use calculations, which require the use of certain assumptions and estimates.

The assessment of whether an asset is impaired requires management's estimates of (I) whether there is an indication that the value of the asset may not be recoverable; (II) whether the recoverable amount (i.e., the higher of fair value less costs of disposal and the net present value of future cash flows estimated to result from the continued use of the asset in operations) is greater than the carrying amount of the asset; and (III) the key assumptions used in the cash flow projections, including whether such cash flows are discounted at an appropriate interest rate. Changes in the assumptions used by management to assess impairment, including discount rates or growth rate assumptions used in cash flow projections, could have a material impact on the net present value calculated from the impairment test, which could affect the Company's results of operations and financial condition. If there is a significant adverse change in the interest rate applied to discounted cash flows or in the projected future cash flows, an impairment loss on assets may be required.

(All amounts in RMB'000 unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XLI) Changes in significant accounting policies and accounting estimates

1. Change in accounting policy

Content and reasons for changes in accounting policies	Approval Process	Note
With effect from 2 February 2021, the Company implemented Interpretation No. 14 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2021	–	(1)
With effect from 31 December 2021, the Company implemented Interpretation No. 15 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2021	–	(2)

(1) Impact of the implementation of ASBE No. 14 on the Company

On 2 February 2021, the Ministry of Finance issued Interpretation No. 14 of Accounting Standards for Business Enterprises (Caikuai [2021] No. 1, hereinafter referred to as "Interpretation No. 14"), which became effective on 2 February 2021 (hereinafter referred to as the "Effective Date").

The Company implemented Interpretation No. 14 as of the Effective Date, and the implementation of Interpretation No. 14 had no significant impact on the financial statements for the current reporting period.

(2) Impact of the implementation of ASBE No. 15 on the Company

On 31 December 2021, the Ministry of Finance (MOF) issued Interpretation No. 15 of Accounting Standards for Business Enterprises (Caikuai [2021] No. 35, hereinafter referred to as "Interpretation No. 15"), which was implemented on the date of issuance. Interpretation No. 15 regulates the presentation of the funds of the parent company and its member units that are centrally managed through internal clearing houses and finance companies.

The Company will implement Interpretation No. 15 from 31 December 2021. The implementation of Interpretation No. 15 will have no material impact on the financial statements for the comparable period.

2. Changes in accounting estimates

No change in critical accounting estimates for the current reporting period.

(All amounts in RMB'000 unless otherwise stated)

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	5%,3%, 1%	
City maintenance and construction tax	Paid Transfer Tax	7%, 5%, 1%	
Enterprise income tax	Taxable income	25%	
Property tax	Calculate and pay at 70% of the original value of the real estate (or rental income).	1.2%,12%	

(II) Tax incentives and basis

According to the Announcement of the General Administration of Taxation of the Ministry of Finance No. 11 of 2021 on the Clarification of VAT Exemption Policy for Small-scale VAT Taxpayers, from 1 April 2021 to 31 December 2022, small-scale VAT taxpayers with monthly sales of up to RMB150,000 (inclusive) shall be exempted from VAT.

According to the "State Administration of Taxation Announcement [2019] No. 2 and State Administration of Taxation Announcement [2021] No. 8", for the part of the annual taxable income of small and micro enterprises not exceeding RMB1 million, the taxable income shall be reduced by 25% from 2019 to 2020 and the corporate income tax shall be paid at a rate of 20%, with an effective tax rate of 5%; from 2021, the taxable income shall be reduced by 12.5% and the corporate income tax shall be paid at a rate of 20%, with an effective tax rate of 2.5%. For the part of taxable income between RMB1 million and 3 million from 2019 to 2021, the taxable income shall be reduced by 50% and the corporate income tax shall be paid at a rate of 20%, with an effective tax rate of 10%.

According to the "Announcement on Matters Relating to the Continued Exemption of Property Tax and Urban Land Use Tax during the Epidemic Period (Announcement No. 2 of 2021 by the Sichuan Provincial Taxation Bureau of the State Administration of Taxation)" by the Sichuan Provincial Taxation Bureau and the Sichuan Provincial Department of Finance, Chengdu Le Wei, a subsidiary of the Company, was granted a reduction of property tax and urban land use tax for the current year.

VI. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts are in RMB thousands if not otherwise stated, and the opening balances are as of 1 January 2021, and closing balances are as of 31 December 2021)

(I) Monetary funds

Items	Closing balance	Opening balance
Cash on hand	33	321
Bank deposits	61,323	23,998
Other monetary funds	106,100	182,158
Total	167,456	206,477
Including: total amount of funds abroad	2	2

Details of restricted cash are listed as below:

Items	Closing balance	Opening balance
Bank deposits temporarily blocked or frozen due to the judicial system	106,100	182,158
Total	106,100	182,158

(II) 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	41,566	221,448
90 days to 1 year	113,902	60,324
1 to 2 years	56,029	21,136
2 to 3 years	11,636	14,098
3 years above	57,924	44,508
Sub-total	281,057	361,514
Less: impairment for bad debts	192,339	90,877
Total	88,718	270,637

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

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

(II) Accounts receivable (continued)

2. Disclosures by bad debt allowance accrual method

	Closing balance				
	Book balance		Bad debt allowance		
Items	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable subjected to accrual for expected credit losses on individual basis	**185,114**	**66**	**185,114**	**100**	**–**
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	**95,943**	**34**	**7,225**	**7**	**88,718**
Including: Accrual of aging for bad debts on portfolio	**95,943**	**34**	**7,225**	**7**	**88,718**
Total	**281,057**	**100**	**192,339**	**67.15**	**88,718**

Continued:

	Opening balance				
	Book balance		Bad debt allowance		
Items	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable subjected to accrual for expected credit losses on individual basis	70,918	20	69,318	98	1,600
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	290,596	80	21,599	6	269,037
Including: Accrual of aging for bad debts on portfolio	290,596	80	21,599	6	269,037
Total	361,514	100	90,877	25	270,637

(All amounts in RMB'000 unless otherwise stated)

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

(II) Accounts receivable (continued)

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

	Closing balance			
Items	**Book balance**	**Bad debt allowance**	**Proportion (%)**	**Reason**
Hongche Industrial (Shanghai) Co., Ltd. ("Hongche Industrial")	**4,284**	**4,284**	**100**	**Note 1**
Accounts receivables from shopping malls	**180,830**	**180,830**	**100**	**Note 2**
Total	**185,114**	**185,114**	**100**	**–**

Note 1: As of 31 December 2021, the receivables from Hongche Industrial, a related party outside the scope of consolidation, amounted to RMB4,284 thousand. As Hongche Industrial was in poor operating condition and had liquidity problems, the Company considered that the receivables were difficult to collect and therefore accrued for bad debts in full.

Note 2: As of 31 December 2021, the amounts due from shopping malls for which a full amount accrual for bad debts was made were all due to the poor operating conditions of the shopping malls and liquidity problems, some of the shopping malls were in a state of closure and the Company considered that it was difficult to collect the receivables and therefore a full accrual for bad debts was made.

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

1) *Bad debt accrual on portfolio basis*

	Closing balance		
Aging	**Carrying amount**	**Bad debt allowance**	**Proportion (%)**
Within 90 days	**40,259**	**912**	**2**
90 days to 1 year	**43,333**	**2,167**	**5**
1 to 2 years	**11,276**	**3,383**	**30**
2 to 3 years	**781**	**469**	**60**
3 years above	**294**	**294**	**100**
Total	**95,943**	**7,225**	**7**

(All amounts in RMB'000 unless otherwise stated)

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

(II) Accounts receivable (continued)

5. Accrual, recovery, or reversal of bad debts allowance during the period

Items	Opening balance	Changes Accrual	Recovered or reversed	Written off	Other changes	Closing balance
Accounts receivable subjected to accrual for expected credit losses on individual basis	69,318	115,796	–	–	–	185,114
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	21,559	(14,334)	–	–	–	7,225
Including: Accrual for bad debts on portfolio	21,559	(14,334)	–	–	–	7,225
Total	90,877	101,462	–	–	–	192,339

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

7. Top five accounts receivable with closing balances by party in arrears:

Name of company	Closing balance	Percentage of total accounts receivable balance (%)	Accrual for bad debts allowance
Shanghai Feiliang Information Technology Co., Ltd.	17,377	6.18	17,377
Shanghai Fenghui E-Commerce Co., Ltd.	16,075	5.72	16,075
Shanghai Xiangan Information Technology Co., Ltd.	13,573	4.83	679
Shanghai Tianfei Import & Export Trading Co., Ltd.	5,992	2.13	5,992
Hongche Industrial (Shanghai) Co. Ltd	4,284	1.52	4,284
Total	57,301	20.39	44,407

8. There were no accounts receivable derecognized due to the transfer of financial assets during the reporting period.

9. There were no assets or liabilities resulting from the transfer of accounts receivable and continued involvement in the reporting period.

(All amounts in RMB'000 unless otherwise stated)

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

(III) Prepayment

1. Prepayment classified by aging

	Closing balance		Opening balance	
Aging	**Amount**	**Proportion (%)**	Amount	Proportion (%)
Within 1 year	**11,050**	**100**	25,420	71
1 to 2 years	**–**	**–**	10,162	29
Total	**11,050**	**100**	35,582	100

2. The top five prepayments by prepaid objects at the end of the period:

Name of company	**Closing balance**	**Percentage of total prepayments (%)**
Total amount of the top five prepayments	2,262	20.47

(IV) Other receivables

Items	**Closing balance**	Opening balance
Interest receivable	**–**	–
Other receivables	**53,453**	125,636
Total	**53,453**	125,636

Note: Other receivables in the above table represent other receivables after deducting interest receivable and dividend receivable.

(I) Interest receivable

1. Classification of interest receivable

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

Note: The Company reclassified the accrued interest receivable from Hongche Industrial to other current assets and made a related impairment at the same time.

(All amounts in RMB'000 unless otherwise stated)

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

(IV) Other receivables (continued)

(II) Other receivables

1. Classified by aging

Other receivables with aging since invoice date are analyzed as follows:

Aging	Closing balance	Opening balance
Within 1 year	60,249	227,484
1 to 2 years	179,175	31,410
2 to 3 years	39,898	12,776
3 years above	43,219	30,443
Sub-total	322,541	302,113
Less: bad debt impairment	269,088	176,477
Total	53,453	125,636

2. Classified by characteristic

Nature	Closing balance	Opening balance
Deposits and security deposits	106,529	158,968
Refund of service charge expenses	9,778	13,778
Employee reserve fund	1,754	1,420
Property rental fees	12,522	5,437
Current accounts receivable	190,869	120,315
Others	1,089	2,195
Total	322,541	302,113

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

	Closing balance			Opening balance		
Items	Carrying amount	Bad debt allowance	Book value	Carrying amount	Bad debt allowance	Book value
Stage I	37,590	6,385	31,205	166,863	82,681	84,182
Stage II	36,156	13,908	22,248	62,916	21,462	41,454
Stage III	248,795	248,795	–	72,334	72,334	–
Total	322,541	269,088	53,453	302,113	176,477	125,636

(All amounts in RMB'000 unless otherwise stated)

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

(IV) Other receivables (continued)

(II) Other receivables (continued)

4. *Details of allowance for bad debts of other receivables*

Bad debts allowance	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	(76,296)	(7,554)	83,850	–
– transferred to stage II	–	–	–	–
– transferred to stage III	(76,296)	(7,554)	83,850	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Accrual in the current period	–	–	80,133	80,133
Reversal in the current period	–	–	–	–
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Reclassification	–	–	12,478	12,478
Closing balance	6,385	13,908	248,795	269,088

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

(All amounts in RMB'000 unless otherwise stated)

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

(IV) Other receivables (continued)

(II) Other receivables (continued)

6. Details of the top five of other receivables at the end of the period

Name of company	Characteristic	Closing balance	Aging	Percentage of the closing balance of other receivables (%)	Closing balance of accrual for bad debts
Fashion I	External related party transactions	117,017	1 to 2 years	36.69	117,017
Shanghai Hexia Investment Co., Ltd. (Note 1)	External related Party Transactions	10,446	Within 1 year, 1 to 2 years, 2 to 3 years	3.24	10,446
Shanghai Bingjian Digital Media Co., Ltd	Refund of service fee expenses	9,778	2 to 3 years	3.04	9,778
Jack Walker (Shanghai) Apparel Co., Ltd.	External related party transactions	7,752	1 to 2 years, 2 to 3 years	2.41	7,752
Shanghai Mubu Trading Co., Ltd.	Rental property fees	6,573	90 days to 1 year	2.04	329
Total		151,566		47	145,322

Note 1: After self-examination in fiscal year 2021, Shanghai Hexia Investment Limited occupied RMB9,500 thousand of Company's fund, in this period, it was adjusted from accounts receivable to other receivables, and interest was accrued from the date of possession.

7. There were no other receivables involving government grants in this reporting period.

8. There were no other receivables derecognized due to the transfer of financial assets in the reporting period.

9. There were no assets and liabilities arising from the transfer of other receivables and their continued involvement in the reporting period.

(All amounts in RMB'000 unless otherwise stated)

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

(V) Inventories

1. Classification of inventories

	Closing Balance			Opening Balance		
Items	Book balance	Impairment allowance	Book value	Book balance	Impairment allowance	Book value
Raw materials	1,020	–	1,020	32,716	–	32,716
Finished goods	297,996	245,273	52,723	760,409	427,346	333,063
Goods in transit	21,525	19,420	2,105	116,403	51,274	65,129
Low value consumables	5,017	–	5,017	7,808	–	7,808
Total	325,558	264,693	60,865	917,336	478,620	438,716

2. Allowance for impairment of inventories

		Increase in the current period		Decrease in the current period			
Items	Opening balance	Accrual	Others	Reversal	Write off	Others	Closing balance
Finished goods	427,346	132,284	–	–	314,357	–	245,273
Goods in transit	51,274	19,420	–	–	51,274	–	19,420
Total	478,620	151,704	–	–	365,631	–	264,693

Notes for inventory impairment:

The Company accrues for impairment of inventories based on the age of the inventory and also uses the principle of lower of net realizable value or cost to provide for impairment and provides for impairment based on the principle of prudence. The reversal during the period was due to the sale of inventories for which inventory impairment had been made.

(All amounts in RMB'000 unless otherwise stated)

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

(VI) 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 for non-current assets due within one year	7,547	7,547
Total	–	25,844

1. Description of non-current assets due within one year

(1) In the year 2019, as approved by the Twenty-seventh Meeting of the Third Session of the Board of Directors and the 2018 Annual General Meeting of the Company, the Company transferred to Hangzhou Yan'er Enterprise Management Consulting Company Limited (hereinafter referred to as the "Transferee") a 54.05% equity interest in Hangzhou Anshe E-Commerce Co. (hereinafter referred to as "Hangzhou Anshe") for 54.05% of the equity interest, and according to the Equity Transfer Agreement, the Transferee shall pay RMB200,000 thousand as follows: (1) RMB50,000 thousand on the date of signing of the Equity Transfer Agreement/or the next day. (2) Payment of RMB30,000 thousand on the date when the equity transfer materials of the Transaction are accepted for registration of industrial and commercial changes. (3) Payment of RMB120,000 thousand during 2019 to 2022, with RMB30,000 thousand paid by December 31 of each year, respectively. In order to guarantee the smooth payment of the above equity transfer price, the transferee pledged 54.05% of the equity interest in Hangzhou Anshe and the exclusive trademark right owned by Hangzhou Anshe to the Company as a guaranteed measure for the payment of the equity transfer price; Qing Cao, as the sole shareholder of the transferee, shall be jointly and severally liable for the transferee's obligation to pay the equity transfer price. On 3 December 2020, in view of willingness of the transferee and the Company's agreement to early repayment, the parties entered into a Supplemental Agreement confirming the adjustment of the remaining equity payment of RMB90,000 thousand to 81,000 thousand. RMB49,980 thousand was recovered in December 2020. RMB15,020 thousand was recovered in January 2021 and RMB16,000 thousand was settled in March 2021 by debt restructuring.

(2) In 2017, the Company provided a loan to Shanghai Jiuwo Garment Co., Ltd. for a total amount of RMB6,500 thousand with an interest rate of 5.22%, which was extended for 2 years after maturity on 30 November 2018, with an interest rate of 5.77% during the extension period and will mature on 30 November 2020. As of 31 December 2021, the principal and interest of the borrowing were not recovered, therefore, the Company made full impairment of the principal and interest of the above borrowing.

(All amounts in RMB'000 unless otherwise stated)

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

(VII) Other current assets

(1) Details of other current assets

Item	Closing balance	Opening balance
Input tax to be certified/withholding credits	**26,527**	36,656
Bank borrowings deposit (Note 1)	**–**	13,200
Prepaid tax presented at the net amount	**39,129**	39,015
Borrowing to related parties (Note 2)	**47,869**	40,000
Entrusted loan (Note 3)	**42,400**	42,400
Long-term investments expected to be disposed of in 2022 (Note 4)	**312,657**	—
Receivables related to long-term investments pending disposal	**256,570**	256,570
Cost of returns receivable	**17**	81
Others	**533**	—
Less: impairment loss	**699,158**	338,970
Total	**26,544**	88,952

Notes of other current assets:

1. The bank loan guarantee was consumed to repay the loan during the period

2. As of 31 December 2021, the Company had provided loans totaling RMB40,000 thousand (2018: RMB32,500 thousand, 2019: RMB7,000 thousand, 2020: RMB500 thousand) to Hongche Industries at a borrowing rate of 6%. Due to the poor operating conditions of the enterprise and liquidity problems, the Company considers that the current assets are difficult to recover and therefore fully accrued impairment.

3. As of 31 December 2021, the Company had provided loans totaling RMB37,400 thousand (2017: RMB5,000 thousand, 2018: RMB27,000 thousand, 2019：RMB54,000 thousand) to Xingji Industrial (Shanghai) Company Limited ("Xingji Industrial") with interest rates ranging from 5.22% to 5.66%. Since Xingji Industrial is no longer apart of the consolidation, and the Company could hardly recover the amount, the Company accrued a full impairment of this loan.

   The Company also provided loans totaling RMB5,000 thousand to Chengdu Biku Technology Co., Ltd. at an interest rate of 6%, for which the Company accrued full amount of impairment.

4. The Company expects that Jack Walker and LaCha Fashion I Limited will be liquidated in 2022. Reclassification of its investment to other current assets at the end of the period is presented

(All amounts in RMB'000 unless otherwise stated)

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

(VIII) Long-term receivables

Item	Closing balance			Opening balance		
	Carrying amount	Impairment accrued	Book value	Carrying amount	Impairment accrued	Book value
Guarantee	–	–	–	4,753	188	4,447
Total	–	–	–	4,753	188	4,447

(IX) Long-term equity investment

Investee company	Opening balance	Opening impairment	Increase/decrease during the year								Closing balance	Balance of 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	Accrual for impairment	Others		
1.Associated Enterprises												
Tibet Baoxin Equity Investment Partnership (Limited Partnership) ("Tibet Baoxin")	156,949	-	-	-	(8,980)	-	-	-	(9,483)	-	147,969	9,483
(Hereinafter referred to as "Hongche Industrial")	39,250	39,250	-	-	-	-	-	-	-	-	39,250	39,250
Beijing Ao'ni Trade Co. (hereinafter referred to as "Beijing Aoni")	20,757	-	-	-	(2,243)	-	-	-	(12,397)	-	18,514	12,397
Fuzhou Badi Garment Co. (hereinafter referred to as "Fuzhou Badi") (Note 1)	3,119	-	-	(3,077)	(42)	-	-	-	-	-	-	-
Zhejiang Yuanrui Information technology Co. (hereinafter referred to as "Zhejiang Yuanrui") (Note 2)	-	-	-	-	-	-	-	-	-	-	-	-
Shanghai Yishan Clothing Co. (hereinafter referred to as "Shanghai Yishan") (Note 3)	-	-	-	-	-	-	-	-	-	-	-	-
Total	220,075	39,250	-	(3,077)	(11,265)	-	-	-	(21,880)	-	205,733	61,130

Note on long-term equity investments:

Note 1:In March 2021, the Company entered into the Equity Transfer Agreement with a third party, which provided for the transfer of 38% equity interest in Fuzhou Badi held by the Company, the transfer consideration of RMB301 thousand was received in March 2021 and the equity transfer was completed.

Note 2:In July 2021, the Company entered into the Equity Transfer Agreement with a third party. The agreement provides for the transfer of 30% equity interest held by the Company in Zhejiang Yuanrui, and the consideration of RMB2,000 thousand was received in August 2021, and the equity transfer was completed.

Note 3:As of 31 December 2021, Shanghai Yishan had not yet commenced business activities.

(All amounts in RMB'000 unless otherwise stated)

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

(X) Other equity instrument investment

1. Other equity instrument investment

Item	Closing balance	Opening balance
Beijing Mingtongsiji Technology Co., Ltd. ("Beijing Mingtong")	**2,580**	4,313
Shanghai Bolatu Co., Ltd. ("Shanghai Bolatu")	**–**	428
Total	**2,580**	4,741

2. Details 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	–	–	27,420	–	–
Shanghai Bolatu	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	–	–	13,606	–	–
Total		–	–	41,026	–	–

3. Other particulars of equity instrument investments

(1) In 2017, the Company subscribed 1,075 thousand shares of Beijing Mingtong to the Company's directed issue through the National Small and Medium Enterprises Stock Transfer System, and the Company contributed RMB15,000 thousand, with a shareholding ratio of 3.75%. In 2019, the Company completed the change of equity interest in the additional 1,075 thousand shares of equity investment in Beijing Mingtong, and therefore added RMB15,002 thousand of investment in other equity instruments in the year, changing the shareholding ratio to 7.07%. The Company considered that the financial asset was not held for the purpose of selling in the short term and was not a trading equity instrument, i.e., at initial recognition, the Company chose to designate the equity investment as a financial asset measured at fair value through other comprehensive income and presented as an investment in other equity instruments. the fair value of this equity instrument as of 31 December 2021, was RMB2,580 thousand.

(2) In July 2017, the Company entered into an equity transfer agreement with Shanghai Oxygen Culture Communication Company Limited ("Oxygen Culture") to acquire 9.07% equity interest in Shanghai Bolatu Information Technology Company Limited held by Oxygen Culture for RMB13,606 thousand. The fair value of this equity instrument as of 31 December 2021, was zero.

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

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

(XI) Other non-current financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	**101,641**	94,050
Including: Ningbo Langshengqianhui Investment Partnership (limited partnership)	**31,846**	27,031
Nantong Xunming Fund Partnership (limited partnership)	**56,564**	58,319
Hangzhou Smart Investment Equity Investment Partnership (limited partnership)	**13,231**	8,700
Total	**101,641**	94,050

Notes of other non-current financial assets:

(1) The Company entered into a written agreement on "Limited Partnership Agreement of Ningbo Lanshengqianhui Investment Partnership (Limited Partnership)" with relevant parties in November 2017, which provides for the Company's contribution of RMB26,000 thousand, representing 5.2% of the total contributed capital, and the Company contributed a total of RMB18,200 thousand in 2017 in paid-up installments, which the Company considered The Company considered that the financial assets were not held for the purpose of selling in the short term and were not liquid financial assets, and presented them as other non-current financial assets.

(2) The Company entered into a written agreement of "Nantong Xunming Fund Partnership (Limited Partnership) Limited Partnership Agreement" with relevant parties in August 2018, which agreed that the Company contributed RMB100,000 thousand, representing 33% of the total contribution, and the Company contributed a total of RMB65,000 thousand in 2019 in tranches, which the Company presented as other non-current financial assets considering that the financial asset was not held for the purpose of selling in the short term and was not a liquid financial asse.

(3) The Company entered into a written agreement of "Hangzhou Wisdom Investment Equity Partnership (Limited Partnership) Partnership Agreement" with relevant parties in May 2017, and further entered into an updated version of the agreement in November 2017, in accordance with the agreement to subscribe for a capital contribution of RMB10,000 thousand, representing 19.57% of the total capital contribution, and the Group paid in a capital contribution of RMB10,000 thousand in June 2017. The Company considered that the financial asset was not held for the purpose of selling in the short term and was not a liquid financial asset and presented it as other non-current financial assets.

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset

1. Fixed asset details

Item	Properties and plants	Machinery equipment	Motor vehicles	Office and electric 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	7,827	–	121	899	8,847
Purchase	7,827	–	121	899	8,847
3. Decreases in the current year	654	3,633	344	27,145	31,777
Disposal or retirement	654	3,633	344	27,145	31,777
4. Closing balance	1,790,464	57,027	1,996	66,187	1,915,673
II. Accumulated depreciation					
1. Opening balance	201,766	34,063	1,297	76,575	313,701
2. Increases in the current year	95,183	8,595	696	10,220	114,694
Accrual for the period	95,183	8,595	696	10,220	114,694
3. Decreases in the current period	19	2,003	471	26,424	28,917
Disposal or retirement	19	2,003	471	26,424	28,917
4. Closing balance	296,930	40,655	1,522	60,371	399,478
III. Impairment allowance					
1. Opening balance	–	–	–	–	–
2. Increases in the current period	–	–	–	–	–
3. Decreases in the current period	–	–	–	–	–
4. Closing balance	–	–	–	–	–
IV. Carrying amount					
1. Closing balance	1,493,534	16,371	474	5,816	1,516,195
2. Opening balance	1,581,525	26,597	922	15,858	1,624,902

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset (continued)

2. Fixed assets leased out through operating leases

Item	Closing carrying amount
Wujing Headquarter	**424,939**
Taicang Logistic Park	**137,371**
Chengdu Logistic Park	**15,222**
Tianjing Logistic Park	**53,110**
Total	**630,642**

3. Fixed asset with pending certificates of ownership

Item	Carrying amount	Reasoned for not completing the property certificate
Chengdu Logistic Center	91,405	The real estate certificate is processing
Total	91,405	

4. Other particulars of fixed asset

As of 31 December 2021, the Company obtained a short-term loan of $332,400 thousand from Bank of Communications by pledging the real estate located at No. 58, Tanzhu Road, Minhang District, Shanghai (Hu (2020) Min Real estate ownership certificate No. 023353), as described in Note VI/(XXI). As of 31 December 2021, the book value of the real estate was RMB997,553 thousand, including houses and buildings of RMB942,357 thousand and land use rights of RMB55,196 thousand, the above assets were seized by Shanghai First Intermediate People's Court on 16 July 2020, due to the impact of litigation.

As of 31 December 2021, the Company obtained short-term loans of RMB550,000 thousand from Bank of Urumqi by pledging real estate located at No. 116, Guangzhou East Road, Taicang (Su (2019) Taicang Real estate ownership certificate No. 0006322 and Su (2018) Taicang No. 0029259), as detailed in Note VI/(XXI). As of 31 December 2021, the book value of the real estate was RMB370,162 thousand, including RMB335,245 thousand for houses and buildings and RMB34,917 thousand for land use rights. The above assets have been seized by Shanghai Xuhui District People's Court on 30 September 2020, due to the impact of litigation.

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset (continued)

4. Other particulars of fixed asset (continued)

As of 31 December 2021, the Company's assets located at No. 116, Guangzhou East Road, Taicang (Su (2018) Taicang Real estate ownership certificate No. 0027590), have been seized by Liwan District People's Court, Guangzhou City on 17 June 2021, due to the impact of litigation.

As of 31 December 2021, the Company obtained a short-term loan of RMB198,000 thousand from Everbright Bank by pledging the real estate located at No. 24, Xinghua Si Branch Road, Dasi Town, Xiqing District, Tianjin (Jin (2018) Xiqing Real estate ownership certificate No. 1016982), as detailed in Note VI/(XXI). As of 31 December 2021, the book value of the real estate was RMB235,624 thousand, including RMB124,527 thousand for houses and buildings, RMB36,097 thousand for land use rights and RMB75,000 thousand for construction in progress, the above assets were seized by the Shanghai Xuhui District People's Court on 23 December 2020, due to the impact of litigation.

As of 31 December 2021, the Company obtained a short-term loan of RMB87,000 thousand from CITIC Bank by pledging the land and structures on the ground located in Group 2 and 3 of Guangming Community, Jinma Town, Wenjiang District, Chengdu (Wenguoyong (2015) No. 66859), refer to Note VI(XXI). As of 31 December 2021, the book value of the land and structures was RMB109,269 thousand, including RMB91,405 thousand for houses and buildings, RMB17,864 thousand for land use rights. The above assets have been seized by the Chengdu Wenjiang District People's Court on 10 September 2020, due to the impact of litigation.

As of 31 December 2021, the Company's fixed assets with restricted ownership or use rights are shown in Note VI/(LVIII)

(XIII) Construction in progress

1. Details of construction in progress

	Closing balance			Opening balance		
Project	**Carrying amount**	**Impairment allowance**	**Book value**	Carrying amount	Impairment allowance	Book value
Tianjin logistics center	**89,804**	**14,804**	**75,000**	68,537	–	68,537
Others	**–**	**–**	**–**	517	–	517
Total	**89,804**	**14,804**	**75,000**	69,054	–	69,054

(All amounts in RMB'000 unless otherwise stated)

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

(XIII) Construction in progress (continued)

2. Movement in significant construction in progress

Project	Opening balance	Increase in the current year	Transferred into fixed assets	Other decreases in the current period	Closing balance
Tianjin logistics center	68,537	21,267	–	–	89,804
Total	68,537	21,267	–	–	89,804

Continued:

Project	Budget	Completion percentage (%)	Project progress (%)	Accumulative capitalization of borrowings	Including: interest of capitalized borrowing costs	interest rate of capitalized borrowing costs (%)	Sources of funds
Tianjin logistics center	142,000	63	69	–	–	–	Loans and own funds
Total	142,000	–	–	–	–	–	

3. Accrual for impairment of construction in progress during the reporting period

Item	Current accrual amount	Current accrual amount
Tianjin logistics center	14,804	Affected by the company's business conditions
Total	14,804	

4. Other notes on construction in progress

As of 31 December 2021, the Company's construction in progress with restricted ownership or use rights is described in Note VI/(LVIII).

(All amounts in RMB'000 unless otherwise stated)

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

(XIV) Right-of-use assets

Items	Properties and plants
I. Original cost	
1. Opening balance	112,656
2. Increases	11,170
Leased Stores	11,170
3. Decreases	117,449
Disposal of stores	117,449
4. Closing balance	6,377
II. Accumulated depreciation	
1. Opening balance	44,364
2. Increases	10,936
Accrual for the period	10,936
3. decreases	52,760
Disposal of stores	52,760
4. Closing balance	2,540
III. Accrual for impairment	
1. Opening balance	20,446
2. Increases	—
3. Decreases	20,446
Disposal	20,446
4. Closing balance	—
IV. Book value	
1. Closing balance	3,837
2. Opening balance	47,846

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

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

(XV) Intangible assets

1. Details of intangible assets

Items	Trademarks	Purchased software	Land use right	Total
I. Original cost				
1. Opening balance	4,086	96,559	167,308	267,953
2. Increases	—	—	135	135
Acquisition	—	—	135	135
3. Decreases	—	22	—	22
Disposals	—	22	—	22
4. Closing balance	4,086	96,537	167,443	268,066
II. Accumulated amortization				
1. Opening balance	2,707	78,397	19,993	101,097
2. Increases	205	6,813	3,375	10,393
Accrual for the period	205	6,813	3,375	10,393
3. Decreases	—	—	—	—
4. Closing balance	2,912	85,210	23,368	111,490
III. Accrual for impairment				
1. Opening balance	—	—	—	—
2. Increases	1,155	2,747	—	3,902
Accrual for the period	1,155	2,747	—	3,902
3. Decreases	—	—	—	—
Disposal of subsidiaries	—	—	—	—
4. Closing balance	1,155	2,747	—	3,902
IV. Book value				
1. Closing balance	19	8,580	144,075	152,674
2. Opening balance	1,457	18,084	147,315	166,856

2. Description of intangible assets

As of 31 December 2020, the Company has no land use rights with outstanding title certificates.

As of 31 December 2020, the Company's intangible assets with restricted ownership or use rights are described in Note VI/(LVIII).

(All amounts in RMB'000 unless otherwise stated)

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

(XVI) Goodwill

1. Original cost of goodwill

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

2. Impairment of goodwill

Name of investee or item resulting in goodwill	Opening balance	Increases: Accrual	Increases: Others	Decreases: Disposal	Decreases: Others	Closing balance
Acquire Hangzhou Anshe	–	78,231	–	–	–	78,231
Total	–	78,231	–	–	–	78,231

3. Information about the asset group or combination of asset groups in which the goodwill is allocated

The asset group of the original brand of La Chapelle:

The Company recognized goodwill of RMB92,339 thousand in connection with the acquisition of Hangzhou Anshe on 1 April 2015. Based on full consideration of the asset group or combination of asset groups that can benefit from the synergistic effect of the business combination, the Company apportioned the goodwill to the asset group of the Qigege brand of RMB14,108 thousand and the asset group of the original brand of La Chapelle of RMB78,231 thousand, of which the goodwill of the Qigege brand was derecognized with the disposal of Hangzhou Anshe on 30 May 2019.

(All amounts in RMB'000 unless otherwise stated)

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

(XVI) Goodwill (continued)

4. Impairment test for goodwill, key factors, and impairment loss recognition

La Chapelle original brand asset group impairment test:

The recoverable amount of the asset group in which goodwill is allocated is determined based on the present value of the estimated future cash flows of the asset group, which are determined based on the financial budget approved by management for the forecast period (2022 to 2026). The estimate period of free cash flow is negative in connection with the asset group, with no present value of estimated future cash flows, and the goodwill arising from the acquisition of Anshe is fully impaired. (The pre-tax discount rate used for the 2020 projection is 16.51%, with a cash flow growth rate of 4% over the projection period and 3% beyond the projection period).

(XVII) Long-term prepaid expenses

Items	Opening balance	Additions	Amortization	Other decreases	Closing balance
Leasehold improvement	22,984	85,560	34,816	71,481	**2,247**
Total	22,984	85,560	34,816	71,481	**2,247**

(XVIII) Deferred tax assets and deferred tax liabilities

1. Deferred tax assets before offsetting

	Closing balance		Opening balance	
Items	**Deductible temporary difference**	**Deferred income tax assets**	Deductible temporary difference	Deferred income tax assets
Allowance for bad debts	–	–	12,996	3,249
Differences between tax and accounting for lease liabilities	–	–	69,228	17,307
Total	–	–	82,224	20,556

(All amounts in RMB'000 unless otherwise stated)

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

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

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
Right-of-use assets	–	–	47,844	11,961
Capitalized expenses	–	–	82,224	20,556
Changes in fair value of financial instruments	8,440	2,110	7,800	1,950
Total	8,440	2,110	137,868	34,467

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

	Deferred tax assets and liabilities offset at the end of the period	Ending balance of deferred tax assets or liabilities after offsetting	Opening offsetting amount of deferred tax assets and liabilities	Opening balance of deferred tax assets or liabilities after offsetting
Deferred tax assets	–	–	(20,556)	–
Deferred tax liabilities	–	–	20,556	13,911

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

Items	Closing balance	Opening balance
Deductible temporary differences	1,518,137	1,677,021
Deductible losses	3,287,839	3,154,920
Total	4,805,976	4,831,941

(All amounts in RMB'000 unless otherwise stated)

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

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

5. Unrecognized tax losses carried forward as deferred tax assets will expire in the following year

Year	Closing balance	Opening balance	Note
2021	–	8,604	
2022	106,705	107,516	
2023	143,244	143,244	
2024	801,984	801,984	
2025	1,937,757	2,093,572	
2026	298,149	—	
Total	3,287,839	3,154,920	

(XIX) Other non-current assets

	Closing balance			Opening balance		
Items	Book balance	Allowance for impairment	Carrying value	Book balance	Allowance for impairment	Carrying value
Advances to suppliers for props	5,570	5,570	–	5,570	5,570	—
Total	5,570	5,570	–	5,570	5,570	—

(All amounts in RMB'000 unless otherwise stated)

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

(XX) Allowance for impairment of assets

Items	Opening balance	Accrual	Decreases: Transfer back	Decreases: Write-offs/ write-offs	Decreases: Disposal of subsidiaries	Re-classification	Closing balance
Bad debt allowance for accounts receivable	90,877	104,312	–	–	–	(2,850)	**192,339**
Bad debt allowance for interest receivable	5,622	–	–	–	–	(5,622)	**–**
Bad debt allowance for other receivables	176,477	80,133	–	–	–	12,478	**269,088**
Bad debt allowance for prepaid accounts	9,628	–	–	–	–	(9,628)	**–**
Allowance for impairment of inventories	478,620	151,704	–	365,631	–	–	**264,693**
Allowance for impairment of non-current assets due within one year	7,547	–	–	–	–	–	**7,547**
Bad debt Allowance for other current assets	338,970	41,909	–	–	–	318,279	**699,158**
Bad debt Allowance for other non-current assets	5,570	–	–	–	–	–	**5,570**
Bad debt Allowance for long-term receivables	188	–	188	–	–	–	**–**
Allowance for impairment of long-term equity investments	351,907	21,880	–	–	–	(312,657)	**61,130**
Allowance for impairment of construction in progress	–	14,804	–	–	–	–	**14,804**
Allowance for impairment of right-to-use assets	20,446	–	–	20,446	–	–	**–**
Allowance for impairment of intangible assets	–	3,902	–	–	–	–	**3,902**
Allowance for impairment of goodwill	–	78,231	–	–	–	–	**78,231**
Total	1,485,852	496,875	188	386,077	–	–	**1,596,462**

(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	**545,220**	563,400
Mortgage, pledge, and guaranteed loan	**550,000**	550,000
Total	**1,149,220**	1,167,400

Notes to the classification of short-term borrowings:

Guaranteed loans of RMB54,000 thousand were short-term loans from the Company and Bank of Communications Co., Ltd. Shanghai Zhabei Sub-branch, with guarantors Mr. Jiaxing Xing, Shanghai Weil, Chengdu Lewei, Tianjin Laxia and Taicang Laxia, respectively.

Mortgage and guarantee loans of RMB545,220 thousand, of which 82,820 thousand is a short-term loan from CITIC Bank Limited Taifu Plaza Sub-branch, with Shanghai Weile, Chengdu Lewei, Tianjin Laxia, Taicang Laxia and Mr. Jiaxing Xing as guarantors. Collateral is buildings on the ground located at Guangming community, Jinma town, Wenjiang district, Chengdu, which recorded in Chengdu lewei (Wenguoyong (2015) No. 66859); RMB184,000 thousand is a short-term loan between the Company and Shanghai Caohejing Development Zone Sub-branch of China Everbright Bank Co., Ltd. with Mr. Jiaxing Xing, Shanghai Weile and Chengdu Lewei as guarantors, and the collateral is the land use right and ownership of building structures at No. 24, Xinghua Si Branch Road, Dashi Town, Xiqing District, Tianjin, which recorded in Tianjin Laxia (Jin (2018) Xiqing Real Estate Ownership Certificate No. 1016982); RMB278,400 thousand is a short-term loan between the Company and Bank of Communications, Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch, with collateral of buildings at No. 58 Tanzhu Road, Minhang District, Shanghai, recorded in Shanghai Weile (Hu (2020) Min real estate ownership certificate No. 023353).

The mortgage, pledge, and guarantee loans of RMB550,000 thousand are entrusted loans between Xinjiang Tongrong and Bank of Urumqi Siping Road Technology Sub-branch, with Urumqi High-Tech Investment Development Group as principal and Mr. Jiaxing Xing as guarantor. The collateral is buildings and land use rights at No. 116, Guangzhou East Road, Taicang, recorded in Taicang Laxia (Su (2019) Taicang Real Estate Ownership Certificate No. 0006322 and Su (2018) Taicang Real Estate Ownership Certificate No. 0029259) and the pledge is the Company's 100% equity in Taicang Jiashang Storage Co.

(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 short-term loans totaling RMB332,400 thousand (278,400 thousand in mortgage and guarantee loans and 54,000 thousand in guaranteed loans) with Bank of Communications, Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch were transferred by Bank of Communications, Ltd. Shanghai Branch to China Huarong Asset Management Co.

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

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

The total amount of overdue short-term borrowings at the end of the period was RMB1,149,220, of which the significant overdue short-term borrowings were as follows:

Lending company	Closing balance	Borrowing interest rate (%)	Due time	Overdue interest rate (%)
China Huarong Asset Management Corporation Shanghai Pilot Free Trade Zone Branch	54,000	7	21 November 2020	10.5
China Huarong Asset Management Corporation Limited Shanghai Pilot Free Trade Zone Branch	75,000	7	28 November 2020	10.5
Shanghai Pilot Free Trade Zone Branch of China Huarong Asset Management Co.	203,400	7	9 September 2021 to 3 November 2021	10.5
Shanghai Caohejing Development Zone Sub-branch of China Everbright Bank Co.	184,000	5.22	1 May 2021 to 25 June 2021	6.786
Taifu Plaza Sub-branch of CITIC Bank Co.	82,820	4.55	16 to 29 April, 2021	6.825
Urumqi Siping Road Technology Sub-branch of Urumqi Bank Co.	550,000	6.8	27 November 2020	6.5
Total	1,149,220			

(All amounts in RMB'000 unless otherwise stated)

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

(XXII) Accounts payable

Items	Closing balance	Opening balance
Payable for procurement	826,501	1,134,586
Total	826,501	1,134,586

1. Major accounts payable aging over one year

Name of company	Closing balance	Reason
Nantong Minglong Fashion Co.	63,980	Difficulties in capital turnover
Huangshan Dongming Clothing Co.	27,298	Difficulties in capital turnover
Shishi Yingfeng Garment Co.	22,908	Difficulties in capital turnover
Dongguan Xingjian Garment Co.	21,978	Difficulties in capital turnover
Jiaxing Chengxin Garment Co.	19,261	Difficulties in capital turnover
Dongguan Zhenghong Weaving Co.	17,699	Difficulties in capital turnover
Shanghai Hongwei Garment Manufacturing Factory	15,716	Difficulties in capital turnover
Hunan Soyate Garment Co.	15,635	Difficulties in capital turnover
Xinjiang Hengding International Supply Chain Technology Co.	15,587	Difficulties in capital turnover
Shanghai Yafeng Garment & Apparel Co.	15,050	Difficulties in capital turnover
Total	235,112	

As of 31 December 2021, the ending balance of the Company's accounts payable decreased by RMB308,085 thousand, or 27%, compared with the beginning of the period, mainly due to the significant reduction in the scale of the Company's business and the significant decrease in procurement demand.

(XXIII) Advance from customers

1. Details of advance from customers

Items	Closing balance	Opening balance
Rent in advance	10,851	1,428
Total	10,851	1,428

(All amounts in RMB'000 unless otherwise stated)

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

(XXIV) Contract liabilities

1. Details of contract liabilities

Items	Closing balance	Opening balance
Receipt of goods in advance	**20,395**	7,330
Total	**20,395**	7,330

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

Items	Amount change	Reason
Franchising/consignment sales obligations	**5,696**	Increase due to franchise and consignment sales increase
Brand licensing performance obligations	**9,095**	Increase due to licensing sales
Membership points obligations	**(1,726)**	Decrease due to membership point sales
Total	**13,065**	

(XXV) Payroll payable

1. Details of payroll payables

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term payroll	43,948	129,760	165,604	**8,104**
Retirement benefits-defined contribution plans	3,071	15,739	18,610	**200**
Termination benefits	18,617	11,493	28,581	**1,529**
Total	65,636	156,992	212,795	**9,833**

(All amounts in RMB'000 unless otherwise stated)

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

(XXV) Payroll payable (continued)

2. Details of short-term payroll

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Wages or salaries, bonuses, allowances, and subsidies	38,761	90,136	122,332	**6,565**
Staff welfare	38	—	38	**–**
Social insurance	2,428	16,563	18,840	**151**
Including: Medical insurance	2,117	15,479	17,463	**133**
Others	311	1,084	1,377	**18**
Housing fund	2,412	8,242	10,555	**99**
Labor union and staff education fund	309	—	309	**–**
Other social insurance	—	14,819	13,530	**1,289**
Total	43,948	129,760	165,604	**8,104**

3. Details 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	14,829	17,648	**192**
Unemployment Insurance premium	60	910	962	**8**
Total	3,071	15,739	18,610	**200**

(XXVI) Taxes Payable

Item of taxes	Closing balance	Opening balance
Value Added Tax	**87,559**	64,985
Corporate Income Tax	**53,549**	67,867
Personal Income Tax	**224**	519
City Maintenance and Construction Tax	**24,520**	12,722
Education Fee Surcharge	**15,606**	9,220
Others	**22,319**	8,601
Total	**203,777**	163,914

(All amounts in RMB'000 unless otherwise stated)

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

(XXVII) Other payables

Items	Closing balance	Opening balance
Interests payable	**206,452**	58,830
Other payables	**707,682**	795,725
Total	**914,134**	854,555

Note: Other payables in the above table refer to other payables after deducting interest payable and dividends payable.

1. Interest payable

Items	Closing balance	Opening balance
Interest of long-term borrowings with installment of interest and repayment of principal upon maturity	**49,431**	11,961
Interest payable of short-term borrowings	**157,021**	46,869
Total	**206,452**	58,830

Details of significant interest expired but unpaid：

Names of borrowing company	Overdue amount	Reason
China Huarong Asset Management Company Limited, Shanghai Pilot Free Trade Zone Branch	91,535	Difficulties in capital turnover
CITIC Bank Limited Shanghai Taifu Plaza Sub-branch	6,485	Difficulties in capital turnover
Shanghai Branch of China Everbright Bank Co.	20,241	Difficulties in capital turnover
Urumqi Siping Road Technology Sub-branch of Bank of Urumqi Co.	88,191	Difficulties in capital turnover
Total	206,452	

(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 characteristic

Nature	Closing balance	Opening balance
Payables for construction and decoration of department stores	**390,986**	423,665
Suppliers' deposits	**61,313**	75,600
Vendors' deposit	**21,544**	75,744
Outsourcing staff service fee	**238**	9,346
Payables for logistic expense	**2,409**	15,271
Trustee fees	**15,594**	26,697
Payable for posts props and store promotion	**1,890**	336
Payables for rental fees	**94,963**	132,335
Litigation defaults, fees, and interests	**72,155**	686
Loans from the outside parties	**4,403**	6,053
Payable for e-commercial	**3,779**	6,574
consulting fees	**156**	3,265
Payables for software purchase	**2,620**	2,018
Audit service fees	**4,576**	1,336
Estimated expenditures	**3,371**	3,152
Tax overdue payments	**18,328**	—
Others	**9,357**	13,647
Total	**707,682**	795,725

(2) Other significant payables aging over one year

Name of company	Closing balance	Reasons for not-payment or carryover
Shanghai Construction Group Co., Ltd.	**146,812**	Difficulties in capital turnover
Jinan Borunda Decoration Co.	**17,042**	Difficulties in capital turnover
Shanghai Pengshun Building Decoration Co., Ltd.	**12,016**	Difficulties in capital turnover
Tianjin Erjian Construction Engineering Co.	**11,887**	Difficulties in capital turnover
Zhengzhou Luyi Display Cabinet Co.	**10,840**	Difficulties in capital turnover
Total	**198,597**	

(All amounts in RMB'000 unless otherwise stated)

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

(XXVIII) Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term borrowing due within one year	**347,777**	347,777
Lease liabilities due within one year	**2,133**	20,893
Total	**349,910**	368,670

(XXIX) Other current liabilities

Items	Closing balance	Opening balance
VAT amounts reclassified pending	**1,874**	—
Total	**1,874**	—

(XXX) Long-term borrowings

Category	Closing balance	Opening balance
Collateralized Borrowing	**347,777**	347,777
Less: long-term borrowing due within one year	**347,777**	347,777
Total	**—**	—

Notes of long-term loans:

The mortgage loan of RMB347,777 thousand is a fixed asset loan between the Company and Bank of Communications Co., Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch with a term from 15 August 2018 to 10 November 2023. The mortgage is a land and construction in progress in the name of subsidiary Shanghai Weile, land of 332 Street Square 3/12, Wujing Town, Minhang District, Shanghai (Hu Min Zi (2016) No. 056386). In December 2020, Bank of Communications transferred the loan to China Huarong Asset Management Company Limited, Shanghai Pilot Free Trade Zone Branch. On 18 January 2021, the loan was declared maturity in accordance with the main contract.

(All amounts in RMB'000 unless otherwise stated)

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

(XXXI) Lease liabilities

Remaining lease term	Closing balance	Opening balance
Less than 1 year	2,286	23,501
1 to 2 years	1,947	16,019
2 to 3 years	–	9,072
3 to 4 years	–	5,331
4 to 5 years	–	4,271
More than 5 years	–	5,522
Subtotal of total lease payments	4,233	63,716
Less: Unrecognized financing costs	203	6,560
Sub-total of present value of lease payments	4,030	57,156
Less: lease liabilities due within one year	2,133	20,893
Total	1,897	36,263

Interest expense on lease liabilities of RMB1,225 thousand was occurred during the period.

(XXXII) Estimated liability

Item	Closing balance	Opening balance	Reason
Estimate returns of goods	33	24	Returned goods
Pending litigation	64,281	4,955	Litigation matters
Haitong International borrowings	355,718	345,606	Accrual of Guarantee Obligations for loan from HTI Advisory Company Limited
Total	420,032	350,585	

(XXXIII) Other non-current liabilities

Items	Closing balance	Opening balance
Asset-related government grants	5,579	5,916
Others	320	2,234
Total	5,899	8,150

(All amounts in RMB'000 unless otherwise stated)

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

(XXXIII) Other non-current liabilities (continued)

1. Asset-related 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	–	300	–	**5,100**	Asset related
Subsidy of Taicang logistic program	516	–	37	–	**479**	Asset related
Total	5,916	–	337	–	**5,579**	

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 (Note)	2,234	–	1,914	–	**320**	–
Total	2,234	–	1,914	–	**320**	–

Note: The decoration subsidy is a store renovation subsidy for shopping malls, which was amortized against selling expenses of RMB1,914 thousand during the period.

(XXXIV) Share capital

Item	Opening balance	Change for the period Increase (+) Decrease (-)					Closing balance
		Issuance of new shares	Bonus share	Transfer from reserve	Others	Sub-total	
Total share capital	547,672	–	–	–	–	–	**547,672**

Changes in share capital:

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

(All amounts in RMB'000 unless otherwise stated)

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

(XXXV) Capital surplus

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

(XXXVI) 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 of treasury shares:

Note: As of 31 December 2021, the Company has repurchased a total of 3,573,200 A shares by way of centralized competitive bidding transactions, which have accounted for 0.65% of the total share capital of the Company and 1.07% of the A share capital of the Company, with the highest transaction price of RMB6.15 per share and the lowest transaction price of RMB4.14 per share, and the amount used for the repurchase was RMB20,010 thousand (excluding transaction costs).

(XXXVII) Other comprehensive income

Items	Opening balance	Changes in the current period									Closing balance
		Incurred before income tax for the period	Less: Transfer from prior period to profit or loss included in other comprehensive income	Less: Transfer from prior period to financial assets at amortized cost charged to other comprehensive income in the current period	Less: Transfer of hedging reserve to related assets or liabilities	Less: Income tax expense	Attributable to parent company after tax	Attributable to minority shareholders after tax	Less: Carry forward Re-measurement of changes in defined benefit plans	Less: Transfer from prior period to retained earnings charged to other comprehensive income in the current period	
I. Other comprehensive losses that cannot be reclassified into profit and loss	(38,866)	(2,160)	–	–	–	–	(2,160)	–	–	–	**(41,026)**
1. Fair value change gains of other equity instrument investments	(38,866)	(2,160)	–	–	–	–	(2,160)	–	–	–	**(41,026)**
Total other comprehensive income	(38,866)	(2,160)	–	–	–	–	(2,160)	–	–	–	**(41,026)**

(All amounts in RMB'000 unless otherwise stated)

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

(XXXVIII) 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**

(XXXIX) Undistributed profit

Items	Closing balance	Opening balance
Undistributed profits at the beginning of year (before adjustments)	**(3,254,246)**	(1,414,703)
Adjustments of the beginning balance	**–**	–
Undistributed profits at the beginning of year (after adjustments)	**(3,254,246)**	(1,414,703)
Add: Net profit attributable to shareholders of the Company	**(821,280)**	(1,839,543)
Less: appropriation to statutory surplus reserve	**–**	–
Add: Losses recovery from surplus reserve	**–**	–
Undistributed profits at the end of the period	**(4,075,526)**	(3,254,246)

(XL) Revenue and cost of sales

1. Revenue and cost of sale

	Current period's amount		Previous period's amount	
Items	Revenue	Cost	Revenue	Cost
Principal business	**363,136**	**183,877**	1,787,061	933,721
Other business	**66,992**	**35,489**	32,256	–
Total	**430,128**	**219,366**	1,819,317	933,721

(All amounts in RMB'000 unless otherwise stated)

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

(XL) Revenue and cost of sales (continued)

2. Income derived from contracts

Contract classifications	Current period's amount	Previous period's amount
I. Category of products		
Apparel	**302,688**	1,767,882
Brand authorization	**60,448**	19,179
Lease	**51,922**	15,796
Others	**15,070**	16,460
II. Classified by business areas		
Domestic	**430,128**	1,538,641
Overseas	**–**	280,676
III. Classified by the timing of commodity transfer		
Transferred at a point in time	**317,758**	1,767,882
Transferred at a point over time	**112,370**	51,435
Total	**430,128**	1,819,317

Note: The Company's adjustment of the business model of apparel and the continued closure of loss-making stores due to external environmental factors resulted in a higher decline in operating income for the year.

(XLI) Taxes and surcharge

Categories	Current period's amount	Previous period's amount
City maintenance and construction tax	**2,416**	6,255
Educational surcharge	**1,830**	4,875
Others	**15,870**	14,762
Total	**20,116**	25,892

(All amounts in RMB'000 unless otherwise stated)

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

(XLII) Selling and distribution expenses

Categories	Current period's amount	Previous period's amount
Employee benefits expenses	45,805	437,026
Sales rebate expenses	41,322	183,643
Depreciation of right of use assets	10,936	294,123
Amortization of long-term prepaid expenses	16,190	285,898
Rental fees	32,858	128,732
Online platform expenses	–	37,522
Utilities and electricity fees	13,143	32,899
Logistic expenses	1,421	29,153
Depreciation of fixed assets	34,437	49,801
Marketing expense	1,059	140
Low value consumables	465	2,788
Repair and maintenance expenses	9,667	7,944
Traveling and communication expenses	350	1,597
Amortization of intangible assets	260	346
Quality inspection fee	–	2
Office supplies	292	1,885
Design and consulting expenses	7,147	9,793
Sample garment procurement fee	24	–
Others	–	42
Foreign entities-Fashion I	–	134,507
Total	215,376	1,637,841

(All amounts in RMB'000 unless otherwise stated)

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

(XLIII) Administrative expense

Categories	Current period's amount	Previous period's amount
Employee benefits expenses	**50,635**	82,253
Depreciation of fixed assets	**46,925**	69,246
Consulting expenses	**29,852**	37,132
Amortization of intangible assets	**10,133**	12,721
Rental fees	**3,481**	8,675
Utilities and electricity fees	**7,333**	5,237
Office supplies	**3,979**	4,853
Audit service	**3,480**	3,480
Traveling and communication expenses	**890**	3,051
Depreciation of right of use assets	**–**	1,682
Sample purchase fee	**133**	1,654
Logistic expenses	**436**	1,063
Repair and maintenance expenses	**938**	976
Costs of low value consumables	**174**	475
Amortization of long-term prepaid expenses	**84**	396
Others	**–**	205
Foreign entities-Fashion I	**–**	31,481
Total	**158,473**	264,580

(XLIV) Financial expenses

Categories	Current period's amount	Previous period's amount
Interest expenses	**209,670**	105,426
Less: Financial subsidies for interest	**–**	695
Less: Interest income	**5,080**	4,600
Foreign exchange gain or loss	**–**	284
Bank charges	**196**	2,603
Financing fees	**(5,055)**	29,388
Foreign entities-Fashion I	**–**	20,333
Total	**199,731**	152,739

(All amounts in RMB'000 unless otherwise stated)

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

(XLV) Other income

1. Details of other income

Source of other income	Current period's amount	Previous period's amount
Governmental grants relating to daily operational activities	**3,478**	14,573
Gains from debt restructuring (Note 1)	**103,210**	9,027
others	**1,743**	6
Total	**108,431**	23,606

Note 1:As of 31 December 2021, the Company recognized a gain of RMB103,210 thousand on debt restructuring, mainly by offsetting debt with inventories.

2. Governmental grants recognized in other income

Categories	Current period's amount	Previous period's amount	Related to assets/profit
Transferred from amortization of deferred income in asset class	**337**	330	Related to assets
Enterprise support policy	**3,141**	14,243	Related to profit
Total	**3,478**	14,573	

(XLVI) Investment income

1. Details of investment income

Categories	Current period's amount	Previous period's amount
Income from long-term equity investments accounted for by the equity method	**(11,265)**	(7,095)
Investment loss of disposal of long-term equity investment	**(776)**	(56,531)
Gain or loss on debt restructuring (Note 1)	**43,833**	24,425
Others	**–**	(7,000)
Total	**31,792**	(46,201)

Note 1:As of 31 December 2021, the Company had investment income of RMB43,833 thousand from negotiations with some suppliers by way of debt forgiveness during the period.

(All amounts in RMB'000 unless otherwise stated)

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

(XLVII) Gain on fair value changes

Source of gain on fair value changes	Current period's amount	Previous period's amount
Other non-current financial assets	**7,591**	(3,727)
Total	**7,591**	(3,727)

(XLVIII) Credit impairment losses

Categories	Current period's amount	Previous period's amount
Bad debt losses of accounts receivables	**(104,312)**	(12,315)
Bad debt losses of other receivables	**(80,133)**	(129,421)
Bad debt losses of long-term receivables	**188**	3,593
Bad debt losses on prepayments	**–**	(2,628)
Bad debt losses of other current assets	**(2,248)**	(500)
Bad debt losses of other non-current assets due within one year	**–**	(260)
Bad debt losses on other non-current assets	**–**	(5,570)
Bad debt losses of interest receivable	**–**	(2,308)
Total	**(186,505)**	(149,409)

(XLIX) Asset impairment loss

Categories	Current period's amount	Previous period's amount
Loss on impairment of inventories	**(151,704)**	(341,184)
Impairment loss on long-term equity investments	**(21,880)**	–
Impairment loss on construction in progress	**(14,804)**	–
Impairment loss on intangible assets	**(3,902)**	–
Goodwill impairment loss	**(78,231)**	–
Others	**(39,661)**	–
Total	**(310,182)**	(341,184)

(All amounts in RMB'000 unless otherwise stated)

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

(L) Gain on disposals of assets

Categories	Current period's amount	Previous period's amount
Losses on disposal of fixed assets	**(753)**	(4,421)
Gains on disposal of right of use assets	**7,962**	218,755
Total	**7,209**	214,334

(LI) Non-operating income

Categories	Current period's amount	Previous period's amount	Amount included in non-recurring profit or loss for the period
Compensation income	**2,219**	2,034	2,219
Others	**5,594**	—	5,594
Total	**7,813**	2,034	7,813

(LII) Non-operating expenses

Categories	Current period's amount	Previous period's amount	Amount included in non-recurring profit or loss for the period
Compensation for closing stores	**9,151**	6,339	9,151
Compensation for litigation	**80,398**	5,476	80,398
Donations	**—**	1,488	—
Loss on obsolescence of non-current assets	**6,241**	2,390	6,241
Loss on disposal of current assets	**256**	152	256
Penalties	**2,874**	631	2,874
Tax late payment	**18,317**	—	18,317
Others	**1,664**	524	1,664
Total	**118,901**	17,000	118,901

(All amounts in RMB'000 unless otherwise stated)

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

(LIII) Income tax expenses

1. Table of income tax expenses

Items	Current period's amount	Previous period's amount
Current income tax expense	**(1,123)**	16,037
Deferred income tax expense	**(11,801)**	347,896
Total	**(12,924)**	363,933

2. Reconciliation between total profit and income tax expenses

Items	Current period's amount
Total profit	**(835,686)**
Income tax expense at statutory/applicable tax rates	**(208,921)**
Effect of different tax rates applied to subsidiaries	**–**
Effect of adjusting income tax of prior periods	**(1,123)**
Effect of non-taxable income	**(908)**
Effect of non-deductible costs, expenses and losses	**4,579**
Effect of deductible losses from the use of prior period's unrecognized deferred tax assets	**(14,004)**
Effect of deductible temporary differences or deductible losses on deferred tax assets not recognized in the current period	**207,453**
Effects of deferred tax liabilities	**–**
Income tax expense	**(12,924)**

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

(LIV) Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to the Company's common stockholders by the weighted-average number of common shares outstanding. The Company has no dilutive potential common shares.

Basic loss per share and diluted loss per share are calculated as follow:

Items	Current period's amount	Previous period's amount
Losses:		
Net loss for the period attributable to the Company's common stockholders	(821,280)	(1,840,964)
Shares:		
Weighted average number of shares of the Company's common stock issued and outstanding	544,098	544,098
Basic loss per share and diluted loss per share	(1.51)	(3.38)

Notes:

As of 31 December 2021, the Company has repurchased an aggregate of 3,573,200 A-share through centralized competitive trading, which is deducted from the calculation of the weighted average number of the Company's outstanding common shares.

(All amounts in RMB'000 unless otherwise stated)

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

(LV) Cost classification by nature

Additional information on the Company's operating costs, selling expenses and administrative expenses by nature is as follows:

Items	Current period's incurrence	Previous period's incurred
Expended Inventory	**219,366**	931,990
Employee expenses	**96,440**	519,279
Sales rebate expenses	**41,322**	192,064
Depreciation of right-to-use assets	**10,936**	295,805
Amortization of long-term amortization expenses	**16,274**	286,294
Rent expenses	**36,339**	137,407
Utility expenses	**20,476**	38,136
E-commerce expenses	**–**	37,522
Logistics expenses	**1,857**	30,216
Depreciation of fixed assets	**81,362**	120,778
Consulting fees	**36,999**	46,925
Marketing expenses	**1,059**	140
Low-value consumables	**639**	3,263
Office expenses	**4,271**	6,738
Travel expenses	**1,240**	4,648
Amortization of intangible assets	**10,393**	13,067
Renovation and maintenance expenses	**10,605**	8,920
Quality inspection fees	**–**	2
Sample purchase fee	**157**	1,654
Auditors' fees-audit services	**3,480**	3,480
Others	**–**	247
Other-Fashion I	**–**	165,988
Total	**593,215**	2,844,563

(All amounts in RMB'000 unless otherwise stated)

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

(LVI) Notes to the consolidated cash flow statement

1. Cash received relating to other operating activities

Categories	Current period's incurrence	Previous period's incurred
Deposits from sales party	**16,823**	227,466
Interest income	**2,254**	8,645
Non-operating income	**1,604**	2,034
Government grants	**3,141**	15,268
Others	**10,774**	—
Receipt of employee reserve funds	**3,553**	3,112
Total	**38,149**	256,525

2. Cash paid relating to other operating activities

Categories	Current period's amount	Previous period's amount
Utilities, electricity and department store expenses	**63,539**	333,745
E-commerce fees	**77**	37,728
Repayment of deposit and security deposit	**3,403**	7,256
Consulting expense	**35,736**	62,069
Marketing and promotion expenses	**—**	140
Payout expenses	**3,832**	5,245
Bank charges	**196**	2,603
Reimbursement of mall performance bonds	**67**	7,066
Frozen bank account	**111,477**	—
Others	**12,568**	191,192
Total	**230,895**	647,044

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

(LVI) Notes to the consolidated cash flow statement (continued)

3. Payment of other cash related to investing activities

Categories	Current period's amount	Previous period's amount
Net increase in other monetary funds	–	24
Cash outflow from loss of control of subsidiaries	–	7,199
Total	–	7,223

4. Payment of other cash related to financing activities

Categories	Current period's amount	Previous period's amount
Finance lease rental payments	**7,821**	267,934
Cash paid for repurchase of shares	–	986
Total	**7,821**	268,920

(All amounts in RMB'000 unless otherwise stated)

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

(LVII) Supplementary information of cash flow statement

1. Supplementary information of cash flow statement

Categories	Current period's amount	Previous period's amount
1. Reconciliation net loss to cash flows from operating activities		
Net Profit	**(822,762)**	(1,876,936)
Add：Credit impairment losses	**186,505**	149,409
Asset impairment allowance	**310,182**	341,184
Depreciation of fixed assets, oil and gas assets, biological assets	**81,362**	120,778
Depreciation of right of use assets	**10,936**	295,806
Amortization of intangible assets	**10,393**	13,067
Amortization of share-based payments	**–**	6
Amortization of long-term prepaid expenses	**16,274**	286,294
Loss on disposal of fixed assets, intangible assets and other long-lived assets (Gains are recorded with a "-" sign)	**(7,209)**	6,811
Loss on scrapping of fixed assets (gain is recorded with a "-" sign)	**6,241**	(218,754)
Losses on changes in fair value (gains are recorded with a "-" sign)	**(7,591)**	3,727
Financial costs (gains are recorded with a "-" sign)	**199,731**	143,140
Loss on investments (gain is presented with a "-" sign)	**(31,792)**	46,201
Decrease in deferred income tax assets (increase is shown by "-")	**–**	335,913
Increase in deferred income tax liabilities (decrease is presented with a "-" sign)	**(11,801)**	11,996
Decrease in deferred income	**(2,251)**	(337)
Decrease in inventories (increase is shown by "-")	**377,851**	818,301
Decrease in operating receivables (increase by "-")	**175,269**	(41,712)
Increase in operating payables (decrease is presented with a "-" sign)	**(453,441)**	(335,298)
Others	**–**	–
Net cash flows from operating activities	**(37,897)**	99,596
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	**61,356**	24,319
Less：Opening balance of cash	**24,319**	175,549
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net increase amount of cash and cash equivalents	**37,037**	(151,230)

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

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

(LVII) Supplementary information of cash flow statement (continued)

2. Cash and cash equivalents

Categories	Closing balance	Opening balance
I. Cash	**61,356**	24,319
Including: Cash on had	**33**	321
Cash at bank that can be readily drawn on demand	**61,323**	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	**61,356**	24,319
Including: restricted cash and cash equivalents used by the company or the subsidiaries of the Group	**–**	—

(LVIII) Assets with restricted ownership or use right

Categories	Balance	Reason for restriction
Monetary Funds	**106,100**	Judicial Freeze
Inventory	**1,685**	Lien, pledge, seizure
Fixed assets	**1,493,534**	Seizure and Loan Mortgage
Construction in progress	**75,000**	Loan Mortgage
Intangible assets	**144,075**	Seizure and Loan Mortgage
Total	**1,820,394**	

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

(LIX) Foreign currency monetary items

1. Foreign currency monetary items

Categories	Foreign currency balance at the end of the period	Translation rate	Closing balance in RMB
Currency funds	—	—	—
Of which: Hong Kong Dollars	2	0.84	2
Estimated liabilities	—	—	—
Of which: Euros	49,116	7.22	354,602

(LX) Government grants

Types of Government Grants	Current period's amount	Amount charged to current profit or loss	Note
Government grants included in deferred income	—	**337**	Note VI/(XXXIII)
Government grants included in other income	3,141	**3,141**	Note VI/(XLV)
Total	3,141	**3,478**	

(All amounts in RMB'000 unless otherwise stated)

VII. CHANGES IN CONSOLIDATION SCOPE

(I) There was no business combination under non-identical control during the reporting period

(II) There was no business combination under the same control during the reporting period

(III) Disposal of subsidiaries

(IV) Change in scope of consolidation for other reasons

Name of subsidiary	Reasons of changes
Shanghai Geraopu	Newly Established Subsidiaries
Anhui Xinshang	Newly Established Subsidiaries
Tianjin Xiawei	Deregistration of Subsidiaries
Chengdu Xiawei	Deregistration of Subsidiaries

VIII. INTERESTS IN OTHER ENTITIES

(I) Interests in other subsidiaries

1. Structure of the Group

				Percentage of shareholding (%)		
Name of subsidiaries	Main business site	Place of registration	Nature of business	Direct	Indirect	Means of acquirement
LaCha Xiuxian	Shanghai	Shanghai	Production and sales of apparel products	100	–	Established by investment
Shanghai Le'ou	Shanghai	Shanghai	Production and sales of apparel products	65	–	Established by investment
Chongqing Lewei	Chongqing	Chongqing	Production and sales of apparel products	100	–	Established by investment
Beijing LaCha	Beijing	Beijing	Production and sales of apparel products	100	–	Established by investment
Chengdu LaCha	Chengdu	Chengdu	Sales of apparel products	100	–	Established by investment
Shanghai Weile	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Shanghai Langhe	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Shanghai Xiawei	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Taicang LaCha	Taicang	Taicang	Sales of apparel products	95	5	Established by investment
Tianjin LaCha	Tianjin	Tianjin	Sales of apparel products	100	–	Established by investment
Chengdu Lewei	Chengdu	Chengdu	Sales of apparel products	100	–	Established by investment
Shanghai Chongan	Shanghai	Shanghai	Sales of apparel products	85	–	Established by investment
Shanghai Youshi	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Fujian Lewei	Pucheng	Pucheng	Sales of apparel products	100	–	Established by investment
Enterprise Management	Shanghai	Shanghai	Investment	100	–	Established by investment

(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	Percentage of shareholding (%) Direct	Indirect	Means of acquirement
Shanghai Nuoxin	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Shanghai Jiatuo	Shanghai	Shanghai	IT technology	100	–	Established by investment
LaCha Naf	Shanghai	Shanghai	Sales of apparel products	65	–	Established by investment
Guangzhou Xichen	Guangzhou	Guangzhou	Sales of apparel products	60	–	Acquired by combination
Taicang Xiawei	Taicang	Taicang	Sales of apparel products	100	–	Established by investment
Xinjiang Tongrong	Urumqi	Urumqi	Apparel technology	95	5	Established by investment
Shanghai Pinxi	Shanghai	Shanghai	Design and sales of apparel products	–	100	Established by investment
Yixin Lingshou	Beijing	Beijing	Sales of apparel products	–	100	Established by investment
Taicang Jiashang	Taicang	Taicang	Sales of apparel products	–	100	Established by investment
Taicang Chongan	Taicang	Taicang	Garment Sales	100	–	Established by investment
Taicang Xiawei	Taicang	Taicang	Warehousing services	–	100	Established by investment
Shanghai Geraopu	Shanghai	Shanghai	Garment sales	–	100	Established by investment
Anhui Xinshang	Susong	Susong	Garment sales	–	51	Established by investment

(II) Equity in Joint Ventures and Associates

1. Significant joint ventures and associates

Name of associates	Main business region	Place of registration	Characteristic of business	Percentage of shareholding (%) Direct	Indirect	Accounting treatment
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
Shanghai Yishan	Shanghai	Shanghai	Wholesale and retail	30	–	Equity method

(1) Explanation of the ratio of shareholding in joint ventures or associates different from the ratio of voting rights

The Company holds only one seat in the investment committee of Tibetan Baoxin and can participate directly in the discussion and formulation of decisions. However, as there are a total of four seats in the investment committee and decisions require a vote of at least two-thirds of the members of the investment committee, the Company is unable to control the decisions of the investment committee and only has significant influence on Tibetan Baoxin, which is therefore considered as an associate.

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

(II) Equity in Joint Ventures and Associates (continued)

1. Significant joint ventures and associates (continued)

(2) Basis for holding less than 20% of the voting rights but having significant influence

The Company holds one seat on the board of directors of Beijing Aoni and has a total of three board members, so it can directly participate in the discussion and formulation of decisions and has significant influence on Beijing Aoni, and therefore it is considered an associate.

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

The Company's major financial instruments include monetary funds, equity investments, borrowings, receivables, and payables. It is exposed to risks associated with various financial instruments in its day-to-day activities, which mainly include credit risk, liquidity risk and market risk. The risks associated with these financial instruments and the risk management policies that have been adopted by the Company to mitigate these risks are described below:

The Board of Directors is responsible for planning and establishing the Company's risk management framework, formulating the Company's risk management policies and related guidelines, and overseeing the implementation of risk management measures. The Company has established risk management policies to identify and analyses the risks faced by the Company. These risk management policies specify risks and cover many aspects of market risk, credit risk and liquidity risk management. The Company regularly assesses changes in the market environment and the Company's operations to determine whether to update its risk management policies and systems. The Company's risk management is carried out by the Risk Management Committee in accordance with the policies approved by the Board. The Risk Management Committee identifies, evaluates and mitigates relevant risks by working closely with other business units of the Company. The Company's internal audit department conducts regular reviews of risk management controls and procedures and reports the results of these reviews to the Company's Audit Committee. The Company diversifies its exposure to financial instruments through an appropriately diversified portfolio of investments and businesses and reduces the risk of concentration in a single industry, a specific region or a specific counterparty by establishing appropriate risk management policies.

(I) Credit risk

Credit risk is the risk of financial loss to the Company arising from the failure of counterparties to meet their contractual obligations and management has established an appropriate credit policy and continually monitors exposure to credit risk.

The Company has adopted a policy of only dealing with creditworthy counterparties.

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (continued)

In addition, the Company assesses the creditworthiness of its customers and sets credit periods accordingly based on an assessment of the customer's financial condition, the likelihood of obtaining guarantees from third parties, credit history and other factors such as current market conditions. The Company continuously monitors the balance and collection of notes and accounts receivable and uses written reminders, shortened credit periods or cancellation of credit periods for customers with poor credit histories to ensure that the Company is not exposed to significant credit losses. In addition, the Company reviews the recoveries of financial assets at each balance sheet date to ensure that adequate accrual for expected credit losses has been made for the relevant financial assets.

The Company's other financial assets include monetary funds, other receivables, and equity investments. The credit risk of these financial assets arises from counterparty defaults and the maximum exposure to credit risk is the carrying amount of each financial asset on the balance sheet. The Company does not provide any other guarantees that may expose the Company to credit risk.

The Company holds its monetary fund mainly with financial institutions such as nation-controlled banks and other large and medium-sized commercial banks, which management believes have high creditworthiness and asset positions and are not exposed to significant credit risk and will not incur any significant losses due to defaults by the counterparties. It is the Company's policy to control the amount of deposits placed with each reputable financial institution based on its market reputation, scale of operations and financial background to limit the amount of credit risk exposure to any individual financial institution.

As part of the Company's credit risk asset management, the Company uses aging to assess impairment losses on accounts receivable and other receivables. The Company's accounts receivable and other receivables relate to a large number of customers and the aging information provides an indication of the solvency and bad debt risk of these customers with respect to their accounts receivable and other receivables. The Company calculates historical actual bad debt ratios for different aging periods based on historical data, and considers forecasts of current and future economic conditions, such as national GDP growth rates, total infrastructure investment, national monetary policies, and other forward-looking information for adjustment to arrive at expected loss rates. For long-term receivables, the Company makes a reasonable assessment of expected credit losses after considering the settlement period, contractual payment terms, the debtor's financial position and the economic situation of the industry in which the debtor operates and adjusting for the above forward-looking information.

(All amounts in RMB'000 unless otherwise stated)

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (continued)

As of 31 December 2021, the carrying amounts of the relevant assets and the expected credit impairment losses were as follows:

Aging	Carrying amount	Impairment accrued
Accounts receivable	281,057	192,339
Prepayment	11,050	–
Other receivables	322,541	269,088
Total	614,648	461,427

(II) Liquidity risk

Liquidity risk is the risk that the Company will run short of funds in meeting its obligations settled by delivery of cash or other financial assets. The Company's member companies are each responsible for their own cash flow forecasts. Based on the results of the cash flow forecasts of each member company, the funding department of the Company continuously monitors the Company's short and long-term funding requirements at the corporate level to ensure that adequate cash reserves are maintained; and also, continuously monitors compliance with the provisions of borrowing agreements to obtain commitments from major financial institutions to provide sufficient standby funding to meet short and long-term funding requirements. In addition, the Company has entered into line of credit agreements with its major business correspondent banks for financing lines to support the Company in meeting its obligations related to commercial paper.

As of 31 December 2021, the Company's financial liabilities and off-balance sheet guarantee items are presented as undiscounted contractual cash flows by remaining contractual maturity as follows:

	Closing balance					
Items	Immediate repayment	Within 1 year	1 to 2 years	2 to 5 years	5 years above	Total
Short-term borrowings	–	1,149,220	–	–	–	1,149,220
Accounts payable	–	826,501	–	–	–	826,501
Other payables	–	707,682	–	–	–	707,682
Total	–	2,683,403	–	–	–	2,683,403

IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk

1. Exchange rate risk

The Company's principal operations are in the PRC and its principal business is denominated in RMB. The finance department of the Company's head office is responsible for monitoring the size of the Company's foreign currency transactions and foreign currency assets and liabilities to minimize its exposure to foreign exchange risk; for this purpose, the Company may enter forward foreign exchange contracts or currency swap contracts for the purpose of hedging its foreign exchange risk. The Company has not entered any forward foreign exchange contracts or currency swap contracts in 2021 and 2020.

As of 31 December 2021, the amounts of foreign currency financial assets and foreign currency financial liabilities held by the Company that have been translated into RMB are listed below:

Projects	**31 December 2021 RMB in thousand**	31 December 2020 RMB in thousand
Hong Kong Dollar Items		
Currency funds	**2**	2
Euro items		
Estimated liabilities	**355,602**	345,605

As of 31 December 2021, the Company recognized foreign currency assets of RMB2,000 (all bank deposits in foreign currencies), representing approximately 0.00% of the asset items, and foreign currency liabilities of RMB355,602 thousand, representing approximately 9.24% of the liability items, which did not involve foreign currency owner's equity items. For each class of the Company's financial assets and liabilities in Hong Kong dollars and euros, if the RMB had appreciated or depreciated by 10% against the Hong Kong dollar or the euro, with other factors remaining unchanged, the Company would have decreased or increased its net profit by approximately RMB36,460 thousand and 34,460 thousand (approximately RMB0.3 thousand in 2020)

2. Interest rate risk

The Company's interest rate risk arises primarily from interest-bearing debt such as bank borrowings. Financial liabilities with floating interest rates expose the Company to cash flow interest rate risk and financial liabilities with fixed interest rates expose the Company to fair value interest rate risk. The Company determines the relative proportion of fixed rate and floating rate contracts based on market conditions.

In fiscal 2021, the Company has no floating rate interest bearing debt.

X. FAIR VALUE

(I) Financial instruments measured at fair value

The Company presents the carrying value of financial asset instruments measured at fair value on 31 December 2021, by the three levels of fair value. The classification of fair value in the three levels is based on the lowest of the three levels to which each significant input used in measuring fair value belongs. The three levels are defined as follows.

Level 1: is the unadjusted quoted price in an active market for identical assets or liabilities that is available at the measurement date;

Level 2: are inputs other than Level 1 inputs that are directly or indirectly observable for the relevant asset or liability;

Level 2 inputs include: 1) quoted prices in active markets for similar assets or liabilities; 2) quoted prices in inactive markets for identical or similar assets or liabilities; 3) observable inputs other than quoted prices, including interest rates and yield curves, implied volatilities and credit spreads that are observable during normal quotation intervals; and 4) inputs such as market validation.

Level 3: are unobservable inputs for the underlying asset or liability.

(II) Fair value measurement at the end of the period

1. Persistent fair value measurement

	Closing fair value			
Items	**Level 1**	**Level 2**	**Level 3**	**Total**
Other equity instrument investment	–	–	2,580	2,580
Other non-current financial assets	–	–	101,641	101,641
Total assets	–	–	104,221	104,221

X. FAIR VALUE (CONTINUED)

(III) Items measured at fair value on a continuing and discontinuing level 3 basis, qualitative and quantitative information on the valuation techniques used and significant parameters

1. Description of fair value valuation

The difference between the carrying value and fair value of the Company's financial instruments, other than lease liabilities and long-term receivables disclosed at fair value, is minimal. Management has evaluated money funds, accounts receivable, notes payable and accounts payable, and the fair values approximate the carrying values due to the short remaining maturity.

The Company's finance department, headed by the Finance Manager, is responsible for establishing policies and procedures for the fair value measurement of financial instruments. The Finance Manager reports directly to the Chief Financial Officer and the Audit Committee. At each balance sheet date, the finance department analyses changes in the value of financial instruments and determines the key inputs to be applied to the valuation. The valuation is subject to review and approval by the Chief Financial Officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial statement purposes.

The fair value of financial assets and financial liabilities is determined as the amount that would result from a voluntary exchange of assets or settlement of liabilities between knowledgeable parties in an arm's length transaction, rather than a forced sale or liquidation situation. The following methods and assumptions are used to estimate fair value.

Long-term receivables are determined at fair value using the discounted future cash flow method, using as the discount rate the market rate of return for other financial instruments with similar contractual terms, credit risk and remaining maturity.

For the fair value of unlisted investments in equity instruments, the Company estimated and quantified the potential impact of using alternative reasonable and probable assumptions as inputs to the valuation model.

X. FAIR VALUE (CONTINUED)

(III) Items measured at fair value on a continuing and discontinuing level 3 basis, qualitative and quantitative information on the valuation techniques used and significant parameters (continued)

2. Unobservable input value information

Items	Fair value at end of period	Valuation techniques	Unobservable inputs	Range interval
Equity instrument investment: Beijing Mingtongsiji Technology Co.	2,580	Comparative Approach for Listed Companies	Liquidity discount	32.7%
Equity instrument investment: Shanghai Bolatu Information Technology Co.	0	Net Asset Approach		
Other non-current financial assets: Ningbo Lanshengqianhui Investment Partnership (Limited Partnership)	31,846	Net Asset Approach		
Other non-current financial assets: Hangzhou Zhitou Equity Investment Partnership (Limited Partnership)	13,231	Net Asset Approach		
Other non-current financial assets: Nantong Xunming Fund Partnership (Limited Partnership)	56,564	Net Asset Approach		
Total	104,221			–

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Details of the Company's ultimate controlling party

As of 31 December 2021, the shareholding structure of the Company was relatively diversified, with the shareholding ratio of the highest shareholder not exceeding 30%. There was no controlling shareholder who could control the general meeting and the board of directors, nor was there any common control, and the Company had no actual controller.

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Details of the Company's ultimate controlling party (continued)

As of 31 December 2021, the shareholdings of shareholders holding more than 5% of the shares were as follows:

Name of company or shareholder	Place of incorporation	Nature of business	Number of shares held	Shareholding in the Company (%)	Proportion of voting rights in the Company (%)
Shanghai Qijin Enterprise Management Partnership (Limited Partnership) ("Shanghai Qijin")	Shanghai	Business Management Consulting	85,200,000	15.56	15.56
Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of Securities Industry Support for Private Enterprise Development Series	–	–	80,000,000	14.61	14.61
Shanghai Wensheng Asset Management Company Limited (hereinafter referred to as "Wensheng Asset")	Shanghai	Asset Management and Business Management Consulting	21,600,000	3.94	3.94

Shanghai Wensheng Asset Management Company Limited indirectly holds 100% share of Shanghai Qijin Enterprise Management Partnership (Limited Partnership), and Wensheng Asset and Shanghai Qijin constitute parties acting in concert. As of 31 December 2021, Shanghai Qijin and Wensheng Assets held a total of 106,800,000 A-share of the Company, representing 19.5% of the total share capital of the Company, and was the largest shareholder of the Company.

(II) The general information of the subsidiaries is set out in Note VIII/(I) Interests in major subsidiaries.

(III) Joint ventures and associates of the Company

Details of the Company's significant joint ventures or associates are set out in Note VIII/(II) "Interests in joint venture arrangements or associates".

Other joint ventures or associates with which the Company had related party transactions during the period, or with which the Company had related party transactions in prior periods that resulted in balances, are as follows:

Name of joint venture or associate	Relationship with the Group
Hongche Industrial	Associates
Zhejiang Yuanrui	Associates, sold in 2021
Xinjiang Hengding	Associates, sold in 2020
Shanghai Youshi	Associates, sold in 2020

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Information on other related parties

Name of other related parties	Relationship of other related parties with the Company
LACHA FASHION I LIMITED	Subsidiaries that lost control in 2020
Naf Naf SAS	Subsidiaries that lost control in 2020
Jack Walker (Shanghai) Apparel Co.	Subsidiaries that lost control in 2020
Shanghai Hexia Investment Company Limited (hereinafter referred to as "Hexia Investment")	Former controlling shareholder's person in concert
Shanghai Pincheng Industrial Co.	Subsidiaries transferred in 2020

(V) Related party transactions

1. **For the subsidiaries which are controlled by the Company and counted into the consolidated financial statements, the internal and parent company transactions have been offset.**

2. **Sales of goods and services to related parties**

Related party	Transaction	Current Period Incurrence	Prior Period Incurred
Xinjiang Hengding	Purchasing goods	–	54,450
Total		–	54,450

3. **Related transactions for the sale of goods and services**

Related party	Transaction	Current Period Incurrence	Prior Period Incurred
Zhejiang Yuanrui	Brand Licensing	**6,113**	1,000
Shanghai Pincheng	Selling goods	–	2,630
Shanghai Pincheng	Brand Licensing	**1,573**	3,333
Total		**7,686**	6,963

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

4. Asset leasing with related parties

(1) The Company as lessor

Name of the lessee	Type of leased asset	Lease income recognized in this period	Lease income recognized in the previous period
Hongche Industrial	Houses and buildings	–	550
Jack Walker	Houses and buildings	–	392
Total		–	942

5. Related party guarantees

(1) The Company as the guaranteed party

Secured party	Amount of guarantee	Start date of guarantee	Expiry date of guarantee	Whether the guarantee has been fulfilled
LACHA FASHION I LIMITED	EUR 37,400,000	30 November 2019	30 November 2021	No
Total	EUR 37,400,000			

(2) The Company act as guaranteed party

Guarantor	Guaranteed amount (in thousand)	Date of commencement	Date of maturity	Whether the guarantee has been fulfilled
Xing Jiaxing	88,000	30 April 2020	30 April 2021	No
Xing Jiaxing	40,000	24 June 2020	24 June 2021	No
Xing Jiaxing	70,000	24 June 2020	24 June 2021	No
Xing Jiaxing	400,000	11 September 2019	10 September 2022	No
Xing Jiaxing	200,000	25 November 2019	25 November 2022	No
Xing Jiaxing	150,000	19 October 2018	2 January 2022	No
Xing Jiaxing	550,000	26 November 2019	26 November 2023	No
Total	1,498,000			

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

5. Related party guarantees (continued)

(2) The Company act as guaranteed party (continued)

Note of related guarantees.

The total amount of guarantees provided by Mr. Jiaxing Xing, the former controlling shareholder, for the Company in 2021 was RMB1,498,000 thousand, which were outstanding as of 31 December 2021, of which 1,300,000 thousand was still outstanding and 198,000 thousand was in litigation.

6. Funds lending with related party

(1) Lending of funds to related parties

Related parties	**Amount lending**	**Description**
Jack Walker	256,570	Expired
Hongche Industrial	40,000	Expired
Hexia Investment	9,500	Fund appropriated, Expired
Total	306,070	

7. Key management payroll and remuneration

Items	**Current Period incurred**	Prior period
Key management payroll and remuneration	**5,106**	4,414

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Directors' and supervisors' remuneration and interests

(1) List of appointments during the reporting period

Name	Election process	Position	Starting time	Starting time during current period	Newly assigned during current period	Resigned during current period	Ending time during current period	Whether the business pays salaries
I. Directors								
Duan Xuefeng	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1		2021/1/11		No
Yin Xinzai	2020 Second Extraordinary General Meeting of Shareholders	Executive Director	2020/5/8	2021/1/1		2021/4/30		Yes
Zhang Danling	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1		2021/6/10		Yes
Wu Jinying	2020 Second Extraordinary General Meeting of Shareholders	Director	2021/2/22	2021/1/1		2021/6/10		Yes
Zhang Yujing	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1		2021/1/11		No
Xing Jiangze	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1			2021/12/31	Yes
Zhu Xiaozhe	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1			2021/12/31	Yes
Xiao Yaming	2020 Second Extraordinary General Meeting of Shareholders	Independent Director	2020/5/8	2021/1/1		2021/1/11		Yes
Wong Sze Wing	2021 First Extraordinary General Meeting of Shareholders	Independent Director	2021/1/11		2021/1/11	2021/6/10		Yes
Zhang Ying	2021 First Extraordinary General Meeting of Shareholders	Director/CEO	2021/1/11		2021/1/11		2021/12/31	Yes
Zhang Xin	2020 Annual General Meeting of Shareholders	Chairman	2021/6/10		2021/6/10		2021/12/31	Yes

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Directors' and supervisors' remuneration and interests (continued)

(1) List of appointments during the reporting period (continued)

Name	Election process	Position	Starting time	Starting time during current period	Newly assigned during current period	Resigned during current period	Ending time during current period	Whether the business pays salaries
Zhao Jinwen	2020 Annual General Meeting of Shareholders	Director	2021/6/10		2021/6/10		2021/12/31	No
Chow Yue Hwa Jade	2020 Annual General Meeting of Shareholders	Independent Director	2021/6/10		2021/6/10		2021/12/31	No
Yang Heng	2021 Third Extraordinary General Meeting of Shareholders	Director	2021/7/6		2021/7/6		2021/12/31	No
II. Supervisors								
Shi Xiaofeng	Staff Congress held on 8 May 2020	Supervisor	2020/5/8	2021/1/1		2021/1/15		Yes
Wu Jinying	2020 Second Extraordinary General Meeting of Shareholders	Supervisor	2020/5/8	2021/1/1		2021/2/22		Yes
Ma Yuanbin	Staff Congress held on 8 May 2020	Supervisor	2020/5/8	2021/1/1		2021/6/10		Yes
Sun Bin	Staff Congress held on 15 January 2021	Supervisor	2021/1/15		2021/1/15		2021/12/31	Yes
Gu Zhenguang	2021 Second Extraordinary General Meeting of Shareholders	Supervisor	2021/2/22		2021/2/22		2021/12/31	Yes
Wang Jiajie	Staff Congress held on 10 June 2021	Supervisor	2021/6/10		2021/6/10		2021/12/31	Yes

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Directors' and supervisors' remuneration and interests (continued)

(2) Remuneration of Directors, Supervisors and Chief Executive Officer

2021	Remuneration	Salaries and allowances	Pension scheme contributions	Bonus	Other allowances and benefits	Remuneration for other services rendered in connection with the management of the Company or a subsidiary	Share-based payments	Total
I. Executive Directors								
Zhang Xin	-	335		-	-	-	-	335
Zhang Ying	-	1,701	57	-	-	-	-	1,701
Wu Jinying	-	385	13	-	-	-	-	398
Yin Xinzai	-	-	-	-	-	-	-	-
Zhang Danling	-	334	24	-	-	-	-	358
II. Non-Executive Directors								
Duan Xuefeng	-	-	-	-	-	-	-	-
Zhang Yujing	-	-	-	-	-	-	-	-
Zhao Jinwen	-	-	-	-	-	-	-	-
Yang Heng	-	-	-	-	-	-	-	-
III. Independent Directors								
Xing Jiangze	200	-	-	-	-	-	-	-
Chow Yue Hwa Jade	111	-	-	-	-	-	-	-
Zhu Xiaozhe	200	-	-	-	-	-	-	200
Wong Sze Wing	83.33	-	-	-	-	-	-	83.33
Xiao Yanming	-	-	-	-	-	-	-	-
IV. Supervisors								
Gu Zhenguang	-	428	47	-	-	-	-	475
Sun Bin	-	233	14	-	-	-	-	247
Wang Jiajie	-	246	21	-	-	-	-	267
Ma Yuanbin	-	531	24	-	-	-	-	555
Wu Jinying	-	112	6	-	-	-	-	118
Shi Xiaofeng	-	34	2	-	-	-	-	36
Total	594	4,339	208	-	-	-	-	5,141

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Directors' and supervisors' remuneration and interests (continued)

(2) Remuneration of Directors, Supervisors and Chief Executive Officer (continued)

Continued:

2020	Remuneration	Salaries and allowances	Pension scheme contributions	Bonus	Other allowances and benefits	Remuneration for other services rendered in connection with the management of the Company or a subsidiary	Share-based payments	Total
I. Executive Directors								
Xing Jiaxing	–	352	10	–	–	–	–	362
Yu Qiang	–	294	8	–	–	–	–	302
Zhang Danling	–	825	2	–	–	–	–	827
Yin Xinzai	–	1,118	2	–	–	–	–	1,120
II. Non-Executive Directors								
Wang Wenke	–	310	12	–	–	–	–	322
Duan Xuefeng	–	–	–	–	–	–	–	–
Zhang Yujing	–	–	–	–	–	–	–	–
III. Independent Directors	–	–	–					
Rui Peng	67	–	–	–	–	–	–	67
Chan, Wing Yuen Hubert	67	–	–	–	–	–	–	67
Zhang Zeping	67	–	–	–	–	–	–	67
Xing Jiangze	133	–	–	–	–	–	–	133
Zhu Xiaozhe	133	–	–	–	–	–	–	133
Xiao Yanming	133	–	–	–	–	–	–	133
IV. Supervisors								
Total	600	2,899	34	–	–	–	–	3,533

(3) Retirement benefits for directors

The Company does not have retirement benefits for its directors. The Company only contributes to the state-mandated pension plan for its directors who are based in the PRC.

(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Directors' and supervisors' remuneration and interests (continued)

(4) Termination benefits for directors

The Company does not have any termination benefits for directors.

(5) Consideration paid to third parties for obtaining the services of directors

In 2021, there was no consideration paid by the Company to third parties for obtaining the services of directors (Fiscal 2020: None).

(6) There were no loans, similar loans and other transactions made by the Company to directors, legal entities controlled by directors and related parties of directors in 2021 (Fiscal 2020: None).

(7) The top five highest paid members of the Company in fiscal 2021 include 1 member of the Board of Directors (Fiscal 2020: 3 members except Naf Naf SAS), whose remuneration details are shown in Note XI/(V)/8/(2). Details of the remuneration of the remaining 4 (FY2020: 3) non-directors with the highest paid employees are set out below:

Item	2021	2020
Salaries, bonuses, and allowances	**3,572**	1,715
Included: bonus	**–**	–
Pensions	**227**	32
Provident fund, medical insurance and other social insurance	**258**	92
Total	**4,057**	1,839

Salary range:

	2021	2020
HKD0 to HKD1,000,000 (equivalent to approximately RMB0 to RMB858,000)	**2**	3
HKD1,000,000 to HKD1,500,000 (equivalent to approximately RMB858,000 to RMB1,287,000)	**2**	–
Total	**4**	3

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

9. Receivables and payables of related party

(1) Receivables from related parties of the Company

Items	Related party	Closing balance		Opening balance	
		Carrying amount	**Bad debt allowance**	Carrying amount	Bad debt allowance
Accounts receivable					
	Hongche Industrial	**4,284**	**4,284**	4,284	4,284
Prepayments					
	Jack Walker	**–**	**–**	7,000	7,000
Other receivables					
	Jack Walker	**7,752**	**7,752**	752	752
	Hexia Investment	**10,446**	**10,446**		
	Hongche Industrial	**1,778**	**1,778**	7,341	7,341
	Shanghai Pincheng	**944**	**944**		
	Lacha Fashion I	**117,017**	**117,017**	117,017	117,017
Other current assets					
	Jack Walker	**256,570**	**256,570**	256,570	256,570
	Hongche Industrial	**47,869**	**47,869**	40,000	40,000

(2) Payables to related parties of the Company

Items	Related party	Closing balance	Opening balance
Accounts payable			
	Xinjiang Hengding	**15,587**	10,569
	Zhejiang Yuanrui	**–**	1,000
Other payables			
	Shanghai Pincheng	**112**	1,106
	Shanghai Youshi	**–**	308
	Xinjiang Hengding	**1,098**	–

(All amounts in RMB'000 unless otherwise stated)

XII. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

There are no material commitments of the Company that require disclosure

(II) Significant contingencies existing at the balance sheet date

1. Contingencies arising from pending litigation or arbitration and their financial impact

(1) The Company as a defendant

① Litigation matters in which judgments are unexecuted

Serial number	Case type	Case number	Amount involved
1	Contracting dispute	32	134,640
2	Custom contract dispute	4	4,348
3	House leasing contract dispute	10	12,393
4	Service contract dispute	4	1,040
5	Infrastructure disputes	10	13,225
6	Contractual disputes	24	63,942
7	Manufacturing contract dispute	170	369,227
8	Construction contract dispute	8	203,621
9	Construction dispute	1	65
10	Health right dispute	1	4
11	Borrowing contract dispute	4	652,494
12	Financial loan contract dispute	6	313,592
13	Labor disputes	18	415
14	Affiliate contract dispute	2	777
15	Trading contract dispute	91	181,640
16	Equipment procurement contract dispute	1	281
17	Application for annulment of arbitration dispute	1	14
18	Carriage contract disputes	3	1,022
19	Copyright ownership and infringement disputes	3	186
20	Decoration contract dispute	4	1,149
21	Lease contract dispute	42	17,088
	Total	439	1,971,163

As of 31 December 2021, the Company had a total of 439 litigation cases with judgments unexecuted, total amount is RMB1,971,163 thousand. The interest of overdue has been calculated on 31 December 2021. Thereafter, interest for the period of late payment is credited to the corresponding fiscal year.

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

XII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

(1) The Company as a defendant (continued)

② *Unadjudicated litigation matters*

Deadline	December 31 2021		As of the audit report date (30 March 2022) Amount involved			
Judgment Status	Pending Cases		Pending Cases		Judged Cases	
Case Type	Case number	Amount	Case number	Amount	Case number	Amount
Warranty Contract Disputes	1	355,602	1	355,602	–	–
Service contract dispute	2	72	1	50	1	20
Manufacturing dispute	2	39,660	2	39,660	–	–
Engineering dispute	1	32,479	1	32,479	–	–
Labor contract dispute	1	174	–	–	1	126
Trading contract dispute	3	36,561	1	68	2	16,919
Note dispute	1	61	–	–	1	59
Leasing dispute	2	979	2	979	–	–
Total	13	465,588	8	428,839	5	17,124

As of 31 December 2021, the total number of cases in which the Company was a defendant and had not been adjudicated was 13 cases involving litigation amounting to RMB465,588 thousand. The principal amount of RMB372,212 thousand, litigation costs of RMB1,418 thousand, other amounts of RMB393 thousand, overdue interest of RMB91,491 thousand, and liquidated damages of RMB74 thousand.

(All amounts in RMB'000 unless otherwise stated)

XII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

(2) Company as plaintiff party

① Litigation matters which judgments are unexecuted

Serial number	Case type	Case number	Amount involved
1	Contractual dispute	2	930
2	Leasing dispute	2	176
	Total	4	1,106

As of 31 December 2021, the total number of unexecuted cases in which the Company was the plaintiff and in which judgment had been rendered was 4, involving an amount of RMB1,106 thousand.

② Unjudged litigation matters

Serial number	Case type	Case number	Amount involved
1	Leasing dispute	3	2,216
2	Contractual dispute	1	15,339
3	Franchise contract dispute	1	38,388
4	Trademark contract dispute	1	1,166
5	Trading contract dispute	1	8,142
6	Technology contract dispute	1	4,155
	Total	8	69,506

As of 31 December 2021, the total number of cases in which the Company was the plaintiff and in which judgment was not rendered was 8 cases involving RMB69,506 thousand.

(3) On 22 January 2020, the Company received a bankruptcy decision letter from the Shanghai No. 3 Intermediate People's Court in respect of its subsidiary Jack Walker, appointing Shanghai Jinmaokaide Law Firm as the administrator. On 9 June 2020, the Company filed a creditor's declaration, and the first creditors' meeting was held on 12 July 2020. As of 31 December 2021, Jack Walker's insolvency liquidation matters were not concluded. The Company has fully impaired the loan to Jack Walker and the liquidation is not expected to have a material impact on the Company's existing business.

(All amounts in RMB'000 unless otherwise stated)

XII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

(4) On 25 February 2020, FASHION I, a subsidiary of the Company, was taken over by HTI ADVISORY COMPANY LIMITED (Haitong International Consulting Limited) due to default in repayment of loans and the Company was unable to exercise any control or influence over it and has effectively lost control over it. As a result, the Company has lost control of FASHION I and its subsidiaries APPAREL I, APPAREL II and Naf Naf SAS.

Naf Naf SAS, a former wholly owned subsidiary of the Company, was unable to repay the amounts owed to suppliers and the local government, and on 15 May 2020, judicial restructuring proceedings were formally initiated by a local French court decision and a judicial administrator was appointed to assist in all or part of the business operations of Naf Naf SAS. On 19 June 2020, the local French court ruled in favor of the disposal of certain assets and liabilities of Naf Naf SAS, including intangible assets, fixed assets, inventories, employee accrued rights, leases, franchise agreements, etc. (excluding monetary funds, accounts receivable, accounts payable, bank loans, etc.) for a price of approximately 8,232,700 Euro, and the judicial reorganization proceedings of Naf Naf SAS were transferred to judicial liquidation proceedings. The proceeds of the sale will be included in the judicial liquidation process to pay off its debts. As of 31 December 2021, the above-mentioned liquidation of Naf Naf SAS is not yet complete, but the impact on the Company is uncertain pending the final outcome of the liquidation as the Company is unable to obtain further information in relation to the liquidation of Naf Naf SAS.

2. Contingencies arising from the provision of external debt guarantees and their financial impact

Serial number	Secured party	Subject matter	Amount	Presented under
1	LACHA FASHION I LIMITED	Borrowing Guarantee	355,602	Estimated liabilities
	Total		355,602	

As of 31 December 2021, other than the above-mentioned guarantees, there were no guarantees provided by the Company for other related parties and non-related party units.

Save for the existence of the above contingencies, there were no other material contingencies of the Company as of 31 December 2021, that should be disclosed but were not disclosed.

(All amounts in RMB'000 unless otherwise stated)

XIII . EVENTS AFTER THE BALANCE SHEET DATE

(I) Important non-adjustment events

1. Effects of new litigation or arbitration

(1) The Company as defendant

Deadline	30 March 2022					
Judgment Status	Pending and Judged Cases		Pending Cases		Judged Cases	
Case Type	Case number	Amount	Case number	Amount	Case number	Amount
Procurement contract dispute	9	38	4	18	5	19
House leasing contract dispute	1	65	–	–	1	65
Service contract dispute	1	133	1	133	–	–
Manufacturing dispute	1	8,662	1	8,662	–	–
Engineering dispute	2	13,243	2	13,243	–	–
Note dispute	4	827	4	827	–	–
Decoration contract dispute	9	375	9	375	–	–
Leasing dispute	1	283	1	283	–	–
Total	28	23,625	22	23,541	6	84

The total number of cases in which the Company was added as a defendant from 1 January 2022 to the date of the audit report was 28, involving a total amount of RMB23,625 thousand. Among them, the total number of litigation cases that have been judged is 6, involving a total amount of RMB84 thousand.

(2) The Company as Plaintiff

Serial number	Defendant	Case number	Amount involved
1	Leasing contract dispute	1	415
	Total	1	415

The total number of cases in which the Company was added as a plaintiff from 1 January 2022 to the date of the audit report was 1, and the amount involved was RMB415 thousand.

(II) Description of other events after the balance sheet date

Except for the above-mentioned post-balance sheet events, the Company has no other material post-balance sheet events that should be disclosed but were not disclosed as of the date of approval of the financial report.

(All amounts in RMB'000 unless otherwise stated)

XIV.QUALITATIVE AND QUANTITATIVE DISCLOSURES RELATED TO LEASING

(I) Disclosures as a lessee:

Many of the Company's real estate leases contain variable lease payment terms that are tied to the sales volume of the stores being leased. Where possible, the Company uses these terms to match lease payments to the stores that generate more cash flow. For individual stores, up to 100% of the lease payments can be based on variable payment terms and a wide range of sales ratios are used. In some cases, the variable payment terms also include annual payment floors and caps.

As of 31 December 2021, the lease payments and terms are summarized below:

Category	Number of stores	Fixed Payment Amount	Variable payment amount	Total payment amount
Fixed rent only	6	1,393	–	1,393
Variable rent with no minimum	11	–	6%-16%	6%-16%
Variable rent with minimum standard	4	774	12%-20%	774
Total	21	2,167	–	2,167

(II) Disclosures as lessor:

The Company uses some of its buildings and structures for leasing, and according to the lease contract, the rent is subject to annual adjustment based on market rental conditions. the Company generated revenues of RMB51,922 thousand in 2021 due to the leasing of buildings and structures, see Note VI/(XL). the leased-out buildings and structures are not accounted for as investment properties because they cannot be separated and measured separately.

(All amounts in RMB'000 unless otherwise stated)

XV. OTHER SIGNIFICANT EVENTS

(I) Prior period accounting errors

Contents of correction of accounting errors	Processing procedures	Statement of each comparative period affected	Name of the statement item	Cumulative number of impacts
This is due to incomplete reclassification of prepayments and failure to adjust estimated expenses accordingly	This error was considered and approved at the 22nd meeting of the 4th session of the Board of Directors of the Company, and the error was corrected using the retrospective restatement method during the period	Consolidated Balance Sheet (31 December 2020)	Prepayment	(87,344)
			Total current assets	(87,344)
			Total other non-current assets	(8,591)
			Total non-current assets	(8,591)
			Total asset	(95,935)
			Accounts payable	(29,568)
			Other accounts payable	(67,788)
			Total current liabilities	(97,356)
			Total liabilities	(97,356)
			Undistributed earnings	1,421
			Total owners' equity (or shareholders' equity) attributable to the shareholders of the parent company	1,421
			Total owner's equity (or shareholders' equity)	1,421
			Total liabilities and owner's equity (or shareholders' equity)	(95,935)
		Consolidated Income Statement (Year of 2020)	Selling expenses	(8,421)
			Investment income	(7,000)
			Operating profit	1,421
			Total profit	1,421
			Net profit	1,421
			Net income from continuing operations	1,421
			Net profit attributable to shareholders of the parent company	1,421
			Total comprehensive income	1,421
			Total comprehensive income attributable to owners of the parent company	1,421

(II) Being Filed for bankruptcy liquidation

In fiscal 2021, 4 creditors applied to the People's Court of Xinshi District, Urumqi (the "Xinshi District Court") for the liquidation of the Company in bankruptcy, and the Xinshi District Court considered that it did not have jurisdictional rights and rejected their applications. One of the creditors has appealed and the matter is currently under appeal.

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

(III) Equity freezes in subsidiaries

Up to now, the equity interests of 17 subsidiaries of the Company have been frozen as a result of the Company's involvement in litigation cases and other impacts, involving a total execution amount of approximately RMB667 million. The freezing of the equity interests of the Company's subsidiaries has not yet had any material impact on the normal operation of the Company and its subsidiaries, but there is a risk that the equity interests of the subsidiaries may be judicially disposed of due to the above matters.

(IV) Auction of equity interests in subsidiaries

On 10 November 2021, the Company received an execution ruling from the Shanghai Xuhui District People's Court that 100% of the equity interests in Laxia Taicang and 100% of the equity interests in Laxia Xiuxian, wholly owned subsidiaries of the Company, will be subject to judicial auction. Due to the change in circumstances, the auction of 100% of the equity interests in Laxia Taicang and 100% of the equity interests in Laxia Leisure scheduled for the period from 20 to 23 December 2021 has been suspended. As of 31 December 2021, the judicial auction of 5% equity interest in Laxia Taicang.

As of the date of this report, the judicial auction of 95% equity interest in Laxia Taicang and 100% equity interest in Laxia Leisure is still on hold.

(V) Asset auction

On 20 December 2021, Laxia Taicang, a wholly owned subsidiary of the Company, received a notice of court assessment and auction served in person, and if Laxia Taicang fails to perform the obligations determined by the legal documents within three days after receiving such notice, the Xinjiang Urumqi Intermediate People's Court will assess and auction the seized real estate in accordance with the law.

As of the date of this report, the Company and the Company's subsidiaries have not received any subsequent instruments or notices in relation to the progress of the above matters.

(VI) Division Information

The Company determines operating segments based on its internal organizational structure, management requirements, and internal reporting system. An operating segment of the Company is a component that also meets the following conditions:

(1) The component is capable of generating revenues and incurring expenses in the ordinary course of its activities;

(2) Management is able to regularly evaluate the operating results of the component in order to decide to allocate resources to it and evaluate its performance;

(3) It is possible to obtain accounting information related to the financial position, results of operations and cash flows of the component.

(All amounts in RMB'000 unless otherwise stated)

XV. OTHER SIGNIFICANT EVENTS (CONTINUED)

(VI) Division Information (continued)

The Company determines its reportable segments on the basis of operating segments. An operating segment is determined to be a reportable segment if one of the following conditions is met.

(1) The segment revenue of that operating segment represents 10% or more of the total revenue of all segments;

(2) The absolute amount of segment profit (loss) of that segment represents 10% or more of the greater of the aggregate profit of all profitable segments or the absolute amount of the aggregate loss of all loss-making segments.

The Company has a single business, mainly the sale of apparel, licensing of brands and leasing of some buildings in the country. Management manages this business as a whole and evaluates operating results, therefore, no segment information is presented in these financial statements.

XVI. 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	**2,529,493**	2,627,699
90 days to 1 year	**74,765**	15,378
1 to 2 years	**15,378**	992
2 to 3 years	**992**	11
3 years above	**10,399**	10,419
Sub-total	**2,631,027**	2,654,499
Less: allowance for bad debt	**102,730**	47,636
Total	**2,528,297**	2,606,863

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of accrual method for bad debts

	Closing balance				
	Carrying amount		Allowance for bad debt		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Carrying amount
Accounts receivable with a single accrual for expected credit losses	74,675	3	74,675	100	–
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	2,556,352	97	28,055	1	2,528,297
Including: credit risk characteristics combined with allowance for bad debts	2,556,352	97	28,055	1	2,528,297
Total	2,631,027	100	102,730	4	2,528,297

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of accrual method for bad debts (continued)

Continued:

	Opening balance				
	Carrying amount		Allowance for bad debt		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Carrying amount
Accounts receivable subjected to accrual for expected credit losses on individual basis	20,033	1	20,033	100	–
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	2,634,466	99	27,603	1	2,606,863
Including: credit risk characteristics combined with allowance for bad debts	2,634,466	99	27,603	1	2,606,863
Total	2,654,499	100	47,636	2	2,606,863

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

	Closing balance			
Name of company	**Carrying amount**	**Allowance for bad debt**	**Carrying amount**	**Reason**
Hongche Industrial	4,284	4,284	100	Note 1
Accounts receivables from shopping malls	70,391	70,391	100	Note 2
Total	74,675	74,675	100	

(1) As of 31 December 2021, the Company had an amount due from an unconsolidated related party, Hongche Industrial, of RMB4,284 thousand. Due to the poor operating condition of the enterprise and liquidity problems, the Company considered that the receivable was uncollectable and therefore accrued bad debts in full.

(2) As of 31 December 2021, and 2020, the amounts due from shopping malls for which a separate allowance for bad debts was made were both due to the poor operating conditions of the shopping malls and liquidity problems, and some of the shopping malls were in a state of discontinuance, and the Company considered that the receivables were uncollectible and therefore a full allowance for bad debts was made.

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

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

(1) Accrual on portfolio basis

	Closing balance		
Aging	**Carrying amount**	**Allowance for bad debt**	**Accrual ratio (%)**
Within 90 days	2,528,534	25,415	1
90 days to 1 year	23,894	1,195	5
1 to 2 years	3,343	1,003	30
2 to 3 years	347	208	60
3 years above	234	234	100
Total	2,556,352	28,055	1

5. Details of Accrual, recovery and reversal for bad debt in the current period

		Changes in the current period				
Category	Opening balance	accrual	Recovery or reversal	Write-off	Other changes	Closing balance
Accounts receivable subjected to accrual for expected credit losses on individual basis	20,033	54,642	–	–	–	74,675
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	27,603	452	–	–	–	28,055
Including: credit risk characteristics combined with allowance for bad debts	27,603	452	–	–	–	28,055
Total	47,636	55,094	–	–	–	102,730

6. There was no account receivable written-off in the current period

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

7. Details of the top five of accounts receivable at the end of the period

Name of company	Closing balance	As a percentage of the closing balance of accounts receivable (%)	Bad debt Allowance
La Chapelle Apparel (Taicang) Co., Ltd.	814,844	31	8,148
Shanghai La Chapelle Casual Fashion Co., Ltd.	338,204	13	3,382
Fujian Lewei Clothing Co., Ltd.	293,905	11	2,939
La Chapelle Apparel (Tianjing) Co., Ltd.	290,771	11	2,908
Shanghai Youshi Fashion Co., Ltd	287,117	11	2,871
Total	2,024,841	77	20,248

8. There were no accounts receivable derecognized due to the transfer of financial assets during the reporting period

9. There were no assets and liabilities resulting from the transfer of accounts receivable and continued involvement in the reporting period

Notes to the Financial Statements

For the year ended 31 December 2021
(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables

1. Disclosure of other receivables by aging

Aging	Closing balance Other receivables	Allowance for bad debts	accrue ratio (%)
Within 1 year	232,930	33,070	14
1 to 2 years	72,361	51,432	71
2 to 3 years	49,333	34,817	71
3 years above	189,045	153,115	81
Sub-total	543,669	272,434	50
Less: impairment for bad debt	272,434	–	–
Total	271,235	–	

2. Classified by characteristic

Nature	**Closing balance**	Opening balance
Accounts receivable due from subsidiaries	**427,785**	566,571
Deposits and security deposits	**46,424**	13,211
Refund of service charge expenses	**9,778**	13,778
Employee reserve fund	**42**	3
Property rental fees	**1,374**	1,640
Uncollectible prepayments	**30,482**	–
Others	**27,784**	227
Total	**543,669**	595,430

3. Presented by three stages of impairment for financial asset

Item	**Closing balance** Carrying amount	Allowance for bad debt	Book value	Opening balance Carrying amount	Allowance for bad debt	Book value
Stage 1	**261,711**	**3,534**	**258,177**	411,465	8,193	403,272
Stage 2	**21,870**	**8,812**	**13,058**	11,321	649	10,672
Stage 3	**260,088**	**260,088**	**–**	172,644	172,644	–
Total	**543,669**	**272,434**	**271,235**	595,430	181,486	413,944

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

4. Details of bad debt allowance for other receivables

Bad debt allowance	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses (no credit impairment occurred)	Stage 3 Lifetime expected credit losses (credit impairment occurred)	Total
Opening balance	8,193	649	172,644	181,486
The balance at the beginning of the current period	(4,659)	4,010	649	–
–Transfer to stage 2	(4,659)	4,659	–	–
–Transfer to stage 3	–	(649)	649	–
–Reverse to stage 2	–	–	–	–
–Reverse to stage 1	–	–	–	–
Accrual	–	4,153	86,795	90,948
Reversal	–	–	–	–
Write-off	–	–	–	–
Offset	–	–	–	–
Other changes	–	–	–	–
Closing balance	3,534	8,812	260,088	272,434

5. There was no actual write-off of other receivables in this reporting period

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

6. The top five other receivables by party in arrears at the end of the period

Name of unit	Nature of payment	Closing balance	Ageing	As a percentage of the ending balance of other receivables (%)	Impairment for bad debts Closing balance
Guangzhou Xichen Clothing Co.	Accounts receivable due from subsidiaries	113,002	Less than 1 year, 1 to 2 years, 2 to 3 years, more than 3 years	21	113,002
Shanghai Pinxi Technology Co.	Accounts receivable due from subsidiaries	99,547	Less than 1 year, 1 to 2 years	18	995
Shanghai Chongan Apparel Co.	Accounts receivable due from subsidiaries	55,683	2-3 years, more than 3 years	10	55,683
Shanghai Laxia Enterprise Management Co.	Accounts receivable due from subsidiaries	49,405	Less than 1 year	9	494
Shanghai Lachapelle Casual Wear Co	Accounts receivable due from subsidiaries	28,429	Less than 1 year, more than 3 years	5	284
Total		346,066		63	170,458

7. There were no other receivables involving government grants in this reporting period

8. There were no other receivables derecognized due to the transfer of financial assets in this reporting period

9. There were no assets or liabilities arising from the transfer of other receivables and their continued involvement in the reporting period

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments

	Closing balance			Opening balance		
Characteristic	**Carrying amount**	**Impairment allowance**	**Book value**	Carrying amount	Impairment allowance	Book value
Investment in subsidiaries	**1,048,650**	**406,230**	**642,420**	1,123,650	481,230	642,420
Investment in associates and joint ventures	**–**	**–**	**–**	3,119	–	3,119
Total	**1,048,650**	**406,230**	**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 in the current period**	**Balance of 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	–	–
Taicang 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
Total	1,048,650	–	–	1,048,650	–	406,230

(All amounts in RMB'000 unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments (continued)

2. Investments in associates and joint ventures

		Changes in the current period			
Investee	Opening balance	Additional investment	Disinvestment	Return on investment under equity method	Adjustment in other comprehensive profit or loss
I. Associated companies					
Fuzhou Badi	3,119	–	(3,077)	(42)	–
Shanghai Yishan	–	–	–	–	–
Total	3,119	–	(3,077)	(42)	–

Continued：

	Changes in the current period					
Investee	Changes in other equity	Declare payment of cash dividends or profits	Impairment	Other	Closing balance	Balance of impairment
I. Associated companies:						
Fuzhou Badi	–	–	–	–	–	–
Shanghai Yishan	–	–	–	–	–	–
Total	–	–	–	–	–	–

3. Notes to long-term equity investments

In March 2021, the Company entered into the Equity Transfer Agreement with a third party, which provided for the transfer of the 38% equity interest held by the Company in Fuzhou Badi, the consideration price of RMB301 thousand was received in the same month, equity transfer complete.

As of 31 December 2021, Shanghai Yishan has not yet start business activities.

(All amounts in RMB'000 unless otherwise stated)

XVI. 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

	Current period incurrence		Prior period incurred	
Item	**Revenue**	**Cost**	Revenue	Cost
Main business	**238,094**	**193,440**	771,940	686,078
Other business	**3,807**	**2,908**	3,518	61
Total	**241,901**	**196,348**	775,458	686,139

2. Income derived from contracts:

Contract classifications	**Current period incurrence**	Prior period incurred
1. Category of products		
Apparel	**188,185**	765,317
Brand authorization	**51,370**	6,623
Lease	**2,346**	3,518
2. Classified by business areas		
Domestic	**241,901**	775,458
Overseas	**–**	–
3. Classified by the timing of commodity transfer		
Transferred at a point in time	**188,185**	765,317
Transferred at a point over time	**53,716**	10,141
Total	**241,901**	775,458

(V) Investment income

Items	**Current period incurrence**	Prior period incurred
Long-term equity investment income calculated by equity method	**(42)**	(5,619)
Disposal of long-term equity investments resulting in investment losses	**(776)**	(32,922)
Investment gains/(losses) from debt restructuring	**25,720**	17,375
Total	**24,902**	(21,166)

(All amounts in RMB'000 unless otherwise stated)

XVII. SUPPLEMENTARY INFORMATION

(I) Summary of non-current profit or loss

Items	Current Period Incurrence	Prior Period Incurred
Gains and Loss from disposal of non-current assets	**6,392**	211,944
Government grants included in current profit or loss (except those closely related to the business of the enterprise and enjoyed in a fixed or quantitative manner in accordance with national uniform standards)	**3,477**	15,268
Gains and losses on debt restructuring	**147,042**	33,452
Capital occupation fees	**3,191**	–
Investment gains arising from the disposal of subsidiaries	**–**	(56,531)
Gains or losses from changes in fair value	**7,591**	(3,727)
Non-operating income and expenses other than those mentioned above	**(122,311)**	(12,576)
Less: Income tax effect	**–**	46,959
Effect of minority interests (after tax)	**5,166**	622
Total	**40,216**	140,249

(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	Earnings per share: Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	–	(1.51)	(1.51)
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	–	(1.58)	(1.58)