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La Chapelle

上海拉夏貝爾服飾股份有限公司

Shanghai La Chapelle Fashion Co., Ltd.

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

(Stock code: 06116)

ANNOUNCEMENT IN RELATION TO THE REPLY TO THE REGULATORY LETTER FROM THE SHANGHAI STOCK EXCHANGE FOR THE FURTHER DELAY OF DISCLOSURE OF 2019 ANNUAL REPORT

This announcement is made by Shanghai La Chapelle Fashion Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

Reference is made to (i) the announcement of the Company dated 30 March 2020 in relation to the unaudited annual results of the Group for the year ended 31 December 2019; (ii) the announcement of the Company dated 20 April 2020 in relation to the delay of disclosure of the 2019 annual report of the Company; (iii) the announcement of the Company dated 14 May 2020 in relation to the further delay of disclosure of the 2019 audited annual results and annual report of the Company until a date no later than 30 June 2020; (iv) the overseas regulatory announcement of the Company dated 14 May 2020; and (v) the announcement of the Company dated 18 May 2020 in relation to the initiation of rehabilitation proceedings of Naf Naf SAS, a wholly-owned-subsidiary of the Company incorporated in France (the “**Announcements**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcements, unless otherwise specified.

The Company received a “Regulatory Letter in relation to the further delayed disclosure of the 2019 Annual Report of Shanghai La Chapelle Fashion Co., Ltd.” (《關於上海拉夏貝爾服飾股份有限公司再次延期披露2019年年報事項的監管工作函》) (Shanghai Stock Exchange Official Letter [2020] No. 0501) (the “**Letter**”) from the Shanghai Stock Exchange on 14 May 2020. In accordance with the relevant requirements in the Letter, the Company and its auditor Ernst & Young Hua Ming LLP (the “**Auditor**”) had conducted a detailed analysis and verification, and the relevant findings and corresponding reply are extracted as follows:

I. Would the Company and Auditor please verify and explain the main reason for the previous expectation that the disclosure could be made before 16 May, and the additional events or factors that occurred during the subsequent period that led to the failure to disclose the report on the original date as scheduled.

Reply is as follows

Due to the impact of the coronavirus pandemic, the audit confirmation letter procedures of the Company and its PRC domestic subsidiaries as well as the auditing work of the Company's wholly-owned subsidiary in France, Naf Naf SAS, have been affected to a certain extent. Therefore, the Company convened the 43rd meeting of the third session of the Board on 20 April 2020 to consider and approve the "Resolution in relation to the Delayed Disclosure of the 2019 Audited Annual Report (《關於延期披露2019年經審計年度報告的議案》)", which extended the date of disclosure for the 2019 audited annual report to 16 May 2020. The date of disclosure was determined after certain discussions were held between the Company and the Auditor in accordance with the auditing work completed at that time and the estimation on the progress of the auditing work that had yet to be carried out, which was mainly based on:

- (1) factors including the number of audit confirmation letters that had not been replied to at the time, the feedback obtained from previous audit confirmation letters and the expected substitute procedures to be implemented at that time; the Auditor evaluated the time required to complete the audit confirmation letter and relevant substitute procedures, and part of the auditing work was expected to be completed before 15 May 2020; and
- (2) as of 20 April 2020, although the Company and the Auditor had obtained the financial statements provided by the management of Naf Naf SAS and part of the audit working paper provided by the Auditing Firm, the management of Naf Naf SAS did not provide the completed notes for the financial statements to the Company, and the Auditing Firm did not provide other audit working paper that were required to be provided to the Auditor.

In early-to-mid April 2020, the Company and the Auditor repeatedly communicated with the management of Naf Naf SAS and the Auditing Firm on matters relating to the Company's 2019 audit via remote forms of communications. Despite the work from home arrangements caused by the impact of the coronavirus pandemic, the Company and the Auditor were still able to obtain some feedback. In order to urge the management of Naf Naf SAS and the Auditing Firm to accelerate the work, the Company and the Auditor convened a special telephone conference on 15 April 2020 with the participation of the four parties to identify the outstanding issues and additional auditing materials with the management of Naf Naf SAS and the Auditing Firm. After the conference, the Auditor further clarified the timetable and specific requirements by email. Based on the frequency and efficiency of previous communications and responses with the management of Naf Naf SAS and the Auditing Firm during the earlier stage, the Company and the Auditor had expected to complete the preparation of the notes to the consolidated financial statements by 15 May 2020, as well as completing the auditing procedures at reporting stage and the review of the financial statements of Naf Naf SAS and its audit working papers, and issue a formal audit report. Therefore, the Company delayed the disclosure date for the 2019 annual report to 16 May 2020.

During the subsequent period, there were no new events that led to the inability to publish the 2019 audited annual report on the original date as scheduled. The Company was unable to publish the annual report as scheduled, because the initial influencing factors could not be eliminated prior to the date as originally scheduled. The influencing factors include: the sustained impact of the coronavirus pandemic and the lockdown measures in France, and also the management of Naf Naf SAS and the Auditing Firm failed to provide to the Company and the Auditor the completed notes to the financial statements and the working papers for certain key financial statement line items within the estimated timing as per the communication and the responses. The management of Naf Naf SAS and the Auditing Firm also did not provide the completed feedback on the questions raised by the Auditor relating to the submitted notes for the financial statements and underlying documents for the audit, resulting in a corresponding delay in the annual audit of the Company.

II. Would the Company and the Auditor please further explain the completed audit procedures and audit evidence obtained since the publication of the previous delay announcement until now, as well as any other specific work which was commenced for the effective publication of the annual report.

Reply is as follows

Since the publication of the previous delay announcement until the date of this announcement, the Company and the Auditor have actively contacted the relevant banks, major customers and suppliers to communicate the status of the audit confirmation letter and stressed the urgency of the audit confirmation letter and actively follow-up on the progress of the reply. Meanwhile, the Auditor also implemented an alternative procedure for the business units that had replied infrequently. Up to the date of this announcement, the Auditor had completed the response to the audit confirmation letter and relevant substitute procedures for the relevant banks, major customers and suppliers of the Company and its PRC domestic subsidiaries, and has obtained, among other things, the relevant banks' deposit balance and nature, loan balance and relevant mortgages and guarantees, as well as the audit evidence related to the current balance between customers and suppliers.

Since the publication of the previous delay announcement until the date of this announcement, the Company and the Auditor respectively urged the management of Naf Naf SAS, its financial personnel and the Auditing Firm to accelerate the progress of the work via remote communication, however, they have been unable to provide all the information and completed feedback required by the Auditor for the purpose of the audit, and as such, the initial influencing factors have not been eliminated.

III. Would the Company and Auditor please explain the outstanding specific preparation work for the annual report and auditing work so far, and specify the main reporting items involved and the degree of impact.

Reply is as follows

As at the date of this announcement, the progress of the Company's annual report preparation and annual auditing work are as follows:

In terms of the preparation of the annual report, the preliminary draft of the non-financial content have been prepared and are under review and proofreading. The financial content (mainly the financial section in the financial report as well as the management discussion and analysis section) are outstanding as the relevant reports are still incomplete and the relevant work is still pending further development.

In terms of the annual auditing work, as at the date of this announcement, the Auditor has completed all the work in the audit risk assessment and audit planning stage as well as most of the audit work related to the annual report, including control testing and preliminary evaluation of important internal control processes, letter verification procedures, inventory monitoring, inspection of accounting vouchers and original documents as well as other detailed testing and analytical review. The main tasks that have not been completed primarily include reviewing certain key financial statement line items and the working paper of the Auditing Firm, reviewing the updated notes to the financial statement prepared by the Company based on the notes of the complete financial statements submitted by Naf Naf SAS as well as the continuous assessment on going concern assumptions at the reporting stage.

Although the Company was notified on 16 May 2020 that Naf Naf SAS was unable to repay debts in arrears owed to suppliers and the local government in France, the French local court made a ruling on 15 May 2020 (French time) that Naf Naf SAS would initiate rehabilitation proceedings, upon which the Company consequently no longer had control over Naf Naf SAS. However, such event constitutes a non-adjusting event after the reporting period of the Company's 2019 financial statements. The financial statements of Naf Naf SAS would still need to be included into the Group's 2019 consolidated financial statements. As a key subsidiary of the Company in 2019, Naf Naf SAS which is located in France, has a total of 586 overseas business outlets as of 31 December 2019, accounting for approximately 11% of the Company's total operating outlets at the end of 2019. Naf Naf SAS's total assets, operating income and net assets respectively accounted for 19%, 13% and 16% of the Group in its unaudited consolidated financial statements for 2019. The relevant outstanding auditing procedures in respect of Naf Naf SAS are very important to the Company's audit work for 2019. As at the date of this announcement, the outstanding auditing procedures related to Naf Naf SAS that involve key accounting line items in the Group's financial statements and its impact are as follows:

| Major accounting items | Consolidated financial statements of the Group (unaudited figures as at 31 December 2019) | The amount in respect of Naf Naf SAS to be included in the consolidated financial statements (unaudited figures as at 31 December 2019) | Proportion of the Group's consolidated financial statements |
|--------------------------|---|---|--|
| Accounts receivable | 595,409 | 106,278 | 18% |
| Other receivables | 206,393 | 50,567 | 25% |
| Advances to suppliers | 106,923 | 21,743 | 20% |
| Inventories | 1,732,776 | 273,913 | 16% |
| Other current assets | 205,685 | 21,156 | 10% |
| Long-term receivables | 189,021 | 62,001 | 33% |
| Right-of-use assets | 1,611,476 | 812,827 | 50% |
| Other payables | 842,832 | 18,006 | 2% |
| Lease liabilities | 1,670,249 | 762,346 | 46% |
| Deferred tax liabilities | 41,923 | 33,091 | 79% |

| Major accounting items | Consolidated financial statements of the Group (2019 unaudited figures) | The amount in respect of Naf Naf SAS to be included in the consolidated financial statements (2019 unaudited figures) | Proportion of the Group's consolidated financial statements |
|------------------------|---|--|--|
| Revenue | 7,666,229 | 995,337 | 13% |
| Cost of sales | 3,242,128 | 426,169 | 13% |

Note:

- (1) Save for the above accounting items, as the continued operating capacity of Naf Naf SAS is experiencing a material adverse effect, the Company's unaudited financial statements has accounted for full impairment losses amounting to RMB8.718 million, RMB11.902 million, RMB131.544 million, RMB24.731 million and RMB130.657 million on its long-term assets including fixed assets, construction in progress, intangible assets, long-term prepaid expenses, deferred tax assets, respectively;
- (2) Since the Auditor could not complete the necessary auditing work related to Naf Naf SAS, the above figures are unaudited, the final outcome will be based on the annual audit results according to the Auditor.

IV. Would the Company and the Auditor please explain whether there is a situation where an agreement cannot be reached on major matters, if any, and please indicate the details of such situation, the impact of the audit and the audit opinion and the subsequent arrangements.

Reply is as follows

As reviewed and approved at the 2nd meeting of the fourth session of the Board of the Company, the Company further extended the date of disclosure for the 2019 audited annual report to a date no later than 30 June 2020 and published an announcement in relation to the further delay of disclosure of its audited annual results for the year ended 31 December 2019 and annual report on 14 May 2020. As verified by the Auditor, the statements made by the Company in the aforementioned announcement and the reply contained in this announcement are consistent with the Auditor's understanding. The Auditor accordingly issued a "Special Opinion on the Further Delayed Disclosure of the 2019 Audited Annual Report of Shanghai La Chapelle Fashion Co., Ltd." (《關於上海拉夏貝爾服飾股份有限公司再次延期披露2019年經審計年度報告的專項意見》) and the "Special Instructions regarding the Reply of Shanghai La Chapelle Fashion Co., Ltd." (《關於上海拉夏貝爾服飾股份有限公司對上海證券交易所監管工作函回覆的專項說明》).

As the relevant audit work has not been completed, the Group's 2019 audited financial statements have not been finalised yet. As at the date of this announcement, there is no failure to agree on existing material issues between the Company and the Auditor.

V. Would the Company and the Auditor please provide supplementary information for the specific working schedule for the subsequent work which would ensure the disclosure of the annual report and ensure safeguards for the disclosure of the annual report before 30 June 2020.

Would the Company and all directors, supervisors and senior management personnel please perform their duties diligently and with a responsible attitude towards the investors to accelerate the preparation of periodic reports and relevant disclosure work; the Auditor should strictly comply with relevant regulations, practice prudence, issue audit opinions in a timely and appropriate manner and jointly ensure that the preparation and disclosure of periodic reports are completed within the stipulated time period to effectively protect the rights and interests of investors.

Reply is as follows

According to relevant French laws, the management of Naf Naf SAS would continue to perform its duties during the process of the rehabilitation proceedings. As at the date of this announcement, the Company and the Auditor have clarified the follow-up work schedule to the management of Naf Naf SAS and the Auditing Firm, requiring them to provide the complete set of notes to the financial statement and the working papers required for the auditing work in relation to certain key financial statement line items by the end of May 2020.

In view of the previous delays by the management of Naf Naf SAS and the Auditing Firm, the Company and the Auditor have considered alternatives when formulating the updated work schedule. If the management of Naf Naf SAS and the Auditing Firm are unable to provide the information in time by the end of May 2020, the Company and the Auditor will commence with the alternative plan in June 2020. The Auditor will arrange for a designated person to communicate face-to-face with the Auditing Firm of Naf Naf SAS to obtain information to complete the audit work (currently, the Auditor has contacted the Ernst & Young's network office in France to prepare in advance for the implementation of the alternative plan). The Company also plans to coordinate and arrange for a designated person to go onsite to Naf Naf SAS in France to communicate with the management of Naf Naf SAS in person to remove the related obstacles affecting the Company's annual audit in order to ensure the successful completion of the Company's annual audit. The Company and the Auditor plan to complete the preparation and preliminary review of the annual report by 15 June 2020 and reserve sufficient time for the auditing process at the reporting stage to ensure that a formal audit report can be issued on or before 29 June 2020.

In summary, the Auditor is expected to issue a formal audit report on or before 29 June 2020 and ensure that it will strictly comply with auditing standards and the requirements of relevant laws, regulations and regulatory documents to maintain fairness, independence, diligence, prudent practice and to ensure the appropriateness of the audit opinion.

The Company and all directors, supervisors and senior management personnel of the Company will strictly comply with the relevant rules of the “Announcement on Matters concerning Effectively Completing the Audit and Disclosure of Annual Reports of Listed Companies and Other Companies at Present” (《關於做好當前上市公司等年度報告審計與披露工作有關事項的公告》) of the China Securities Regulatory Commission, the “Notice in relation to Supporting Effective Disclosure of the 2019 annual Report by the Listed Companies” (《關於支持上市公司做好2019年年度報告披露工作的通知》) of the Shanghai Stock Exchange as well as the “Further Guidance on the Joint Statement in relation to Results Announcements in light of the COVID-19 Pandemic” (《有關在COVID-19大流行下刊發業績公告的聯合聲明的進一步指引》) from the Hong Kong Stock Exchange and the Securities and Futures Commission. In accordance with the principle of prudence and attitude of being responsible to the majority of investors, the Company will actively take various measures to accelerate the work related to the annual audit and annual report disclosure; and assist the Auditor in obtaining sufficient and appropriate audit evidence and actively cooperate with the Auditor to implement relevant audit procedures to ensure that the Company discloses its audited annual report for 2019 by 30 June 2020.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By Order of the Board
Shanghai La Chapelle Fashion Co., Ltd.
Mr. Duan Xuefeng
Chairman

Shanghai, the People's Republic of China
22 May 2020

As of the date of this announcement, the executive directors of the Company are Mr. Yin Xinzai and Ms. Zhang Danling; the non-executive directors of the Company are Mr. Duan Xuefeng and Ms. Zhang Yujing; the independent non-executive directors of the Company are Mr. Xing Jiangze, Ms. Xiao Yanming and Mr. Zhu Xiaozhe.