La Chapelle

新疆拉夏貝爾服飾股份有限公司
Xinjiang La Chapelle Fashion Co., Ltd.

(formerly known as "Shanghai La Chapelle Fashion Co., Ltd.
(上海拉夏貝爾服飾股份有限公司)")
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 06116)

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND RESUMPTION OF TRADING OF H SHARES

INTRODUCTION

Reference is made to the announcement of Xinjiang La Chapelle Fashion Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") dated 15 April 2021 in relation to the unaudited annual results of the Group for the year ended 31 December 2020 (the "**2020 Unaudited Results Announcement**"). Capitalised terms used herein shall have the same meanings as those defined in the 2020 Unaudited Results Announcement, unless otherwise specified.

As stated in the 2020 Unaudited Results Announcement, the unaudited results contained therein had not been agreed by the Company's auditor (the "**Auditor**") as required under Rule 13.49(2) of the Listing Rules as at 15 April 2021.

The Board is pleased to announce that the Auditor has completed its audit of the annual results of the Group for the year ended 31 December 2020 in accordance with the Accounting Standards for Business Enterprises on Auditing issued by the Ministry of Finance of the PRC and the Company has obtained the agreement from the Auditor on the audited consolidated results of the Group for the year ended 31 December 2020 (including the figures contained in the Group's consolidated income statements, consolidated balance sheets, the consolidated cash flow statements, and the related notes thereto) (the "**2020 Audited Annual Results**").

Save as disclosed in the paragraph headed "Certain differences between the 2020 Unaudited Results Announcement and the 2020 Audited Annual Results" in this announcement, the annual results contained in the 2020 Unaudited Results Announcement are substantially the same as the 2020 Audited Annual Results.

AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

This announcement sets out the full text of the 2020 annual report of the Company and complies with the relevant requirements of the Listing Rules in relation to information to accompany preliminary announcement of annual results. The audit committee of the Company has reviewed the audited annual results of the Group for the year ended 31 December 2020.

CERTAIN DIFFERENCES BETWEEN THE 2020 UNAUDITED RESULTS ANNOUNCEMENT AND THE 2020 AUDITED ANNUAL RESULTS

Shareholders and potential investors of the Company should pay attention to certain differences between the 2020 Unaudited Annual Announcement and the 2020 Audited Annual Results in this announcement. Set forth below are the principal details and reasons for such differences in such financial information:

Relevant item	**Disclosure in this announcement** *(RMB'000)*	**Disclosure in the 2020 Unaudited Annual Results Announcement** *(RMB'000)*	**Difference** *(RMB'000)*	**Notes**
Consolidated Balance Sheet				
Current assets:				
Cash at bank and on hand	206,477	206,477		
Financial assets held for trading				
Accounts receivable	270,637	270,637		
Advance payment	122,926	131,033	-8,107	(3)(5)
Other accounts receivable	125,636	168,512	-42,876	(2)
Including: Interests receivable				
Inventories	438,716	438,716		
Non-current assets due within one year	25,844	25,844		
Other current assets	88,952	88,952		
Total current assets	1,279,188	1,330,171	-50,983	

Relevant item	Disclosure in this announcement (RMB'000)	Disclosure in the 2020 Unaudited Annual Results Announcement (RMB'000)	Difference (RMB'000)	Notes
Non-current assets:				
Debt investments				
Long-term receivables	4,447	4,447		
Long-term equity investment	180,825	180,825		
Other equity instruments	4,741	3,187	1,554	(1)
Other non-current financial assets	94,050	94,051	-1	
Fixed assets	1,624,902	1,624,902		
Construction in progress	69,054	69,054		
Right-of-use assets	47,846	47,846		
Intangible assets	166,856	166,856		
Goodwill	78,231	78,231		
Long-term prepaid expenses	22,984	22,984		
Deferred tax assets	0	448,579	-448,579	(9)
Other non-current assets	8,591	23,205	-14,614	(3)(4)
Total non-current assets	2,302,527	2,764,167	-461,640	
Total assets	3,581,715	4,094,338	-512,623	
Current liabilities:				
Short-term borrowings	1,167,400	1,167,400		
Notes payable				
Accounts payable	1,164,154	1,168,081	-3,927	(5)
Advances from customers	1,428	1,428		
Contract liabilities	7,330	7,330		
Payroll payable	65,636	65,636		
Tax payable	163,914	163,916	-2	
Other accounts payable	922,343	931,165	-8,822	(4)
Including: Interest payable	58,830	58,608	222	
Dividend payable				
Non-current liabilities due within one year	368,670	368,670		
Total current liabilities	3,860,875	3,873,626	-12,751	

Relevant item	Disclosure in this announcement *(RMB'000)*	Disclosure in the 2020 Unaudited Annual Results Announcement *(RMB'000)*	Difference *(RMB'000)*	Notes
Non-current liabilities:				
Long-term borrowings				
Rental liabilities	36,263	36,263		
Accrued liabilities	350,585	350,585		
Deferred tax liabilities	13,911	13,911		
Other non-current liabilities	8,150	8,151	-1	
Total non-current liabilities	408,909	408,910	-1	
Total liabilities	4,269,784	4,282,536	-12,752	
Owners' equity (or shareholders' equity):				
Paid in capital (or share capital)	547,672	547,672		
Capital surplus	1,910,806	1,910,806		
Less: treasury stock	20,010	20,010		
Other comprehensive income	-38,866	-40,420	1,554	
Surplus reserve	246,788	246,788		
Undistributed profit	-3,255,667	-2,762,296	-493,371	
Equity attributable to owners (or shareholders' equity) of the parent company	-609,277	-117,460	-491,817	
Minority interest	-70,738	-70,738		
Total owners' equity (or shareholders' equity)	-688,069	-188,198	-499,871	
Total liabilities and owners' equity (or shareholders' equity)	3,581,715	4,094,338	-512,623	

Relevant item	Disclosure in this announcement *(RMB'000)*	Disclosure in the 2020 Unaudited Annual Results Announcement *(RMB'000)*	Difference *(RMB'000)*	Notes
CONSOLIDATED INCOME STATEMENTS				
I. Total operating income	1,819,317	1,819,317		
Including: Operating revenue	1,819,317	1,819,317		
II. Total operating costs	-3,023,194	-3,020,105	-3,089	
Including: Cost of sales	-933,721	-933,721		
Interest expenses				
Taxes and surcharges	-25,892	-25,892		
Selling and distribution expenses	-1,646,262	-1,643,394	-2,868	(6)
General and administrative expenses	-264,580	-264,580		
Financial expenses	-152,739	-152,518	-221	(7)
including: interest expenses	-138,859	-137,944	-915	(7)(8)
interest income	8,645	8,645		
Add: Other income	23,606	23,606		
Investment income (loss stated with "-")	-39,201	-39,201		
Including: Investment income from associates and joint ventures	-7,095	-5,619	-1,476	(1)
Profit arising from changes in fair value (loss stated with"-")	-3,727	-3,727		
Credit impairment losses (loss stated with "-")	-149,409	-98,334	-51,075	(2)(3)
Asset impairment losses (loss stated with "-")	-341,184	-342,502		
Gains on disposals of assets (loss stated with "-")	214,334	214,334		
III. Operating profit (loss expressed with "-")	-1,499,458	-1,446,612	-52,846	
Add: Non-operating income	2,034	2,034		
Less: Non-operating expenses	17,000	17,000		
IV. Total profit (total loss expressed with "-")	-1,514,424	-1,461,578	-52,846	
Less: Income tax expenses	363,933	-84,646	448,579	1

Relevant item	Disclosure in this announcement *(RMB'000)*	Disclosure in the 2020 Unaudited Annual Results Announcement *(RMB'000)*	Difference *(RMB'000)*	Notes
V. Net profit (net loss expressed with "-")	-1,878,357	-1,376,932	-501,425	
(I) Classified by continuity of operations				
1. Net profit from continuing operations (loss expressed with "-")	-1,823,505	-1,322,080	-501,425	
2. Net profit from discontinued operations (loss expressed with "-")	-54,852	-54,852		
(II) Classified by ownership of equity				
1. Attributable to shareholders of the parent company (loss expressed with "-")	-1,840,964	-1,347,593	-493,371	
2. Minority interest (loss expressed with "-")	-37,393	-29,339	-8,064	
VI. Other comprehensive income, net of tax	1,092	-462	1,554	
(I) Attributable to owners' of the parent company	1,092	-462	1,554	
1. Other comprehensive income not to be reclassified into profit or loss	19,182	17,628	1,554	
(1) Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans				
(2) Other comprehensive income of investees that cannot be reclassified to profit and loss under equity method				
(3) Fair value change gains of other equity instrument investments	19,182	17,628	1,554	(1)
(4) Changes in fair value of enterprise's credit risk				

Relevant item	Disclosure in this announcement (RMB'000)	Disclosure in the 2020 Unaudited Annual Results Announcement (RMB'000)	Difference (RMB'000)	Notes
2. Other comprehensive income that will be reclassified to profit and loss	-18,090	-18,090		
(1) Other comprehensive income of investees that will be reclassified to profit and loss under equity method				
(2) Gains and losses from changes in fair value of other debt investment				
(3) Gains and losses from financial assets that will be reclassified to other comprehensive income				
(4) Other impairment provision of debt investment credit				
(5) Cash flow hedges reserve				
(6) Exchange differences on foreign currency financial statements translation	-18,090	-18,090		
(7) Others				
(II) Net other comprehensive income attributable to minority shareholders after tax				
VII. Total comprehensive income	-1,877,265	-1,377,394	-499,871	
(I) Attributable to owners' of the Company	-1,839,872	-1,348,055	-491,871	
(II) Attributable to minority shareholders	-37,393	-29,339	-8,064	
VIII. Earnings per share:				
(1) Basic earnings per share (RMB/share)	-3.38	-2.48	-0.90	
(2) Diluted earnings per share (RMB/share)	-3.38	-2.48	-0.90	

Notes:

(1) The fair value comparable data of the participating companies was updated upon fair value adjustments.

(2) On 25 February 2020, the Company lost control over LaCha Fashion I, LaCha Apparel II and Naf Naf SAS after LaCha Fashion I was taken over by HTI Advisory Company Limited. Based on the principle of prudence, additional provision for impairment of its creditor rights was made.

(3) Due to the difficulty in contractual performance of relevant suppliers before the balance sheet date, the provision for bad debts in respect of advances to suppliers and other non-current assets was increased upon assessment.

(4) Other payables and other non-current assets were consolidated and reclassified in the consolidated balance sheet.

(5) Accounts payable and advances to suppliers were consolidated and reclassified in the consolidated balance sheet.

(6) After the balance sheet date, store rental expenses were recognized upon the receipt of store lease notes of the previous period.

(7) Subsequent additional provision was made after obtaining confirmation of the financing and the actual interest expenses confirmed by the lending companies. Adjustments were made to the interest expenses included in financial expenses accordingly.

(8) The government subsidy interest originally included in the financial expenses was reclassified into the government interest subsidy.

(9) The deferred income tax assets for the beginning of the Reporting Period were written down as sufficient taxable profit was not expected to be generated before the expiry of deductible losses.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent Auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2020.

I. Qualified Opinion

We have audited the accompanying financial statements of XINJIANG LA CHAPELLE FASHION CO., LTD., (herein after "**LA CHAPELLE Company**"), which comprise the consolidated and the parent company's balance sheet as at 31 December 2020, the consolidated and the parent company's statement of comprehensive income, the consolidated and the parent company's cash flow statement and the consolidated and the parent company's statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, except for the possible financial impact of the matters as set out in the section "Basis for qualified opinion", the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and the company's financial position as at 31 December 2020, and the consolidated and the company's financial performance and cash flows for the year then ended, and are prepared in accordance with Accounting Standards for Business Enterprises ("**ASBEs**").

II. Basis for Qualified Opinion

(I) Impacts of oversea subsidiaries on financial statements

As of June 4, 2019, the acquisition of 100% of equity interest in Naf Naf SAS has cost La Chapelle Company a cumulative consideration of EUR56,140,000 (equivalent to RMB 427,141,000). In 2019, La Chapelle Company has made provision for the long-term asset and goodwill generated from combination of RMB227,312,000, therefore, the net asset of Naf Naf SAS in the consolidated statement in the year of 2019 was RMB21,428,000, which have been recognized as loss in the consolidated financial statement of 2020. As stated in XII, FASHION I LIMITED (FASHION I) was taken over by HTI ADVISORY COMPANY LIMITED on February 25, 2020 due to its default on the loan. LA CHAPELLE Company has therefore lost control over FASHION I, which is its subsidiary, and APPAREL I, APPAREL II as well as Naf Naf SAS, which are subsidiaries of FASHION I. On June 19, 2020 local time in France, Naf Naf SAS was transferred into judicial liquidation, and the procedure has not been completed.

Based on the impact of above events, we are unable to audit the financial statements of FASHION I and its subsidiaries for the year ended 31 December 2020, we cannot identify whether adjustment is needed for the opening balance of the consolidated financial statements in 2020 and its influence over the financial report for this period, we cannot confirm the rationality and accuracy of the provision for asset impairment of long-term equity investment of Naf Naf SAS, as well as the completeness of the guarantee or liability obligation recorded in the financial accounts which has been provided to FASHION I and its subsidiaries.

(II) Litigation

As stated in Note XII/(II)/(1) Litigation, La Chapelle Company has suffered from financial constraints due to debt default. As of December 31, 2020, the cumulative amounts involved in litigation and arbitration that have not been judged was RMB782,468,000, among which the amount involved in respect of the judged cases till the reporting date is RMB236,904,000. As stated in Note XIII/(I)/2. Effect of newly added litigation or arbitration, from January 1, 2021 to the reporting date, the amount of the Company's new litigation involved was RMB1,005,987,000. We are unable to obtain sufficient and appropriate audit evidence to identify the potential losses that may be generated from the above litigation events, and the accuracy and completeness of accrued liability in respect of litigation and arbitration.

We conducted our audit work in accordance with Chinese Standards on Auditing ("**CSAs**"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with China Code of Ethics for Certified Public Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Material uncertainties related to going concern

We draw attention to Note III/(II) Going concern to the consolidated financial statements which indicates that La Chapelle Company incurred a net loss of RMB1,878,357,000, and has suffered a consecutive year loss. As at 31 December 2020, the Group's total liability exceeded its total asset by RMB688,069,000. La Chapelle Company is now facing significant litigations due to large number of overdue debts, which also led to the frozen of its principal bank accounts and shares of subsidiaries and the seize of real estates. La Chapelle Company has been presented on the list of dishonest person. All these events along with the events as at the balance sheet date stated in Note XII of the financial statements indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Details of the qualified opinion have been included in the consolidated financial statements of the Group in its 2020 annual report.

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

Da Hua Certified Public Accountants (Special General Partnership) issued a qualified opinion on the Company's financial statements for the year ended 31 December 2020. 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 Certified Public Accountants (Special General Partnership) 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 it investors.

MAJOR ACTIONS PROPOSED TO BE TAKEN BY THE COMPANY

(I) As the company failed to repay the loan from HTI Advisory Company Limited in a timely manner, HTI Advisory Company Limited took over LaCha Fashion I on 25 February 2020, and the Company was unable to control or exert any influence over it, and thereby losing actual control over it and its subsidiaries, including mainly Naf Naf SAS. In addition, Naf Naf SAS officially entered into judicial liquidation on 19 June 2020 (French time). These have caused the Auditor's failure to audit LaCha Fashion I and its subsidiaries, and therefore the Auditor could not assess the reasonableness and accuracy of the long-term equity investment in Naf Naf SAS and the provision for asset impairment. As at the date of this announcement, the dispute over the contractual dispute over the Company's guarantee of the loan is still under legal proceedings. The Company will negotiate with HTI Advisory Company Limited to clarify HTI Advisory Company Limited's follow-up arrangements after taking over LaCha Fashion I, or will ascertain the availability of the Company's equity interest in LaCha Fashion I and its subsidiaries (and their actual amount) for the setting off of the Company's indebtedness to HTI Advisory Company Limited through friendly negotiations or litigation. At the same time, the Company will continue to contact the judicial liquidator of Naf Naf SAS to follow up on the progress of the judicial liquidation, and actively seek professional opinions from French lawyers to understand the Company's remaining assets that can be recovered in the liquidation process. The Company will strive to properly and swiftly resolve the issues arising from Naf Naf SAS's judicial liquidation and the dispute between the Company and HTI Advisory Company Limited.

(II) Regarding litigation cases that have not been concluded, the Company will actively respond to the cases and take necessary measures to protect the legal rights and legitimate interests of the Company with the support of legal professionals. Regarding debts arising from disputes that have been adjudicated or settled, the Company, being responsible to all of its shareholders and its creditors, will actively negotiate with the relevant courts, creditors and financial institutions and strive to come up with a centralized solution to litigation matters and debt settlement as soon as possible, including but not limited to the consideration of mechanisms such as seeking a release from debt or a discount, settlement and debt restructuring. At the same time, the Company will strengthen the internal information transmission mechanism in respect of litigation matters, improve its recording and classification of litigation to capture sufficient information, and monitor and evaluate the risks of litigation cases and their financial impact on the Company in a timely manner.

(III) In response to the significant uncertainty of the Company's ability to continue as a going concern, the Company will take the following measures:

1. The Company will adjust its current business strategy and development direction. On the one hand, the Company will focus on enhancing the management of its high-quality stores, adhere to the policy of "direct store management from the headquarters and management responsibility towards every employee", and strive to improve store efficiency, personnel efficiency and single store profitability. On the other hand, the Company will continue to make efforts in expanding the promotion of its licensing business, and to realize the transition of the Company to a business model featuring light assets, high gross profit and quick turnover. In the fourth quarter of 2020, the Company realized revenue of approximately RMB19.18 million through its online (non-main-brand) licensing business. In the future, the Company will further explore its online licensing business's coverage of brands, categories and platform channels, and utilize the advantages of an "asset-light" business model to improve the asset turnover and profitability of the Company.

2. The Company will "remove its heavy burden and move forward with light gear" as soon as possible. The Company will seek to lease or sell its existing low-efficiency property assets (including park properties at the headquarters and warehousing and logistics assets), and strive to sell them at the maximum premium. Through disposing assets not suitable to its strategy, the Company aims to recover funds to improve its liquidity and asset structure, in order to provide financial support for the development of its core business.

3. The Company will inspect its existing inventories and adopt measures such as identification by price, quality screening, bundling and matching channels, to encourage all regions and partners to facilitate the disposal of the inventories of the Company in accordance with a unified policy, which can effectively reduce the inventory level of old products and accelerate the return of funds to the Company. Meanwhile, the Company will also actively develop new products to enhance its performance and image.

4. The Company will further adjust and optimize its management system, improve overall budget management and cost control, and strictly adopt measures that "reduce costs and enhance efficiency". In 2021, the Company will attach greater importance to the preparation, control and implementation of its overall budgets, strengthen cost control from the source, strictly control various costs and expenditures, conduct input-output analyses on major costs, perform closed-loop management of key expenses, and conduct dynamic monitoring and process supervision on overall budgets, in order to maximize the profitability of its primary business.

5. Regarding the debt problems faced by the Company at this stage, the Company, being responsible to all shareholders and creditors, will actively negotiate with the relevant courts, creditors and financial institutions to seek a centralized solution to debt settlement, including but not limited to debt extensions, exemptions, discounts and settlements as soon as possible, in order to alleviate the debt pressure of the Company and help the Company return to a positive development track. As of the date of this announcement, the Company still has frozen cash at banks in the amount of approximately RMB166 million (nominal value). The Company will propose a feasible plan for debt repayment, in order to combine the benefits of the reduction in operating burden and debt reorganization, thus further optimizing the asset-liability structure of the Company.

6. Apart from taking measures to overcome difficulties, the Company also aims to restore and improve its credit and financing capabilities through actively seeking new investors, obtaining external financing, leveraging the resources and advantages of substantial shareholders in various aspects such as entrusted financing, financial strength, and professional capabilities, optimizing and reorganizing its overall business as well as seeking further funds.

RESUMPTION OF TRADING OF H SHARES

At the request of the Company, trading in the H shares of the Company (the "**H Shares**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has been suspended with effect from 9:00 a.m. on Thursday, 1 April 2021, pending the release of this announcement.

Application has been made to the Stock Exchange for the resumption of trading in the H Shares on the Stock Exchange from 9:00 a.m. on Friday, 30 April 2021.

The 2020 annual report and results announcement are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at http://group.lachapelle.cn/Investor/Announce. The 2020 annual report will be despatched to holders of the Company's H shares in due course.

By Order of the Board
Xinjiang La Chapelle Fashion Co., Ltd.
Mr. Wu Jinying
Chairman

Shanghai, the People's Republic of China
29 April 2021

As of the date of this announcement, the executive directors of the Company are Mr. Wu Jinying, Ms. Zhang Ying and Ms. Zhang Danling; the non-executive director of the Company is Mr. Yin Xinzai; the independent non-executive directors of the Company are Mr. Xing Jiangze, Ms. Wong Sze Wing and Mr. Zhu Xiaozhe.

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 becoming a leading multi-brand, omni-channel, driven by data technology new fashion group in China. The Group has been dedicated to providing high-quality and fashionable apparel products and lifestyles to mass domestic consumers.

The Group now owns multiple brands such as La Chapelle, Puella, Candie's, 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. It is a diversified Group including apparel products and brand licensing.

Corporate Profile


Puella

Corporate Information

REGISTERED CHINESE NAME

新疆拉夏貝爾服飾股份有限公司

ENGLISH NAME

Xinjiang La Chapelle Fashion Co., Ltd.

HEADQUARTERS

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

REGISTERED OFFICE IN THE PRC

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

PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTORS

Executive Directors

Mr. Wu Jinying *(Chairman)*
Ms. Zhang Ying *(President)*
Ms. Zhang Danling

Non-executive Directors

Mr. Yin Xinzai

Independent Non-executive Directors

Mr. Xing Jiangze
Ms. Wong Sze Wing
Mr. Zhu Xiaozhe

AUDIT COMMITTEE

Mr. Xing Jiangze *(Chairman)*
Ms. Zhang Ying
Ms. Wong Sze Wing

NOMINATION COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Xing Jiangze *(Chairman)*
Mr. Yin Xinzai
Mr. Zhu Xiaozhe

BUDGET COMMITTEE

Ms. Zhang Ying *(Chairman)*
Mr. Wu Jinying
Ms. Zhang Danling
Mr. Yin Xinzai
Mr. Xing Jiangze
Ms. Wong Sze Wing

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Wu Jinying *(Chairman)*
Ms. Zhang Ying
Ms. Zhang Danling
Mr. Yin Xinzai
Ms. Wong Sze Wing
Mr. Zhu Xiaozhe

SUPERVISORS

Mr. Ma Yuanbin *(Chairman)*
Mr. Sun Bin
Mr. Gu Zhenguang

COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

Mr. Wu Jinying (appointed on 22 February 2021)
Ms. Wong Wai Ling (appointed on 25 February 2020)

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				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,819,317**	7,666,229	10,175,853	8,998,709	8,550,867
Gross profit	**885,596**	4,423,450	6,647,516	5,627,804	5,479,566
Gross profit margin	**48.68%**	57.70%	65.33%	62.5%	64.1%
Operating (loss)/profit	**(1,499,48)**	(2,266,447)	(151,681)	737,493	686,972
Operating (loss)/profit margin	**(82.42%)**	(29.56%)	(1.49%)	8.2%	8.0%
(Loss)/profit for the year	**(1,878,357)**	(2,252,279)	(199,182)	537,440	572,267
(Loss)/profit attributable to equity owners of the Company	**(1,840,964)**	(2,166,306)	(159,513)	498,527	531,963
Non-controlling interests	**(37,393)**	(85,973)	(39,669)	38,913	40,304

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**2,302,527**	4,811,602	3,473,479	2,817,072	2,224,927
Current assets	**1,279,188**	3,199,921	5,216,019	5,054,640	4,078,716
Total assets	**3,581,715**	8,011,523	8,689,498	7,871,712	6,303,643
EQUITY AND LIABILITIES					
Total equity	**(688,069)**	1,126,196	3,561,957	4,069,228	3,510,218
Non-current liabilities	**408,909**	1,400,240	407,752	67,039	68,939
Current liabilities	**3,860,876**	5,485,087	4,719,789	3,735,445	2,724,486
Total liabilities	**4,269,785**	6,885,327	5,127,541	3,802,484	2,793,425
TOTAL EQUITY AND LIABILITIES	**3,581,715**	8,011,523	8,689,498	7,871,712	6,303,643

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

The Company has prepared its financial statements in accordance with the China Accounting Standards for Business Enterprises (the "**CAS**") since 28 July 2017, in light of the then proposed listing of the A Shares of the Company and in order to improve the efficiency and reduce the cost of disclosures and audit expenses. The consolidated results for 2016 shown were adjusted in accordance with the CAS, while the consolidated results for 2015 were still prepared in accordance with the International Financial Reporting Standards.


La babité

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present to you the audited annual results of the Group for the year ended 31 December 2020.

In 2020, the sudden outbreak of the COVID-19 pandemic had brought unprecedented impacts on the industry. As affected by the pandemic, consumer activities involving crowds and physical contact were restricted. Due to the spread of the COVID-19 pandemic in 2020, the Company's overall operations, especially its offline physical business, were significantly impacted, and the Company's implementation of adjustment measures was constrained to a certain extent. During the Reporting Period, the Company faced various difficulties such as a significant decline in operating income, high liquidity pressure and low profitability.

During the Reporting Period, facing changes in internal and external operating environment, the Company continued to adhere to the managing policy of "down-scaling and focusing, reducing costs and increasing efficiency and innovative development", and used its best effort to mitigate liquidity pressure with focus on ensuring continuous operation and carrying on its principal business. Meanwhile, the Company expedited its transformation and adjustment, and actively explored new business model and transformation initiatives to lay the foundation to help the Company return to a positive development track. In 2021, the Company will take the following targeted measures:

1. With improving profitability as the core, we will enhance offline business management, and actively explore online "light asset" business model

For offline channels: the Company closed more loss-making and low-efficiency outlets in 2020. As at the end of the Reporting Period, the number of offline outlets operated by the Company decreased to 959, which effectively reduced the pressure of fixed expenses such as wages and rents attributable to directly-operated channels. The Company will focus on enhancing the management of the existing high quality stores, adhere to the policy of "direct store management from the headquarters and management responsibility towards every employee", and strive to improve offline store efficiency, unit area results (坪效) and single store profitability. For online channels: the Company has adjusted its traditional model of "planning and design – independent purchasing – platform operation – online sales" to the new model of "brand licensing + operational services" during the Reporting Period. In the fourth quarter of 2020, the Company realized revenue of approximately RMB19.18 million from its online (non-main-brand) licensing business only. In the future, the Company will continue to strengthen the promotion of online licensing business, and further explore its online licensing business's coverage of brands, categories and platform channels, in an effort to realise transformation to a light-asset, high margin and quick turnover operation model and increase business turnover and profitability.

2. Reorganise and define the Company's brands and remodel the image of its main brands to support business adjustment and transformation

Based on the concept of "rebranding and brand protection", the Company will reorganize the structure and positioning of its various brands, implement the business development strategy of "one strategy for one brand, and differentiation of primary and secondary brands", and remodel its brand matrix. The Company plans to enhance its brand image and value as a whole by establishing brand culture, upgrading and transforming its core network and innovate its brand marketing mechanism, with focus on core brands. The Company will significantly adjust its publicity and promotion strategy, strengthen the close cooperation with emerging media in the Internet, promote brand promotion and traffic marketing with celebrities, enhance brand influence among young consumer groups, and fully combine and utilize the media, channels and end resources, so as to integrate brand promotion with consumer experience. Meanwhile, the Company will further enhance its brand protection awareness and establish a cooperative fake-fighting mechanism with relevant authorities to match the needs of licensing business development, and speed up the construction of a dynamic quality monitoring system.

3. Improve overall budget management and cost control to increase profitability

The Company will further adjust and optimize its management system, improve overall budget management and cost control, and increase the profitability of its primary business through adopting strict measures of "reducing costs and enhancing efficiency". During the Reporting Period, in line with the progress of business adjustment and transformation, the Company has taken measures such as optimizing the structure of functional departments and reducing redundant personnel, resulting in a significant reduction of fixed expenses such as labour cost, and improvement in personnel efficiency management. In 2021, the Company will attach greater importance to the preparation, control and implementation of its overall budgets, strengthen cost control from the source, strictly control various costs and expenditures, conduct input-output analyses on major costs, perform closed-loop management of key expenses, and conduct dynamic monitoring and process supervision on overall budgets, in order to maximize the profitability of its primary business.

4. Actively prepare solutions for repayment of debts and strive to help the Company return to a positive development track

Regarding the debt problems faced by the Company at this stage, the Company, being responsible to all shareholders and creditors, will actively negotiate with relevant courts, creditors and financial institutions to seek a centralized solution to litigations and debt settlement, including but not limited to debt exemptions, discounts, settlements and restructuring as soon as possible, in order to help the Company return to a positive development track. Apart from taking measures to overcome difficulties, the Company also aims to restore and improve its credit and financing capabilities through actively seeking new investors, obtaining external financing, leveraging the resources and advantages of substantial shareholders in various aspects such as entrusted financing, financial strength, and professional capabilities, optimizing and reorganizing its overall business as well as seeking further funds.

5. Put in more effort to dispose non-core assets to reduce operating burden and debt pressure

On one hand, the Company intends to "remove its heavy burden and move forward with light gear" as soon as possible. The Company will seek to lease or sell its existing low-efficiency property assets (including park properties at the headquarters and warehousing and logistics assets), and strive to sell them at the maximum premium. Through disposing assets not suitable to its strategy, the Company aims to recover funds to improve its liquidity and asset structure, in order to provide financial support for the development of its core business. On the other hand, the Company will inspect its existing inventories and adopt measures such as identification by style, quality screening, bundling and matching channels, to encourage all regions and partners to facilitate the disposal of the inventories of the Company in accordance with a unified policy, which can effectively reduce the inventory level of old products and accelerate the return of funds to the Company. Meanwhile, the Company will also actively develop new products to enhance end product capability and operating results.

6. Further strengthen internal control management and standardized operation, and improve and perfect internal control system

In 2021, taking actual situation into consideration, the Company will further strengthen its internal control management and standardized operation, improve weaknesses in the internal control system, optimize each aspect of control and functional departments, and improve and perfect the internal control system. It will maintain a stable management team that is appropriate for its present stage of business development, enhance the cohesion and centripetal force of all employees, and make it clear that improving operation quality and increasing profitability are the core objectives of the Company. Through down-scaling, focusing core resources, active exploring brand licensing business, optimizing internal operational management, and improving work flow, etc., the Company will adapt to the needs of its business activities and development and earnestly protect the interests of all shareholders.

In 2021, the Company will adhere to the above measures, pursue improvements in various aspects including business model, brand management, cost control, financing channels and standardized operation, strive to further optimize the asset-liability structure of the Company and effectively enhance the overall operation and profitability of the Company.

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. Wu Jinying
Chairman

29 April 2021

Management Discussion and Analysis

INDUSTRY REVIEW

In 2020, the sudden outbreak of the COVID-19 pandemic had brought unprecedented impacts on the industry. According to the data from the National Bureau of Statistics, total retail sales of consumer goods in 2020 reached RMB39,198.1 billion, down 3.9% year on year; retail sales of consumer goods above the designated size were RMB14,332.3 billion, down 1.9% year on year, among which, the retail sales of garments, footwear, hats and knitwear reached RMB1,236.5 billion, down 6.6% year on year, and the retail sales of supermarkets in the retail enterprises above the designated size increased by 3.1% year on year, while department stores, professional stores and specialty stores decreased by 9.8%, 5.4% and 1.4% respectively. As affected by the pandemic, consumer activities involving crowds and physical contact were restricted. Due to the spread of the COVID-19 pandemic in 2020, the Company's overall operations, especially its offline physical business, were significantly impacted, and the Company's implementation of adjustment measures was constrained to a certain extent. During the Reporting Period, the Company faced various difficulties such as a significant decline in operating income, high liquidity pressure and low profitability.

The main reasons for the estimated loss during the Reporting Period are as follows: (1) as affected by factors such as the COVID-19 pandemic, the Company's revenue from its offline network dropped significantly, whilst at the same time the Company still had to bear fixed expenses such as shopping mall rentals and salaries. As a result, the decrease in selling expenses and administrative expenses was significantly lower than the decline in revenue, which led to a loss of approximately RMB890 million. (2) the Company further closed down ineffective offline stores, with the number of offline outlets within Mainland China having decreased from 4,878 at the beginning of the year to 959 at the end of the year. The operating loss of the closed stores and expenses such as those arising from paying off renovation fees in one go together accounted for a loss of RMB250 million. (3) Due to factors such as the external industry environment, internal inventory clearance efforts and cash flow pressure, the Company's sales of past-season products increased significantly during the Reporting Period, resulting in a corresponding decrease in gross profit margin, which led to a decrease in gross profit of approximately RMB190 million during the Reporting Period as compared with the same period of the previous year. At the same time, the aging of the Company's inventories at the end of the Reporting Period resulted in a loss of approximately RMB340 million due to the decline in value of inventories. (4) During the Reporting Period, the Company determined to dispose of projects that materially and adversely affected the Company's financial performance and cash flow. Further, Jack Walk (Shanghai) Fashion Limited* (傑克沃克(上海)服飾有限公司) and Naf Naf SAS, which were former subsidiaries of the Company, entered into judicial liquidation due to their inability to continue operation. The operating losses of investment projects and the disposal of loss-making investment projects by the Company together accounted for a loss of RMB230 million for the Reporting Period. (5) As sufficient taxable profit was not expected to be generated before the expiry of deductible losses, the deferred income tax assets for the beginning of the Reporting Period were written down, resulting in a loss of RMB340 million.

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group's revenue and operating loss were RMB1,819.3 million and RMB1,499.5 million respectively, representing a decrease of 76.3% and 33.8% respectively, as compared with the corresponding period of last year. The net loss for the year ended 31 December 2020 amounted to RMB1,878.4 million, representing a decrease of 16.6% as compared with the corresponding period of last year.

Revenue

The revenue of the Group in 2020 decreased from RMB7,666.2 million in 2019 to RMB1,819.3 million, representing a decrease of 76.3% year on year. The decrease in revenue was mainly attributable to the following reasons: (1) the Company proactively implemented a strategic contraction strategy. During the Reporting Period, it continued to optimize channels for direct offline sales and closed directly-operated stores that were not efficient and loss-making. As at the end of 2020, the number of domestic outlets of the Company was 959, with a net decrease of 3,919 from 4,878 as at the end of the year 2019, representing a drop of 80.3% in the number of domestic outlets; (2) as affected by COVID-19 and the resulting decline in customer flow in physical stores, the Company's direct offline sales during the Reporting Period were lower than expected, and the same store sales ratio decreased by 58.5%; (3) due to the pressure on the Company's cash flow during the Reporting Period, the quantity of goods purchased was reduced, and accordingly sales revenue also recorded a decrease.

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			
	2020 (Audited)		2019 (Audited)	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
Concessionaire counters	**677,480**	**37.2**	3,225,305	42.1
Standalone retail outlets	**625,528**	**34.4**	3,097,356	40.4
Online platform	**295,775**	**16.2**	816,164	10.7
Franchise/Associates	**169,099**	**9.3**	509,527	6.6
Licensing	**19,179**	**1.1**	–	–
Others [Note 1]	**32,256**	**1.8**	17,877	0.2
Total	**1,819,317**	**100**	7,666,229	100

The revenue from concessionaire counters decreased from RMB3,225.3 million in 2019 to RMB677.5 million in 2020, representing a decrease of 79.0% year on year. The revenue from standalone retail outlets decreased from RMB3,097.4 million in 2019 to RMB625.5 million in 2020, representing a decrease of 79.8% year on year. The decreases in revenue from concessionaire counters and standalone retail outlets were mainly due to the decrease in the number of retail outlets caused by the active contraction strategy implemented by the Group. The number of retail outlets for concessionaire counters and standalone retail outlets decreased by approximately 78.3% and 84.4% respectively, as compared with the number of retail outlets at the end of the year 2019. In addition, the impact of COVID-19 home and abroad caused the decrease of same-store sales. The revenue from standalone retail outlets accounted for 34.4% of the total revenue of the Group in 2020, representing a period-on-period decrease of 6.0 percentage points. The revenue from online platform in 2020 reached RMB295.8 million, which accounted for 16.2% of the total revenue, representing a period-on-period increase of 5.5 percentage point.

Note: "Others" mainly refers to the revenue from the Company's leasing business and labour services.

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			
	2020 (Audited)		2019 (Audited)	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
La Chapelle	**388,101**	**21.4**	1,617,394	21.2
Puella	**287,612**	**15.8**	1,282,699	16.7
7 Modifier	**266,274**	**14.6**	1,162,231	15.2
La Babité	**234,720**	**12.9**	980,862	12.8
Candie's	**187,228**	**10.3**	683,109	8.9
Men's wear brands	**72,586**	**4.0**	346,820	4.5
8ém	**37,081**	**2.0**	152,780	2.0
Naf Naf	**280,676**	**15.4**	996,983	13.0
Other brands	**32,783**	**1.8**	425,474	5.5
Others	**32,256**	**1.8**	17,877	0.2
Total	**1,819,317**	**100.0**	7,666,229	100.0

Note:

1. Menswear brands comprise JACK WALK, Pote and MARC ECKŌ brands.

2. Other brands comprise GARTINE, Siastella and UlifeStyle brands.

3. Naf Naf SAS, a former wholly-owned subsidiary of the Company, was no longer included in the consolidated financial statements. From January 2020 to February 2020, Naf Naf SAS recorded an operating income of RMB280,676 thousand.

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 2020 had an overall decrease of 76.3%. The revenue from each of the major brands recorded a decrease: revenue from women's wear brands decreased by 76.2%, and revenue from men's wear brands decreased by 79.1%. At the same time, as the proportion of off-season products to total products increased, the overall gross profit margins of the Group also decreased: gross profit margin of women's wear decreased by 9.7%, and gross profit margin of men's wear decreased by 19.4%.

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			
	2020 (Audited)		2019 (Audited)	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
First-tier cities	**150,388**	**8.3**	1,103,569	14.4
Second-tier cities	**678,740**	**37.3**	2,782,798	36.3
Third-tier cities	**374,030**	**20.6**	1,484,055	19.4
Other cities	**335,483**	**18.4**	1,298,824	16.9
Overseas region	**280,676**	**15.4**	996,983	13.0
Total	**1,819,317**	**100**	7,666,229	100

Note:

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

2. Operating income in overseas regions was realized by the Company's former wholly-owned subsidiary Naf Naf SAS, which was no longer included in the consolidated financial statements of the Company at the end of the reporting period.

In 2020, the Group's revenue decreased in all cities, mainly due to the decrease in the number of retail outlets, the decrease in the quantity of the goods purchased and the impact of the COVID-19 pandemic.

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			
	2020 (Audited)		2019 (Audited)	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
Tops	**1,181,143**	**64.9**	5,186,003	67.7
Bottoms	**174,546**	**9.6**	842,148	11.0
Dresses	**410,737**	**22.6**	1,604,675	20.9
Accessories and others	**52,891**	**2.9**	33,403	0.4
Total	**1,819,317**	**100**	7,666,229	100

In 2020, revenue from sales of different products of the Group recorded a decrease, which was attributed to the decrease in purchase volume and sales volume period-on-period. Revenue contribution from sales of different products as compared with last year: revenue contribution from sales of tops decreased by 2.8%, revenue contribution from sales of bottoms decreased by 1.4% and revenue contribution from sales of dresses increased by 1.7%.

Cost of Sales

The cost of sales of the Group decreased by 71.2% from RMB3,242.8 million in 2019 to RMB933.7 million in 2020. 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 RMB4,423.5 million in 2019 to RMB885.6 million in 2020, representing a decrease of 80.0%. The overall gross profit margin of the Group decreased to 48.7% in 2020 from 57.7% in 2019, mainly due to an increase in proportion of sales of off-season products in 2020, resulting in a period-on-period decrease in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in 2020 amounted to RMB1,646.3 million (2019: RMB5,174.6 million), consisting primarily of salaries and benefits for sales staff, concession and rental expenses relating to retail points and online stores, amortisation of store decoration expenses and rental expenses. Expressed in percentage points, selling and distribution expenses as a percentage of total revenue in 2020 were 90.5% (2019: 67.5%). Compared to 2019, due to the strategic contraction strategy and impact of the COVID-19 pandemic, the significant decrease of sales volume resulted in the increase in the ratio of fixed selling expenses (such as salaries and benefits for sales staff, amortisation of store decoration expenses and shopping mall rental expenses) to revenue. General and administrative expenses in 2020 amounted to RMB264.6 million (2019: RMB483.2 million), consisting primarily of administrative employee salaries and benefit expenses, amortization of intangible assets, and consulting service fees. Expressed in percentage points, general and administrative expenses as a percentage of total revenue in 2020 were 14.5% (2019: 6.3%). The contribution of administrative staff salaries and benefits and depreciation of fixed assets to our revenue for the Reporting Period have increased from the corresponding period of last year.

Asset Impairment Loss

The asset impairment loss for the year ended 31 December 2020 was RMB341.2 million (2019: RMB778.5 million), which was mainly provision for impairment of inventories. Compared with 2019, the further asset impairment loss this year was mainly due to the further depreciation of right-of-use assets and intangible assets of the Company. Further details on the asset impairment loss will be disclosed by the Company upon completion of the audit as and when necessary.

Credit impairment losses

Credit impairment losses recorded RMB149.4 million in 2020 (2019: RMB151.9 million), mainly because LaCha Fashion I Limited was taken over by HTI Advisory Company Limited. As a result, the Company lost control of LaCha Fashion I Limited and its subsidiary, Naf Naf SAS. The Company will therefore make a full provision for bad debts arising from its investment in LaCha Fashion I Limited and its financial support provided to Naf Naf SAS to support its operation.

Other Income – Net

The Group's other income amounted to RMB23.6 million in 2020 (2019: RMB103.3 million), mainly due to the receipt of financial subsidies of RMB14.6 million in 2020 (2019: RMB102.2 million).

Finance Expenses/Income – Net

The Group's net finance expenses were RMB152.7 million in 2020 (2019: RMB241.7 million). The decrease in the net financial expenses was mainly due to the year-on-year decrease in interest expenses on lease liabilities resulting from further closure of stores under the new lease standard.

Loss before Income Tax

Loss before income tax of the Group decreased from RMB2,265.0 million in 2019 to a loss before income tax of RMB1,514.4 million in 2020, representing a decrease of 33.1% from the corresponding period of last year. The decrease in total loss was mainly due to the business contraction implemented by the Company and the decrease in fixed costs and expenses.

Income Tax Expense

Income tax expense amounted to RMB363.9 million in 2020 (2019: RMB-12.7 million).

The effective income tax rate in 2020 was 24.03% (2019: -0.56%).

Net Loss and Net Loss Margin

As a result of the foregoing, net loss for the year ended 31 December 2020 amounted to RMB1,878.4 million, representing a decrease by 16.6% from the net loss of RMB2,252.3 million in 2019. In particular, net loss for the period attributable to the owner of the Group was RMB1,841.0 million, representing a decrease by 15.0% from the net loss for the period attributable to the owner of the Group of RMB2,166.3 million in 2019. Net loss margin of the Group was 103.25% for the year 2020, as compared to 29.38% in 2019.

Capital Expenditure

Capital expenditure of the Group primarily consisted of payments and deposits paid for fixed assets, intangible assets, long-term amortization expenses and construction in progress. In 2020, the capital expenditure incurred by the Group was RMB45.0 million (2019: RMB477.6 million). In 2020, the decline in the capital expenditure of the Group was mainly due to the decrease in number of new stores and capital expenditure of construction in progress in 2020.

Cash and Cash Flow

In 2020, net cash inflow from operating activities amounted to RMB99.6 million (2019: net cash inflow of RMB1,598.0million). The significant decrease in net cash inflow from operating activities was mainly due to the significant decrease in the revenue resulting from the closure of a large number of offline stores during the Reporting Period.

In 2020, net cash outflow in investing activities was RMB5.2 million (2019: net cash outflow of RMB608.6 million). Major investment activities in 2020 were: (1) Net cash inflow of RMB52.8 million from disposal of subsidiaries and other business units; (2) Net cash outflow of RMB45.0 million paid for acquisition of fixed assets, intangible assets and other long-term assets; (3) Net cash outflow of RMB8.4 million from subsidiaries and other business units.

In 2020, net cash outflow from financing activities was RMB245.3 million (2019: net cash outflow of RMB1,249.6million). The cash flow of financing activities in 2020 were mainly: (1) Net cash inflow of RMB358.0 million from obtaining loans; (2) net cash outflow of RMB283.0 million paid for debt repayments; (3) RMB268.9 million of other cash paid related to financing activities.

As at 31 December 2020, the Group held cash and cash equivalents totaling RMB24.3 million (31 December 2019:RMB175.5 million). The main reason was a decrease in net cash inflow generated from operating activities during the period as compared to the previous period.

As at 31 December 2020, net current liabilities of the Group amounted to RMB3,860.9 million. Total assets less current liabilities amounted to RMB169,418.0 million, and gearing ratio (i.e. total liabilities/total assets) was 105.9%.

Inventories

In 2020, the average inventory turnover of the Group was 423.6 days (2019: 236.6 days), and the average receivables turnover was 86.0 days (2019: 38.4 days). The reasons for the decrease in inventory turnover rate as compared with the previous year are as follows: (1) the sales volumes from offline stores decreased as a result of the COVID-19 pandemic; (2) the Company adopted a contraction strategy and further closed down offline stores; and (3) the quantity of new products purchased by the Company decreased due to the pressure on the cash flow, and past-season products therefore accounted for a relatively high proportion in sale during the Reporting Period.

Bank loans and other borrowings

As at 31 December 2020, bank borrowings of the Group amounted to RMB1,515.2 million (31 December 2019: RMB1,842.7 million), which were mainly unsecured borrowings repayable within one year.

Pledge of assets

(a) As at 31 December 2020, properties and plants with a book value of RMB1,581,525 thousand (31 December 2019: RMB1,384,412 thousand) were pledged to secure bank borrowings.

(b) As at 31 December 2020, construction in progress with a book value of RMB68,537 thousand (31 December 2019: RMB69,235 thousand) were pledged to secure bank borrowings.

(c) As at 31 December 2020, the land use right with a book value of RMB147,315 thousand (31 December 2019: RMB142,842 thousand) were pledged to secure bank borrowings; the amortization amount of the land use right in 2020 was RMB3,285 thousand (31 December 2019: RMB3,201 thousand).

Freeze of assets

Due to the Group's involvement in litigation and arbitration cases, certain bank accounts of the Group and the Company's equity interest in some of its subsidiaries have been frozen, and certain real properties of the Group have been seized. The latest situation is as follows:

1. As at 28 April 2021, the total number of frozen bank accounts of the Group was 106; the aggregate value of the frozen amounts was approximately RMB166 million.

2. As at 28 April 2021, due to the Group's involvement in litigation cases, the Company's equity interest in 16 of its subsidiaries have been frozen; the aggregate value of the execution amounts was approximately RMB536 million.

3. As at 28 April 2021, due to the Group's involvement in 21 litigation cases related to such disputes as financial loan disputes and construction agreement disputes, 4 real properties of the Group (with a total book value of RMB1.74 billion as at 31 March 2021) have been seized.

For details, please refer to the overseas regulatory announcement of the Company dated 28 April 2021 and the announcement of the Company dated 29 April 2021.

Total equity attributable to shareholders of the Company

As at 31 December 2020, total equity attributable to shareholders of the Company was RMB(609.3) million (as at 31 December 2019: RMB1,240.4 million).

Contingent liabilities

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

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

As the Company may be jointly and severally liable for repayment of the loan, an estimated liability of RMB345.6 million was accrued.

Human Resources

As at 31 December 2020, the Group had 2,354 full-time employees in total (31 December 2019: 15,354). 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 2020 for details of the investments held by the Group.

BUSINESS REVIEW

Retail Network

For the year ended 31 December 2020, the number of domestic retail outlets of the Group was 959, decreasing from 4,878 as at 31 December 2019, which were situated at approximately 339 physical locations. In addition, as Naf Naf SAS was no longer included in the consolidated financial statements, as at the end of the Reporting Period, the number of overseas retail outlets decreased by 586. 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 2020 and as at 31 December 2019 by tier of cities in the PRC and in overseas region:

	As at 31 December			
	2020		2019	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
First-tier cities	**50**	**5.2**	443	8.1
Second-tier cities	**408**	**42.5**	1,909	34.9
Third-tier cities	**204**	**21.3**	1,296	23.8
Other cities	**297**	**31**	1,230	22.5
Overseas region	**0**	**0**	586	10.7
Total	**959**	**100**	5,464	100

Note:

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

2. Overseas region refers to the stores of Naf Naf SAS, a former wholly-owned subsidiary of the Group, which has no longer been included in the Group's consolidated financial statements.

Management Discussion and Analysis

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2020 and as at 31 December 2019 by type of the retail points:

	As at 31 December			
	2020		2019	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
Concessionaire counters	**561**	**58.5**	2,584	47.3
Standalone retail outlets	**331**	**34.5**	2,123	38.8
Franchise/Associate	**67**	**7.0**	757	13.9
Total	**959**	**100**	5,464	100

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2020 and as at 31 December 2019 by brands:

	As at 31 December			
	2020		2019	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
La Chapelle	**253**	**26.3**	1,204	22.1
Puella	**202**	**21.1**	1,033	18.9
7 Modifier	**176**	**18.4**	958	17.5
La Babité	**154**	**16.1**	767	14.0
Candie's	**142**	**14.8**	593	10.9
Menswear	**21**	**2.2**	216	4.0
8ém	**5**	**0.5**	94	1.7
Naf Naf SAS	**0**	**0**	586	10.7
Other brands	**6**	**0.6**	13	0.2
Total	**959**	**100**	5,464	100

Note:

1. The number of stores of the Company is calculated based on the number of outlets, that is, if multiple brands are included in the same collection store, the collection store is counted as multiple terminal outlets. During the Reporting Period, the Company continued conducting a comprehensive evaluation of stores in the terminal channel and further closed some loss-making and inefficient stores.

2. Other brands refer to those invested by the Company.

The table below sets out the distribution of the Group's net additional retail points in the PRC in as at 31 December 2020 and as at 31 December 2019 by brands:

	For the year ended 31 December			
	2020		2019	
	Number of Net retail points closure	**Percentage of total (%)**	Number of retail points points closure	Percentage of total (%)
La Chapelle	**951**	**24.2**	762	17.4
Puella	**831**	**21.2**	874	19.9
7 Modifier	**782**	**20.0**	772	17.6
La Babité	**613**	**15.6**	773	17.6
Candie's	**451**	**11.5**	334	7.6
Menswear	**195**	**5.0**	499	11.4
8ém	**89**	**2.3**	180	4.1
Other brands	**7**	**0.2**	197	4.5
Total	**3,919**	**100**	4,391	100

The above figures only represent the Group's total number of retail points in the PRC and do not include retail points overseas because Naf Naf SAS is no longer included in the Group's consolidated financial statements, resulting in a decrease in retail points by 586.

Same store sales

Same store sales of retail shops in 2020 decreased by 58.5%, compared to that of 2019, mainly due to the adverse impact on the fashion industry, particularly retail outlets, caused by the COVID-19 pandemic, and the Company's policy to increase sales of inventories.

FUTURE OUTLOOK

Affected by factors such as the lack of a strategic focus and overly rapid expansion in the early stage, an unbalanced cost structure and changes in the industry environment, the Company is currently suffering operating losses and has a tight cash flow. The Company will mainly adopt the following countermeasures in response to the present problems:

1. The Company will adjust its current business strategy and development direction. On the one hand, the Company will focus on enhancing the management of its high-quality stores, adhere to the policy of "direct store management from the headquarters and management responsibility towards every employee", and strive to improve store efficiency, personnel efficiency and single store profitability. On the other hand, the Company will continue to make efforts in expanding the promotion of its licensing business, and to realize the transition of the Company to a business model featuring light assets, high gross profit and quick turnover. In the fourth quarter of 2020, the Company realized revenue of approximately RMB19.18 million through its online (non-main-brand) licensing business. In the future, the Company will further explore its online licensing business's coverage of brands, categories and platform channels, and utilize the advantages of an "asset-light" business model to improve the asset turnover and profitability of the Company.

2. The Company will "remove its heavy burden and move forward with light gear" as soon as possible. The Company will seek to lease or sell its existing low-efficiency property assets (including park properties at the headquarters and warehousing and logistics assets), and strive to sell them at the maximum premium. Through disposing assets not suitable to its strategy, the Company aims to recover funds to improve its liquidity and asset structure, in order to provide financial support for the development of its core business.

3. The Company will inspect its existing inventories and adopt measures such as identification by price, quality screening, bundling and matching channels, to encourage all regions and partners to facilitate the disposal of the inventories of the Company in accordance with a unified policy, which can effectively reduce the inventory level of old products and accelerate the return of funds to the Company. Meanwhile, the Company will also actively develop new products to enhance its performance and image.

4. The Company will further adjust and optimize its management system, improve overall budget management and cost control, and strictly adopt measures that "reduce costs and enhance efficiency". In 2021, the Company will attach greater importance to the preparation, control and implementation of its overall budgets, strengthen cost control from the source, strictly control various costs and expenditures, conduct input-output analyses on major costs, perform closed-loop management of key expenses, and conduct dynamic monitoring and process supervision on overall budgets, in order to maximize the profitability of its primary business.

5. Regarding the debt problems faced by the Company at this stage, the Company, being responsible to all shareholders and creditors, will actively negotiate with the relevant courts, creditors and financial institutions to seek a centralized solution to debt settlement, including but not limited to debt extensions, exemptions, discounts and settlements as soon as possible, in order to alleviate the debt pressure of the Company and help the Company return to a positive development track. As of the date of this announcement, the Company still has frozen cash at banks in the amount of approximately RMB166 million (nominal value). The Company will propose a feasible plan for debt repayment, in order to combine the benefits of the reduction in operating burden and debt reorganization, thus further optimizing the asset-liability structure of the Company.

6. Apart from taking measures to overcome difficulties, the Company also aims to restore and improve its credit and financing capabilities through actively seeking new investors, obtaining external financing, leveraging the resources and advantages of substantial shareholders in various aspects such as entrusted financing, financial strength, and professional capabilities, optimizing and reorganizing its overall business as well as seeking further funds.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS OF THE FOURTH SESSION OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Wu Jinying (吴金應), aged 48, is an executive director of the Company (appointed since 22 February 2021). He has been the Director and Chairman of the Company, the chairman of the Strategy and Development Committee, and a member of the Budget Committee since 22 January 2021. Mr. Wu was a shareholder representative Supervisor from 8 May 2020 to 22 February 2021 and an employee representative Supervisor of the Company from 8 November 2015 to 8 May 2020. Mr. Wu graduated from senior high school in 1995. Mr. Wu currently serves as senior technical manager (software development) of the IT department of the Company and has done so since 1 May 2015. Mr. Wu has served as a system analyst, system R&D manager in the IT department, senior technical manager (software development) of the company since March 2001.

Ms. Zhang Ying (張瑩), aged 42, is the Company's 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), a member of Audit Committee of the Company (with effect from 11 January 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 and a member of the Budget Committee of the Company from 11 January 2021 to 22 February 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.

Ms. Zhang Danling (章丹玲), aged 43, has been an executive Director and a member of the Budget Committee and Strategy and Development Committee of the Company since 8 May 2020. She is the president of the marketing department. Ms. Zhang has been working as a design supervisor, a general manager of the brand management centre, a general manager of the brands department and a general manager of business department, the co-founder of the Company in the Group since March 2001. She also served as a Director of the Company from May 2011 to November 2012. Ms. Zhang was the president of the Company from 4 November 2020 to 9 December 2020. Ms. Zhang obtained an EMBA degree from Shanghai Jiao Tong University in December 2015.

NON-EXECUTIVE DIRECTORS

Mr. Yin Xinzai (尹新仔), aged 50, is a non-executive Director of the Company (with effect from 14 August 2020), a member of the Budget Committee of the Company (with effect from 22 February 2021), a member each of the Remuneration and Appraisal Committee and Strategy and Development Committee of the Company (with effect from 8 May 2020). He was the chairman of the Budget Committee from 8 May 2020 to 22 February 2021. He was the president of the Company from 20 April 2020 to 14 August 2020 and an executive Director from 8 May 2020 to 14 August 2020. Prior to joining the Company, Mr. Yin worked at Joeone Co., Ltd.* (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd.* (杭州九軒服飾有限公司) from June 2012 to May 2013. Mr. Yin served as general manager of the sales and marketing department, executive vice president, senior vice president and president of the Company from August 2013 to August 2020. Mr. Yin obtained an EMBA degree from the Xiamen University in June 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xing Jiangze (邢江澤), aged 54, 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 been serving as a vice chairman, secretary of the board and senior executive vice president of Lingbao Gold Group Company Ltd. since June 2018.

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. Wong Sze Wing (黃斯穎), aged 42, has been the Company's independent non-executive director, a member each of the Strategy and Development Committee, the audit committee and the budget committee of the Company since 11 January 2021. She holds a Bachelor of Business Administration from the University of Hong Kong. She received her EMBA from China Europe International Business School (中歐國際商學院), and holds qualification certificate of independent director from Shenzhen Stock Exchange. Ms. Wong has been the chief financial officer of Yingde Gases Group Company Limited (盈德氣體集團有限公司) from July 2008 to present.

Ms. Wong served as an audit manager at PricewaterhouseCoopers from January 2001 to January 2006, and served as the chief financial officer of Orange Sky Entertainment Group (International) Holdings Limited (橙天娛樂集團(國際)控股有限公司) from January 2007 to April 2008. Ms. Wong has served as independent non-executive director for Orange Sky Golden Harvest Entertainment (Holdings) Limited (橙天嘉禾娛樂(集團)有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 1132) from April 2010 to present, as independent non-executive director for Rici Healthcare Holdings Limited (瑞慈醫療服務控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 1526) from June 2016 to present, as independent non-executive director for Wangsu Science & Technology Co., Ltd. (網宿科技股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 300017) from April 2017 to present, and as independent non-executive director for Ganfeng Lithium Co., Ltd. (江西贛鋒鋰業股份有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 1772) from July 2018 to present.

Mr. Zhu Xiaozhe (朱曉喆), aged 46, 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. Ma Yuanbin (馬元斌), aged 39, is the chairman of the Supervisory Committee (appointed since 8 May 2020), the head of administration department and human resources department, assistant to president and a chairman of the labour union of the Company. Mr. Ma was a manager of the management department of Shanghai Zhenliu Property Management Co., Ltd. (上海震六物業管理有限公司) from April 2004 to March 2012 and a deputy head of administration department of Shanghai Semir Garment Co., Ltd. (上海森馬服飾有限公司) from March 2012 to July 2018. He has been a director of administration department and assistant to president of the Company since July 2018 and a chairman of the labour union of the Company since April 2020. Mr. Ma obtained a bachelor degree in business administration from Shanghai Jiao Tong University in June 2018.

Mr. Sun Bin (孫斌), aged 40, 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. Gu Zhenguang (顧振光), aged 40, 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.

CURRENT SENIOR MANAGEMENT

Ms. Zhang Ying (張瑩), aged 42, is the Company's 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), a member of Audit Committee of the Company (with effect from 11 January 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 and a member of the Budget Committee of the Company from 11 January 2021 to 22 February 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 38, 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 July 2008 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.

RESIGNED DIRECTORS

Mr. Duan Xuefeng (段學鋒), aged 41, has been an executive director of Zhongke Tongrong Investment Fund Management (Beijing) Company Limited (中科通融投資基金管理(北京)有限公司) since August 2013, a director and a manager of Beijing Beikuang Metallurgy Materials Technology Company Limited (北京北礦冶金工程技術有限公司) since May 2018, the president and the general manager of Mai Erfu Apparel Holdings Limited (邁爾富時尚服飾股份有限公司) since June 2019, and a director of Xinjiang Hengding Textile International Trading Company Limited (新疆恒鼎棉紡織國際貿易有限公司) since March 2020. He previously served as an associate general manager of Guoxin International Guarantee Company Limited (國信國際擔保有限公司) from September 2004 to December 2010, and as an executive director and general manager of Guangda Equity Investment Fund Management (Tianjin) Company Limited (光大股權投資基金管理(天津)有限責任公司) from June 2011 to July 2013.

Mr. Duan Xuefeng is a senior economist, and obtained a bachelor's degree in marketing from Zhengzhou University in June 2003 and a doctorate degree in Business administration from University of East London in June 2013.

Ms. Zhang Yujing (張妤菁), aged 36, was a consultant at Deloitte Consulting (Shanghai) Co., Ltd. from July 2011 to January 2013, and a senior consultant at KPMG Advisory (China) Limited from October 2014 to March 2017. She has been the chief risk officer of Xinjiang Great Western Growth Industry Investment Fund Management Co., Ltd. (新疆大西部成長產業投資基金管理有限公司) since March 2017.

Ms. Zhang Yujing obtained a bachelor's degree in finance, accounting and management from the University of Nottingham in the United Kingdom in July 2008, and a master's degree in finance and investment from the University of Bristol in the United Kingdom in February 2010. She is a chartered management accountant of the Chartered Institute of Management Accountants.

Ms. Xiao Yanming (肖艷明), aged 59, was an independent non-executive Director, a member of the Audit Committee and Strategy and Development Committee of the Company from 8 May 2020 to 1 January 2021.

She was a managing director of UBS Hong Kong Branch from 2010 to 2013. She has been serving as the chairlady and CEO of Hong Kong Cornucopiae Asset Management Limited since September 2013. She has been the non-executive director of Goldstone Investment Group Limited (a company listed on the Hong Kong Stock Exchange with stock code: 0901) from 18 August 2020 to 2 November 2020. She has been the executive director and chairman of the Board of Goldstone Investment Group Limited (a company listed on the Hong Kong Stock Exchange with stock code: 0901) since 2 November 2020. Ms. Xiao Yanming received a bachelor's degree in international law and international relations from China Foreign Affairs University in 1985, and a master's degree and a doctoral degree from Harvard University in 1999. She currently holds a Type 1, Type 4 and Type 9 license (as defined under the SFO) and is a responsible officer of the Securities and Futures Commission of Hong Kong.

RESIGNED SUPERVISORS

Mr. Shi Xiaofeng (施孝鋒), aged 40, was an employee representative Supervisor from 8 May 2020 to 15 January 2021. Mr. Shi was deputy general manager of women's wear department of Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司) from June 2004 to January 2013. He has been director and deputy general manager of the supply chain management department, a general manager of the licensing business department and a general manager of the supply chain management department of the Company from February 2013 to January 2021. Mr. Shi obtained a bachelor degree in engineering from Zhejiang University of Technology in June 2004.

Mr. Wu Jinying (吳金應), aged 48, is an executive director of the Company (appointed since 22 February 2021). He has been the Director and Chairman of the Company, the chairman of the Strategy and Development Committee, and a member of the Budget Committee since 22 January 2021. Mr. Wu was a shareholder representative Supervisor from 8 May 2020 to 22 February 2021 and an employee representative Supervisor of the Company from 8 November 2015 to 8 May 2020. Mr. Wu graduated from senior high school in 1995. Mr. Wu currently serves as senior technical manager (software development) of the IT department of the Company and has done so since 1 May 2015. Mr. Wu has served as a system analyst, system R&D manager in the IT department, senior technical manager (software development) of the company since March 2001.

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 2020.

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 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 13 to 25 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 48 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2020 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.

In 2017, the Ministry of Finance ('**MOF**') released the revised 'Accounting Standards for Business Enterprises No.14 – Revenue' ('**New Revenue Standards**') and revised 'Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments', 'Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Instruments', 'Accounting Standards for Business Enterprises No. 37 – Disclosure of Financial Instruments' (hereinafter collectively referred to as **'New Financial Instruments Standards**'). In 2018, MOF released 'Circular on Amendments to Formats of Financial Statements of General Industry' (Cai Kuai [2018] No. 15) (hereinafter referred to as "**New Financial Statements Form**").

To better reflect the operating result and financial position of the Group, the consolidated financial statements have been prepared in accordance with the above new standards since 1 January 2018.

The Group pays concessionaire fees to department stores and online platform for the right to occupy and use concessionaire counters pursuant to concessionaire agreements. A concessionaire fee with respect to a concessionaire counter and the online platform is typically calculated as a percentage of the Group's monthly sales made at the concessionaire counter and is deducted by the department store before it transfers the payments from sales of products to the Group. Under the old revenue standards, revenue was recognized on a net basis, that is, the concessionaire fees were recorded as a deduction to revenue ("**Net Revenue Method**"). Regarding the accounting records of trustor, the New Revenue Standards are net of revenue. The New Revenue Standards introduced more clear rules on accounting judgement over principal versus agency relationship. According to the New Revenue Standards, the Group should consider whether it owns the products and takes the inventory risk before transfer of the products to the end customers when determining the Group is acting as agent or principal. The Group controls the products before sales to the end customers. The sales staff in the concessionaire counters are the Group's employees, who take charge of products promotion and end customers services. The Group is the primary obligor in the transfer of products to consumers. The Group is responsible for storage and display of the products and bearing the products return risk. Hence, the Group bears the inventory risks before and after the transfer of products. The Group has the right to determine the selling price, even in certain promotion events organized by the department stores or online platform. The department stores or the online platform charges concessionaire fees to the

Group which is calculated at certain fixed percentage of the gross sales amount. As such, management is in the opinion that the Group's customers are the end customers rather than the department stores or online platform. The Group is acting as a principal in the concessionaire arrangement. Accordingly, the Group should recognize revenue based on the gross amount of the sales transaction after adoption of the New Revenue Standards ('**Gross Revenue Method**'). The concessionaires fees are recorded as selling and distribution expenses.

The Ministry of Finance issued the revised "Accounting Standard for Business Enterprises No. 21-Leases" in 2018 (the "**New Lease Standard**") and promulgated "Notice of Modification of the Financial Statement Format for General Business Enterprises in 2019" (Cai Kuai [2019] No. 6) in 2019.

To better reflect the operating result and financial position of the Group, the consolidated financial statements have been prepared in accordance with the above new standards since 1 January 2019.

For adoption of other new accounting standards as mentioned above, there were changes in the reclassifications and restatements on certain balance sheet accounts in 2018 and 2019, and no impact on the net profit of the Group.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note Ⅵ(35) to the consolidated financial statements.

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 2020 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 2020.

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 misappropriation of funds of the Company by a Shareholder in violation of regulations, 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 10 June 2021, the Company will hold the 2020 AGM for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2020 AGM. The Company will publish the circular and notice of the 2020 AGM as and when appropriate.

In order to determine the H shareholders who are entitled to attend the 2020 AGM, the register of members of the Company for H shares will be closed from 7 June 2021 to 10 June 2021 (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 2020 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 4 June 2021.

H Shareholders whose names appear on the register of members of the Company at the close of business on 4 June 2021 are entitled to attend and vote at the 2020 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 2020 AGM.

FIXED ASSETS

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

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) to the consolidated financial statements.

DONATIONS

As a corporate citizen, the Company is driven by its wish to create maximum value for the community where its operation is located and participated in social welfare activities. In the last decade, the Group has made frequent donations of clothing and funds to the vulnerable groups through organisations such as the Foundation for Disabled People's Welfare and local Red Cross societies. During the Reporting Period, the Group made donation of approximately RMB1,488 thousand.

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

For the year ended 31 December 2020, the Company repurchased 1,691,400 A shares of the Company on the Shanghai Stock Exchange for a total consideration of RMB9,844,599 (before transaction cost).

Details of the repurchase of A shares by the Company are as follows:

Month of repurchase	Number of shares repurchased	Highest price per share (RMB)	Lowest price per share (RMB)	Total amount of repurchase (RMB)
January 2020	1,691,400 A shares	5.99	5.70	9,844,599

Such shares have not been cancelled completely during the year 2020.

According to the A share repurchase mandate of the Company, the repurchase of shares shall be for the purpose of providing safeguard to the value of the Company and the rights and interests of the Shareholders and for the purpose of equity incentive granted to specified persons and employee shareholding scheme. Please refer to the circulars dated 30 August 2019 and 3 April 2020 of the Company for details of the A share repurchase mandate.

The proposal in relation to the termination of the A share repurchase mandate had been approved by the shareholders at EGM on 21 October 2020.

Save as disclosed above, 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 2020.

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 2020 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. Wu Jinying (吳金應)	Chairman and Executive Director	Board management, strategic planning and decision making	22 February 2021	March 2001
Ms. Zhang Ying (張瑩)	President and Executive Director	Overall management of the Group, strategic planning and decision making	11 January 2021	March 2003
Ms. Zhang Danling (章丹玲)	Executive Director	Design and branding management	8 May 2020	March 2001
Mr. Yin Xinzai (尹新仔)[1]	Non-executive Director	As a non-executive Director	8 May 2020	August 2013
Mr. Xing Jiangze (邢江澤)	Independent non-executive Director	As an Independent non-executive Director	8 May 2020	May 2020
Ms. Wong Sze Wing(黃斯穎)	Independent non-executive Director	As an Independent non-executive Director	11 January 2021	January 2021
Mr. Zhu Xiaozhe (朱曉喆)	Independent non-executive Director	As an Independent non-executive Director	8 May 2020	May 2020
Mr. Xing Jiaxing (邢加興)[2]	Chairman and executive Director (resigned)	Overall management of the Group, strategic planning and decision making	9 May 2011	March 2001
Mr. Yu Qiang (于強)[3]	Executive Director and president (resigned)	Accounting, investment business and strategic planning	5 February 2018	May 2016
Mr. Lu Weiming (陸衛明)[4]	Non-executive Director (retired)	As a non-executive Director	9 May 2011	January 2008
Mr. Luo Bin (羅斌)[5]	Non-executive Director (retired)	As a non-executive Director	5 May 2015	May 2015
Mr. Wang Wenke (王文克)[6]	Non-executive Director (retired)	As a non-executive Director	18 December 2019	February 2015
Mr. Chan, Wing Yuen Hurbert (陳永源)[7]	Independent non-executive Director (retired)	As an independent non-executive Director	25 July 2016	July 2016
Mr. Zhang Zeping (張澤平)[8]	Independent non-executive Director (retired)	As an independent non-executive Director	12 May 2017	May 2017
Mr. Rui Peng (芮鵬)[9]	Independent non-executive Director (retired)	As an independent non-executive Director	16 October 2019	October 2019
Mr. Duan Xuefeng (段學鋒)[10]	Chairman and non-executive Director (resigned)	Board management, strategic planning and decision making	8 May 2020	May 2020
Ms. Zhang Yujing (張妤菁)[11]	Non-executive Director (resigned)	As a non-executive Director	8 May 2020	May 2020
Ms. Xiao Yanming (肖艷明)[12]	Independent non-executive Director(resigned)	As an independent non-executive Director	8 May 2020	May 2020

1. Mr. Yin Xinzai resigned as a president with effect from 14 August 2020 and has been re-designated from an executive Director to a non-executive Director.

2. Mr. Xing Jiaxing resigned as a president with effect from 29 October 2019, resigned as chairman and an executive Director with effect from 3 February 2020 and was reappointed as president with effect from 25 February 2020 and resigned as a president with effect from 20 April 2020.

3. Mr. Yu Qiang was appointed as president with effect from 29 October 2019 and resigned as an executive Director and a member of Strategy and Development Committee and as president with effect from 25 February 2020.

4. Mr. Lu Weiming was appointed as a non-executive Director, a member of Remuneration and Appraisal Committee, Budget Committee and Strategy and Development Committee and retired with effect from 8 May 2020.

5. Mr. Luo Bin was appointed as chairman of Budget Committee with effect from28 August 2019 and retired with effect from 8 May 2020.

6. Mr. Wang Wenke was appointed as a non-executive Director and a member of Budget Committee and Strategy and Development Committee with effect from 18 December 2019 and retired with effect from 8 May 2020.

7. Mr. Chan, Wing Yuen Hurbert was appointed as an independent non-executive Director, chairman of Nomination Committee, a member of Audit Committee and Budget Committee with effect from 25 July 2016, and was appointed as a member of Remuneration and Appraisal Committee with effect from 30 October 2018, and retired with effect from 8 May 2020.

8. Mr. Zhang Zeping was appointed as a non-executive Director, chairman of Remuneration and Appraisal Committee, and a member of Nomination Committee and Strategy and Development Committee with effect from 12 May 2017, and retired with effect from 8 May 2020.

9. Mr. Rui Peng was appointed as an independent non-executive Director, chairman of Audit Committee and a member of Nomination Committee, Remuneration and Appraisal Committee and Budget Committee with effect from 16 October 2019, and retired with effect from 8 May 2020.

10. 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.

11. 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.

12. 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.

The Supervisors during the year ended 31 December 2020 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. Ma Yuanbin (馬元斌)	Chairman of the Supervisory Committee and assistant to president and chairman of labour union	Supervision of the Board and Senior Management	8 May 2020	July 2018
Mr. Sun Bin (孫斌)	Supervisor and executive officer	Supervision of the Board and Senior Management	15 January 2021	November 2010
Mr. Gu Zhenguang (顧振光)	Supervisor and director of the accounting management department	Supervision of the Board and Senior Management	22 February 2021	December 2003
Mr. Shi Xiaofeng (施孝鋒)[1]	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)[2]	Supervisor (resigned) and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001
Ms. Liu Mei (劉梅)[3]	Supervisor (retired) and general manager of legal department	Supervision of the Board and Senior Management	18 December 2017	February 2008
Ms. Zhang Haiyun (張海雲)[4]	Supervisor (retired) and assistant to president and general manager of infrastructure engineering department	Supervision of the Board and Senior Management	28 December 2018	March 2001

1. 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.

2. 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.

3. Ms. Liu Mei was elected as the chairperson of the third session of the Supervisory Committee on 11 January 2019 and retired on 8 May 2020.

4. Ms. Zhang Haiyun was appointed as Supervisor of the third session of the Supervisory Committee on 28 December 2020 and retired on 8 May 2020.

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 INDEPDENDENT 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 2020.

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

As at 31 December 2020, the interests and short positions of the Directors, Supervisors and the chief executives of the Company 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 Division 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**") were as follows:

Interests and short position in the shares of the Company

Name of Director/ chief executive	Nature of interest and capacity	Number of Shares interested[2]	Approximate percentage shareholding in A Shares as at 31 December 2020	Approximate percentage shareholding in the total issued Shares at 31 December 2020
Mr. Xing Jiaxing[1]	Beneficial owner	141,874,425 A Shares (L)	42.62%	25.91%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	45,204,390 A Shares (L)	13.58%	8.25%
	Beneficial owner	141,600,000 A Shares (S)	42.54%	25.85%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	45,200,000 A Shares (S)	13.58%	8.25%

Notes:

1. Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.91% of the total issued share capital of the Company as at 31 December 2020.

   In addition, Mr. Xing Jiaxing and Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**") entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares held by Shanghai Hexia, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 2020).

   Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd. ("**Haitong Securities**"), on 28 November 2017, 7 December 2017, 19 September 2018, 18 October 2018, 1 February 2019 and 10 June 2019, respectively, pursuant to which 141,600,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing of a share repurchase transaction. Among such A Shares, 68,400,000 A Shares and 73,200,000 A Shares were scheduled to be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 25.85% of the total issued capital of the Company as at 31 December 2020.

   As disclosed in the announcement of the Company dated 6 August 2019, the collateral coverage ratio of the 68,400,000 A Shares and the 73,200,000 A Shares (which were scheduled to be repurchased on 27 November 2020 and 4 December 2020 respectively) pledged by Mr. Xing Jiaxing had fallen below the lowest collateral coverage ratio, constituting breaches of the share pledge agreements, and Haitong Securities had issued a written notice of breach in respect of the share pledge agreements. Mr. Xing Jiaxing had proactively communicated with Haitong Securities intending to resolve the breach of contract through providing supplementary collateral or additional deposit, or repurchasing the pledged A Shares in advance.

   Shanghai Hexia entered into share pledge agreements with CITIC Securities Company Limited ("**CITIC Securities**"), on 8 May2018, 18 October 2018, 1 February 2019, 5 August 2019 and 8 April 2020, pursuant to which 45,200,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing of a share repurchase transaction. The 45,200,000 A Shares were scheduled to be repurchased on 8 October 2020. All the pledged shares represented approximately 8.25% of the total issued capital of the Company as at 31 December 2020.

   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 and 45,204,390 A Shares held by 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 subordinated freezing orders (the "**Freezing Order(s)**") as Mr. Xing Jiaxing and Shanghai Hexia did not repurchase such respective A Shares pledged by them respectively to Haitong Securities and 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 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 Jiaxing.

   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 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 Jiaxing successfully on the judicial assistance execution platform (the "**Judicial Execution Platform**") on 5 March 2021; the Company received the execution rulings from Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ("**Shanghai Wensheng**") and Shanghai Qijin Enterprise Management Partnership LLP* (上海其錦企業管理合夥企業(有限合夥)) ("**Shanghai Qinjin**") in respect of 61,600,000 of the A Shares bid by them; the Company received another execution ruling from Mr. Xing Jiaxing in respect of 80,000,000 of the A Shares bid by three other successful bidders who failed to complete their corresponding transaction; the transfers in respect of 61,600,000 of the A Shares held by Mr. Xing Jiaxing were 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. As a result of the change in shareholding, Mr. Xing has ceased to be a controlling shareholder of the Company since 22 March 2021 and has ceased to be a substantial shareholder of the Company since 29 April 2021.

2. The letter "L" denotes the person's long position in Shares, while the letter "S" denotes the person's short position in Shares.

Save as disclosed above, as at 31 December 2020, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2020, 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 2020, 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[8]	Approximate percentage shareholding in the relevant class of Shares as at 31 December 2020	Approximate percentage shareholding in the total issued Shares at 31 December 2020
Shanghai Hexia Investment Co., Ltd.[1]	Beneficial owner	45,204,390 A Shares (L)	13.58%	8.25%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,874,425 A Shares (L)	42.62%	25.91%
	Beneficial owner	45,200,000 A Shares (S)	13.58%	8.25%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,600,000 A Shares (S)	42.54%	25.85%
The Goldman Sachs Group, Inc.[2]	Interest in controlled corporation	16,593,935 A Shares (L)	4.98%	3.03%
Haitong Securities Co., Ltd.	Person having a security interest in shares	141,600,000 A Shares (L)	42.54%	25.85%
CITIC Securities Company Limited	Person having a security interest in shares	45,200,000 A Shares (L)	13.58%	8.25%
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%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)* (寧波梅山保税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%

Name of Shareholder	Nature of interest and capacity	Number of Shares interested[8]	Approximate percentage shareholding in the relevant class of Shares as at 31 December 2020	Approximate percentage shareholding in the total issued Shares at 31 December 2020
Gabriel Li[5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Lam Lai Ming[5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司)[6]	Interest in controlled corporation	22,236,800 H Shares (L)	10.35%	4.06%
Senda International Capital Limited[6]	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%
Wang Shenghong[7]	Beneficiary of a trust	10,345,400 H Shares (L)	4.82%	1.89%

Note:

1. Shanghai Hexia was the beneficial owner of 45,204,390 A Shares, which represented approximately 8.25% of the total issued Share capital of the Company as at 31 December 2020. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's Shares in which Mr. Xing Jiaxing is interested (being the 141,874,425 A Shares (L) and 141,600,000 A Shares (S) held by Mr. Xing Jiaxing, which represented approximately 25.91% and 25.85% of the total issued share capital of the Company as at 31 December 2020).

   Shanghai Hexia entered into share pledge agreements with CITIC Securities, on 8 May 2018, 18 October 2018, 1 February 2019, 5 August 2019 and 8 April 2020, pursuant to which, the 45,200,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing of a share repurchase transaction, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 2020. The repurchase trading date of such pledged A Shares was 8 October 2020.

   As disclosed in the Company's announcement dated 16 July 2020, the 45,204,390 A Shares held by Shanghai Hexia, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 2020, were subject to a subordinated freezing order. The Company was informed that such subordinated freezing order related to the 45,200,000 A Shares pledged by Shanghai Hexia to CITIC Securities which Shanghai Hexia failed to repurchase in advance or adopt security measures alternatively, which resulted in CITIC Securities applying to the Shanghai Financial Court for the subordinated freezing order.

   Shanghai Hexia entered into share pledge agreements with CITIC Securities on 8 May 2018, 18 October 2018, 1 February 2019, 5 August 2019 and 8 April 2020, pursuant to which, a total of 45,200,000 A Shares were pledged as collateral for financing of a share repurchase transaction, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 2020. The repurchase trading date of such pledged A Shares was 8 October 2020.

   As disclosed in the announcements of the Company dated 12 July 2020, 16 July 2020, 24 September 2020 and 10 November 2020, a total of 187,078,815 A Shares (comprising 141,874,425 A Shares held by Mr. Xing Jiaxing and 45,204,390 A Shares held by 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 Jiaxing and Shanghai Hexia did not repurchase such respective A Shares pledged by them respectively to Haitong Securities and 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 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 Jiaxing.

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 Zhi No.216 *(《司法處置股票公告》(2020)滬74執216號), pursuant to which the Shanghai Financial Court made a ruling for the compulsory auction of the 45,200,000 A Shares held by Shanghai Hexia.

As disclosed in the announcements of the Company dated 7 March 2021, 22 March 2021, 23 March 2021, 25 March 2021, 28 March 2021, 21 April 2021, 28 April 2021 and 29 April 2021, the Shanghai Financial Court auctioned the 141,600,000 A Shares held by Mr. Xing Jiaxing successfully on the Judicial Execution Platform"; the Company received the execution rulings from Shanghai Wensheng and Shanghai Qijin in respect of 61,600,000 of the A Shares bid by them; the Company received another execution ruling from Mr. Xing Jiaxing in respect of 80,000,000 of the A Shares bid by three other successful bidders who failed to complete their corresponding transaction; the transfers in respect of 61,600,000 of the A Shares held by Mr. Xing Jiaxing 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. As a result of the 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.

2. The Goldman Sachs Group, Inc. is a company listed on the New York Stock Exchange. The Goldman Sachs Group, Inc., through its various entities, controls Beijing Kuanjie Bohua 2011 Investment Center (Limited Partnership), which was beneficially interested in 16,593,935 A Shares and The Goldman Sachs Group, Inc. was deemed to be interested in such shares by virtue of the SFO.

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 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. Mr. Gabriel Li was deemed to be interested in an aggregate of 9,531,600 H Shares by virtue of the SFO. Those interests held through Areo Holdings Limited comprised deemed interests in 9,026,600 H Shares held by Orchid Asia V Group, Limited through its various entities, namely Orchid Asia V Group Management, Limited, Orchid Asia VI GP, Limited, Oavi Holdings, L.P., Orchid Asia VI, L.P. and 505,000 H Shares held by Orchid Asia V Co-Investment, Limited. As a spouse of Mr. Gabriel Li, Ms. Lam Lai Ming was deemed to be interested in an aggregate of 9,531,600 H Shares held by Mr. Gabriel Li by virtue of the SFO.

6. 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.

7. Mr. Wang Shenghong was deemed to be interested as a beneficiary of a trust in 10,345,400 H shares of the Company held by TTCO Trust Corporation Limited (西藏信託有限公司) as trustee.

8. The letter "L" denotes the person's or entity's long position in Shares, while the letter "S" denotes the person's or entity's short position in Shares.

Other than as disclosed above, as at 31 December 2020, 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 disclosed in the announcement of the Company dated 8 February 2021, Mr. Duan Xuefeng was a 70% shareholder of Zhongke Tongrong Investment Fund Management (Beijing) Co., Ltd. (中科通融投資基金管理(北京)有限公司)) ("**Zhongke Tongrong**") from 30 March 2020 to 6 November 2020, and served as an executive director for Zhongke Tongrong from 2 March 2020 to 6 November 2020. On 20 October 2020, Zhongke Tongrong acquired the entire equity interest of Xiya Yijia Business Commerce Group Co., Ltd. (西雅衣家商貿集團有限公司) ("**Xiya Yijia**"), the main business of which is the operation of the apparel retail business of an international fast-fashion retail brand, C&A, in the PRC.

So far as the Board is aware, the abovementioned prior business interest of Mr. Duan Xuefeng in Zhongke Tongrong has not caused any material actual harm to the interests of the Company, as Mr. Duan Xuefeng had transferred his entire equity interest in Zhongke Tongrong (including his indirect interests in Xiya Yijia) to an independent third party.

Saved as disclosed above, as at 31 December 2020, 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 (IV) (7) 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.

Mr. Lu Weiming (retired on 8 May 2020), Mr. Luo Bin (retired on 8 May 2020), 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 2020.

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 2020 were RMB26,540 thousand.

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 2020.

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 2020, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, purchases attributable to the Group's largest supplier, Xinjiang Hengding International Supply Chain Technology Co., Ltd. (新疆恒鼎國際供應鏈科技有限公司) ("**Xinjiang Hengding**") accounted for 46.01% of the Group's total purchases and purchases from the Group's five largest suppliers accounted for 82.97% of the Group's total purchases. During the Reporting Period, in particular for the period from 8 May 2020 to 6 November 2020, Mr. Duan Xuefeng was a Director of the Company and was interested in approximately 70.33% of the equity interest in a company that was interested in 49% of the equity interest in Xinjiang Hengding. However, there was no connected transaction between the Group and Xinjiang Hengding during the Reporting Period. Apart from Mr. Duan Xuefeng, no other 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.

For the year ended 31 December 2020, 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 customers.

SUSTAINABLE DEVELOPMENT

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 2020" (the "**ESG Report 2020**"), which will be available on the websites of the Hong Kong Stock Exchange and the Company.

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.

"Providing quality products and services to customers" has always been our goal. We uphold the philosophy of "Building up the brand reputation for the Company by placing equal emphasis on service and quality" to actively communicate with our customers to understand their views and suggestions so as to enhance our products and services.

We firmly believe that our suppliers are equally important in developing high-quality products. The Group has signed a bona-fide agreement for cooperation with every supplier at arms' length. Through open procedures for tender invitation and submission, the requirements of anti-corruption and anti-bribery are strictly followed, and various reporting channels are provided (including the mailbox and hotline made available to the public for reporting set up by the Audit Department). This agreement is an important legally binding attachment to any procurement cooperation agreement. In addition, we engaged a third-party inspection entity and adopted an "order management system" to strictly control the production process and product quality. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES IN 2020

On 19 June 2020, La Chapelle Apparel (Taicang) Co., Ltd.* (拉夏貝爾服飾(太倉)有限公司) (the "Vendor"), a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Shanghai Shihuai Logistics Co., Ltd.*(上海世淮物流有限公司) (the "**Purchaser**"), pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, 100% of the equity interest (the "**Target Equity Interest**") in Taicang Xiawei Storage Co., Ltd.*(太倉夏微倉儲有限公司) (a wholly-owned subsidiary of the Vendor and an indirect subsidiary of the Company) (the "**Target Company**") at the consideration of approximately RMB725,000,000, subject to the terms and conditions of the Sale and Purchase Agreement (the "**Disposal**").

As at 3 December 2020, the property located at 116 Guangzhou East Road, Taicang City, Jiangsu Province in the PRC (the "**Target Property**") and the Target Company had not been able to (i) perform the procedures in respect of the release of the mortgage of the Target Property and the pledge in respect of the Target Equity Interest (the "**Releases**"); and (ii) obtain relevant necessary documents in respect of the Releases. Therefore, not all of the conditions to completion were satisfied in accordance with the Sale and Purchase Agreement. Consequently, resolution No. 1 ("**Resolution No. 1**") in respect of the Disposal as set out in the notice of the 2020 fifth extraordinary general meeting (the "**EGM**") dated 26 October 2020 and the revised form of proxy published by the Company on 23 November 2020 were withdrawn, and Resolution No. 1 was not submitted to the EGM for consideration and approval by the Shareholders.

Details of the Disposal can be found in the announcements of the Company dated 21 June 2020, 24 June 2020, 26 October 2020 and 3 December 2020, and the circular of the Company dated 26 October 2020.

CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the Group entered into the following connected transaction:

THE EARLY SETTLEMENT OF REMAINING CONSIDERATION FOR THE DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE 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.

Anshe E-Commerce was owned by the Company as to 54.05%, Ms. Cao as to 23.86%, Aibo Technology Company Limited as to 14.32% and Hangzhou Anshe Investment Management Partnership LLP as to 7.77%. Upon Completion, 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 was wholly owned by Ms. Cao, who held 23.86% equity interest in Anshe E-Commerce as at 7 May 2019, 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 remaining consideration totaling RMB90,000,000.

Pursuant to the note to Rule 14A.35 of the Hong Kong Listing Rules, if there is any material variation of the terms of a connected transaction, the listed issuer must re-comply with all other applicable provisions under the Hong Kong Listing Rules. In light of the variation of terms of the Equity Transfer

Agreement pursuant to the Supplemental Agreement, (i) the Board approved the Supplemental Agreement and the transactions contemplated therein, and (ii) the Independent Non-executive Directors confirmed that the terms of the Supplemental Agreement and the transactions contemplated thereunder were fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Pursuant to Rule 14A.101 of the Hong Kong Listing Rules, the Supplemental Agreement and the transactions contemplated thereunder were exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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.

For the year ended 31 December 2020, the Group entered into the above connect transaction (as defined under the Listing Rules). Save as disclosed above, the related party transactions as set out in note 11 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 2020 or as at the date of this report.

MATERIAL LITIGATION

During the year ended 31 December 2020, 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 EUR41,000,000. 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) claimed against the Company and its subsidiary for about RMB174,000,000. For details, please refer to the announcement of the Company dated 9 December 2020.

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 RMB028,000,000. For details, please refer to the announcements of the Company dated 12 January 2021 and 18 March 2021.

As a result of a dispute over an entrusted loan agreement, Bank of Urumqi Co., Ltd. Urumqi Siping Road Technology Branch (烏魯木齊銀行股份有限公司烏魯木齊四平路科技支行) claimed against the Company and its subsidiaries for about RMB586,000,000. The claim was later withdrawn. For details, please refer to the announcements of the Company dated 7 December 2021 and 12 January 2021.

During the year ended 31 December 2020, the Company and its subsidiaries were also involved in other non-material litigation or arbitration. For details, please refer to the overseas regulatory announcement of the Company dated 28 April 2021 and the announcement dated 29 April 2021.

As of the date of this report, the Company or at least one of its subsidiaries has been involved in the following new material litigation or arbitration:

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 RMB587,000,000. For details, please refer to the announcement of the Company dated 19 January 2021 and 23 April 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) claimed against the Company and its subsidiaries for about RMB27,000,000. For details, please refer to the announcements of the Company dated 28 January 2021 and 9 March 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 31 December 2020.

AUDIT COMMITTEE

During the year ended 31 December 2020, the Audit Committee met eight times to review the annual financial results in respect of the year ended 31 December 2019, the first quarter results for the three months ended 31 March 2020, the interim financial results in respect of the six months ended 30 June 2020 and the third quarter financial results in respect of the nine months ended 30 September 2020, 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 2020.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2020 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 2020, 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 2020, the Nomination Committee met nine 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

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (the "**PwC Zhong Tian**") retired as the international and domestic auditor of the Company upon expiration of its term of office with effect from the conclusion of the annual general meeting of the Company convened on 28 May 2019. Ernst & Young Hua Ming LLP ("EY") was appointed as the PRC statutory auditor and international auditor of the Company for the year ended 31 December 2019 on 16 July 2019.

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 2020. 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 2020.

The resolution regarding the appointment of the auditor for the year ending 31 December 2021 will be tabled at the 2020 AGM.

The remuneration paid to EY was RMB3.74 million and the remuneration paid to Da Hua was RMB3.48 million in respect of the audit services rendered for the year ended 31 December 2020.

Apart from the above disclosure, there was no change in the Company's auditor in the past three years.

POST REPORTING PERIOD EVENTS

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

USE OF PROCEEDS FROM IPO

The Company received approximately HK$1,830.12 million (equivalent to approximately RMB1,450,214,934.20) as net proceeds (the "**IPO Proceeds**") from the global offering of the Company's H Shares. As at 31 December 2019, all IPO Proceeds were utilised.

For details, please refer to the annual report of the Company for the year ended 31 December 2019 and the supplemental announcement of the Company dated 21 October 2020.

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 2020 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 2020. 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 it investors.

MAJOR ACTIONS PROPOSED TO BE TAKEN BY THE COMPANY

(I) As the company failed to repay the loan from HTI Advisory Company Limited in a timely manner, HTI Advisory Company Limited took over LaCha Fashion I on 25 February 2020, and the Company was unable to control or exert any influence over it, and thereby losing actual control over it and its subsidiaries, including mainly Naf Naf SAS. In addition, Naf Naf SAS officially entered into judicial liquidation on 19 June 2020 (French time). These have caused the Auditor's failure to audit LaCha Fashion I and its subsidiaries, and therefore the Auditor could not assess the reasonableness and accuracy of the long-term equity investment in Naf Naf SAS and the provision for asset impairment. As at the date of this announcement, the dispute over the contractual dispute over the Company's guarantee of the loan is still under legal proceedings. The Company will negotiate with HTI Advisory Company Limited to clarify HTI Advisory Company Limited's follow-up arrangements after taking over LaCha Fashion I, or will ascertain the availability of the Company's equity interest in LaCha Fashion I and its subsidiaries (and their actual amount) for the setting off of the Company's indebtedness to HTI Advisory Company Limited through friendly negotiations or litigation. At the same time, the Company will continue to contact the judicial liquidator of Naf Naf SAS to follow up on the progress of the judicial liquidation, and actively seek professional opinions from French lawyers to understand the Company's remaining assets that can be recovered in the liquidation process. The Company will strive to properly and swiftly resolve the issues arising from Naf Naf SAS's judicial liquidation and the dispute between the Company and HTI Advisory Company Limited.

(II) Regarding litigation cases that have not been concluded, the Company will actively respond to the cases and take necessary measures to protect the legal rights and legitimate interests of the Company with the support of legal professionals. Regarding debts arising from disputes that have been adjudicated or settled, the Company, being responsible to all of its shareholders and its creditors, will actively negotiate with the relevant courts, creditors and financial institutions and strive to come up with a centralized solution to litigation matters and debt settlement as soon as possible, including but not limited to the consideration of mechanisms such as seeking a release from debt or a discount, settlement and debt restructuring. At the same time, the Company will strengthen the internal information transmission mechanism in respect of litigation matters, improve its recording and classification of litigation to capture sufficient information, and monitor and evaluate the risks of litigation cases and their financial impact on the Company in a timely manner.

(III) For the measures that the Company will take in response to the significant uncertainty of the Company's ability to continue as a going concern, please refer to the section "Future Outlook" under "Management Discussion and Analysis" of this report.

For and on behalf of the Board
Mr. Wu Jinying(吳金應)
Chairman

Shanghai, PRC, 29 April 2021

Report of the Supervisory Committee

In 2020, 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 fifteen meetings of the Supervisory Committee: namely the twentieth meeting of the third session of the Supervisory Committee, twenty-first meeting of the third session of the Supervisory Committee, twenty-second meeting of the third session of the Supervisory Committee, twenty-third meeting of the third session of the Supervisory Committee, twenty-fourth meeting of the third session of the Supervisory Committee, twenty-fifth meeting of the third session of the Supervisory Committee, first meeting of the fourth session of the Supervisory Committee, second meeting of the fourth session of the Supervisory Committee, third meeting of the fourth session of the Supervisory Committee, fourth meeting of the fourth session of the Supervisory Committee, fifth meeting of the fourth session of the Supervisory Committee, sixth meeting of the fourth session of the Supervisory Committee, seventh meeting of the fourth session of the Supervisory Committee, eighth meeting of the fourth session of the Supervisory Committee and ninth 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 twentieth meeting of the third session of the Supervisory Committee

On 14 January 2020, the Company convened the twentieth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Proposed Change of Registered Address".

(II) The twenty-first meeting of the third session of the Supervisory Committee

On 25 February 2020, the Company convened the twenty-first meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Amendments to the Rules of Procedure for Meetings of the Supervisory Committee of the Company".

(III) The twenty-second meeting of the third session of the Supervisory Committee

On 2 March 2020, the Company convened the twenty-second meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Temporary Supplement of Liquidity with Idle Funds Raised from A Shares".

(IV) The twenty-third meeting of the third session of the Supervisory Committee

On 20 March 2020, the Company convened the twenty-third meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Extension of the Implementation Period for Repurchasing A Shares of the Company".

(V) The twenty-fourth meeting of the third session of the Supervisory Committee

On 30 March 2020, the Company convened the twenty-fourth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Change of Registered Address and Name of the Company" and the "Resolution in Relation to the Early Election of Supervisors to the Supervisory Committee".

(VI) The twenty-fifth meeting of the third session of the Supervisory Committee

On 29 April 2020, the Company convened the twenty-fifth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Full Text and Text of the First Quarterly Report of the Company in 2020".

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

On 8 May 2020, the Company convened the first 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".

(VIII) The second meeting of the fourth session of the Supervisory Committee

On 16 June 2020, the Company convened the second meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Disposal of the 100% Equity Interest in Taicang Xiawei Storage Co., Ltd. and property".

(IX) The third meeting of the fourth session of the Supervisory Committee

On 29 June 2020, the Company convened the third 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 2019", the "Report on the Company's Financial Accounts for the Year 2019", the "Resolution in Relation to the Provision for Asset Impairment", the "Annual Report and Summary of the Company for the Year 2019", the "Opinion on Specific Explanation of the Board on Matters Involving Non-Standard Audit Opinions", the "Proposal on the Unrecovered Losses Amounting to One-Third of the Total Paid-Up Share Capital", the "2019 Environmental, Social and Governance Report", the "Internal Control Evaluation Report of the Company for the Year 2019", the "Proposal on the Determination of the Remuneration of Supervisors of the Company for the Year 2019", the "Proposal on the Company's 2019 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 2019", the "Report on the Company's Financial Budget for the Year 2020", the "Resolution in Relation to the Determination of the Auditors' Remuneration for the Year 2019 and Re-appointment for the Year 2020", the "Resolution in Relation to the Application to Financial Institution(s) Including Bank(s) for Credit Facilities by the Company" and the "Resolution in Relation to Providing Guarantees for Wholly-owned Subsidiaries of the Company".

(X) The fourth meeting of the fourth session of the Supervisory Committee

On 28 August 2020, the Company convened the fourth 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 2020, Summary and Interim Results Announcement" and "Special Report on the Deposit and Actual Use of Funds Raised for the First Half Year of 2020".

(XI) The fifth meeting of the fourth session of the Supervisory Committee

On 1 September 2020, the Company convened the fifth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Extension of the Temporary Supplement of Liquidity with Idle Funds Raised from A Shares" and the "Resolution in Relation to Adjusting the Operation Model of the Online Business of the Company".

(XII) The sixth meeting of the fourth session of the Supervisory Committee

On 9 September 2020, the Company convened the sixth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Proposed Change of Company Name and Business Scope and Proposed Amendments to the Articles of Association of the Company".

(XIII) The seventh meeting of the fourth session of the Supervisory Committee

On 29 September 2020, the Company convened the seventh meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Termination of the Repurchase of A Shares of the Company".

(XIV) The eighth meeting of the fourth session of the Supervisory Committee

On 29 October 2020, the Company convened the eighth 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 2020".

(XV) The ninth meeting of the fourth session of the Supervisory Committee

On 23 November 2020, the Company convened the ninth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Removal of Ernst & Young Hua Ming LLP as Auditors of the Company" and the "Resolution in Relation to the Appointment of Da Hua Certified Public Accountants (Special General Partnership) as the Auditors of the Company for the Year 2020".

The members of the Supervisory Committee took part in the Company's major work by attending the Board meetings and general meetings, and effectively supervised meeting agendas, voting procedures and voting results as well as made recommendations on operational activities and standardized operation. The Supervisory Committee also effectively supervised the decisions made to ensure their compliance with the laws and regulations of the state, the Articles of Association and the resolutions of the shareholders' general meetings and that they are in the interests of shareholders.

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, operation and 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 2020, 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 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 2020 audited financial statements of the Company reflected truly 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 RAISED PROCEEDS OF THE COMPANY

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

In 2020, 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. As the funds available to the Company are insufficient to repay the raised proceeds, and the bank account where the Company placed its raised proceeds has been frozen, there is a risk that the repaid proceeds would either be frozen or transferred. As at the date of this report, the Company is unable to repay the RMB50 million proceeds that were used for temporarily supplementing its liquidity to 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 for temporarily supplementing 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 2020 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 other shareholders, especially 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 in 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 2020, 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 2020 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 2020. 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. After 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 2020.

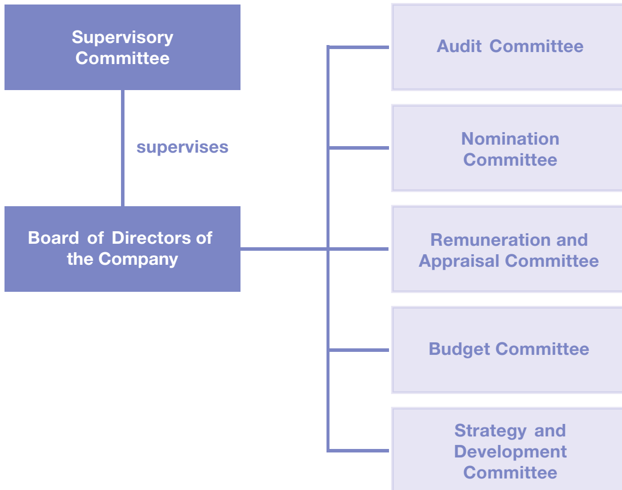
For the year ended 31 December 2020 and as at the date of this report, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below, making corporate governance rules and recommendations with respect to 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.

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, stating 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 reviewed relevant regulations seriously 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 2020, 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. In the opinion of the Board, the Company has been in compliance with the Code Provisions of the CG Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2020 and as at the date of this report, save as to the deviation from the CG Code Provision A.1.8, paragraph A.2 and paragraph A.3.

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

Under paragraph A.2 of the CG Code, the chairman and chief executive officer of the Company should have a balanced power and authority. On 3 February 2020, Mr. Xing Jiaxing resigned as Director, chairman and all positions within the Group. On 25 February 2020, Mr. Yu Qiang resigned as Director, president, acting chairman and all positions within the Group. Following the resignation of Mr. Xing Jiaxing, the Company did not have a chairman of the Board during the period from 3 February 2020 to 7 May 2020. On 14 August 2020, Mr. Yin Xinzai resigned as president and was re-designated from an executive Director to a non-executive Director. Following the resignation of Mr. Yin Xinzai, the Company did not have a president from 14 August 2020 to 3 November 2020.

Under paragraph A.3 of the CG Code, the Board should have a balanced composition of executive and non-executive Directors (including independent non-executive Directors). Following the resignation of Mr. Yu Qiang with effect from 25 February 2020, the Board did not have any executive Director during the period from 25 February 2020 to 7 May 2020. With effect from 14 August 2020, Mr. Yin Xinzai was re-designated from an executive Director to a non-executive Director. Therefore, from 14 August 2020 until 31 December 2020, the Board comprised one executive Director, three non-executive Directors and three independent non-executive Directors. The Board, in concurrence with the nomination committee of the Board, is of the view that the Company had in place a senior management team (including Mr. Xing Jiaxing, who was re-appointed as president of the Company from 25 February 2020 to 20 April 2020 and Mr. Yin Xinzai, who was appointed as president of the Company on 20 April 2020) to continue leading the day-to-day management of the Company. Given that the Company has sufficient senior management members who are knowledgeable and experienced in different fields, the Board and the Nomination Committees believed that the senior management team would be able to provide sufficient information to the Board so as to make informed decisions and the Board could thereby function effectively. The Board will be responsible for formulating high-level strategy and management guidelines and monitoring the Company's general performance, in order to ensure the proper and efficient administration and management of the Group.

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 reserves for its decision 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 consultation with the Senior Management independently. Any Director and Board professional committee may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

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 management of the Company were 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 were as follows:

Executive Directors

Mr. Wu Jinying *(Chairman)*
Ms. Zhang Ying *(President)*
Ms. Zhang Danling

Non-executive Directors

Mr. Yin Xinzai

Independent Non-executive Directors

Mr. Xing Jiangze
Ms. Wong Sze Wing
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 2020, 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 make various contributions to the effective direction of the Company.

Induction and Continuous Professional Development

All Directors confirmed that they have complied with Code Provision A.6.5 relating to the director training. During the year ended 31 December 2020, all Directors participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to develop and refresh their knowledge and skills. All Directors have provided their training record to the Company.

Name of Directors	Corporate Governance	Rules and Regulations	Financial Management	Business Management
Mr. Xing Jiaxing (resigned on 3 February 2020)	√	√	√	√
Mr. Yu Qiang (resigned on 25 February 2020)	√	√	√	√
Mr. Wang Wenke (appointed on 18 December 2019 and retired on 8 May 2020)	√	√	√	√
Mr. Lu Weiming (retired on 8 May 2020)	√	√	√	√
Mr. Luo Bin (retired on 8 May 2020)	√	√	√	√
Mr. Rui Peng (appointed on 16 October 2019 and retired on 8 May 2020)	√	√	√	√
Mr. Chan, Wing Yuen Hubert (retired on 8 May 2020)	√	√	√	√
Mr. Zhang Zeping (retired on 8 May 2020)	√	√	√	√
Mr. Duan Xuefeng (appointed on 8 May 2020 and resigned on 11 January 2021)	√	√	√	√
Mr. Yin Xinzai (appointed on 8 May 2020)	√	√	√	√
Ms. Zhang Danling (appointed on 8 May 2020)	√	√	√	√
Mr. Xing Jiangze (appointed on 8 May 2020)	√	√	√	√
Ms. Zhang Yujing (appointed on 8 May 2020 and resigned on 11 January 2021)	√	√	√	√
Ms. Xiao Yanming (appointed on 8 May 2020 and resigned on 11 January 2021)	√	√	√	√
Mr. Zhu Xiaozhe (appointed on 8 May 2020)	√	√	√	√

Chairman and Chief Executive Officer

Code Provision A.2 stipulates that the chairman and chief executive officer in the Company should have a balanced power and authority.

On 3 February 2020, Mr. Xing Jiaxing resigned as Director, chairman and all positions within the Group. On 25 February 2020, Mr. Yu Qiang resigned as Director, president, acting chairman and all positions within the Group. Following the resignation of Mr. Xing Jiaxing, the Company did not have a chairman of the Board during the period from 3 February 2020 to 7 May 2020. On 14 August 2020, Mr. Yin Xinzai resigned as president and was re-designated from an executive Director to a non-executive Director. Following the resignation of Mr. Yin Xinzai, the Company did not have a president from 14 August 2020 to 3 November 2020.

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, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and 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 his appointment and ending on its expiration.

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 executive Director and two independent non-executive Directors. The members of the Audit Committee are Mr. Xing Jiangze, Ms. Zhang Ying and Ms. Wong Sze Wing. It is currently chaired by Mr. Xing Jiangze, an independent non-executive Director. Mr. Xing Jiangze was appointed as the chairman of the Audit Committee on 8 May 2020.

During the year ended 31 December 2020, the Audit Committee met eight times to review the annual financial results in respect of the year ended 31 December 2019, the first quarter results for the three months ended 31 March 2020, the interim financial results in respect of the six months ended 30 June 2020 and the third quarter financial results in respect of the nine months ended 30 September 2020, 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 2020.

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, 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, such 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, Mr. 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 2020, the Nomination Committee met nine 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. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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 raised by the Remuneration and Appraisal Committee must be agreed by the Board and then can be implemented after the approval on the General Meeting. The remuneration distribution schemes of the senior management of the Company must be submitted to the Board for approval. Model (ii) of Rule B.1.2(c) in Appendix 14 of the Listing Rules is adopted for the procedures that determine the remuneration.

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

For the year ended 31 December 2020, 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.

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 three executive Directors, one non-executive Director and two independent non-executive Directors. The members of the Budget Committee are Mr. Wu Jinying, Ms. Zhang Ying, Ms. Zhang Danling, Mr. Yin Xinzai, Mr. Xing Jiangze and Ms. Wong Sze Wing. It is chaired by Ms. Zhang Ying.

For the year ended 31 December 2020, the Budget Committee met once to review and make recommendations to the Board on 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 three executive Directors, one non-executive Director and two independent non-executive Directors. The members of the Strategy and Development Committee are Mr. Wu Jinying, Ms. Zhang Ying, Ms. Zhang Danling, Mr. Yin Xinzai, Ms. Wong Sze Wing and Mr. Zhu Xiaozhe. It is chaired by Mr. Wu Jinying.

For the year ended 31 December 2020, the Strategy and Development Committee met twice to review and make recommendations to the Board on the Group's latest strategy 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 2020, 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 at least four times a year at approximately 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 in the agenda for regular Board meetings.

For other Board and Board Professional Committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are 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 Chairmen of the Committees 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 he or his associates is materially interested.

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 2020 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
Ms. Zhang Danling (appointed on 8 May 2020)	13/13				1/1	1/1	2/6
Mr. Yin Xinzai (appointed on 8 May 2020)	13/13			1/1	1/1	1/1	3/6
Mr. Duan Xuefeng (appointed on 8 May 2020 and resigned on 11 January 2021)	13/13		3/3		1/1	1/1	3/6
Ms. Zhang Yujing (appointed on 8 May 2020 and resigned on 11 January 2021)	13/13	5/5			1/1	1/1	3/6
Mr. Xing Jiangze (appointed on 8 May 2020)	13/13	5/5	3/3	1/1	1/1		1/6
Mr. Zhu Xiaozhe (appointed on 8 May 2020)	13/13		3/3	1/1		1/1	2/6
Ms. Xiao Yanming (appointed on 8 May 2020 and resigned on 11 January 2021)	13/13	5/5				1/1	3/6
Mr. Xing Jiaxing (resigned on 3 February 2020)	1/1					1/1	0/0
Mr. Yu Qiang (resigned on 25 February 2020)	2/2					1/1	0/0
Mr. Wang Wenke (appointed on 18 December 2019 and retired on 8 May 2020)	9/9					1/1	2/2
Mr. Lu Weiming (retired on 8 May 2020)	9/9			1/1		1/1	1/2
Mr. Luo Bin (retired on 8 May 2020)	9/9	3/3				1/1	0/2
Mr. Chan, Wing Yuen Hubert (retired on 8 May 2020)	9/9	3/3	5/5	1/1			0/2
Mr. Zhang Zeping (retired on 8 May 2020)	9/9		5/5	1/1		1/1	2/2
Mr. Rui Peng (appointed on 16 October 2019 and retired on 8 May 2020)	9/9	3/3	5/5	1/1			1/2

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the former controlling shareholders of the Company (the controlling shareholder as defined in the Listing Rules) 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 year ended 31 December 2020. 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 2020.

Note: Each of Mr. Xing 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. Remunerations paid to a total of 6 Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2020 are set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	4
RMB1,000,001 to RMB2,000,000	2
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 2020.

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 laws and regulations and other regulatory requirements within and without the borders.

Continue to improve and optimize risk monitoring system

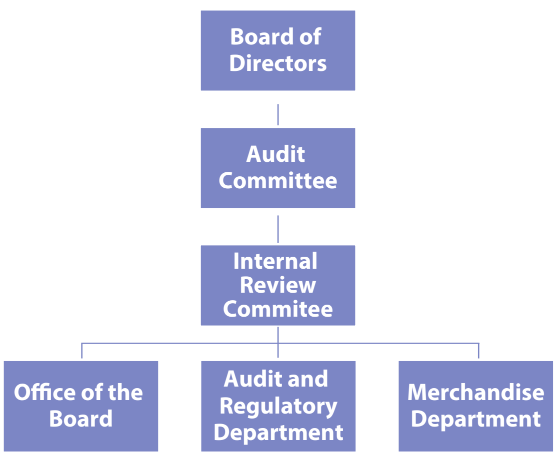
During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, Fundamental Norms on Corporate Internal Control, Application Guidance on Corporate Internal Control, Guidance on Corporate Internal Control and Assessment, Audit Guidance on Corporate Internal Control as well as the relevant requirements with regard to self-criticism on 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-up of 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 benign 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 guarantee stakeholders' legal interests and facilitate the realization of the Company's strategic role 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 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 increased employee involvement in study and training to realize recognition and identification. The Company continued to enhance staff's competency and skills by urging them to learn 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 building of internal control and management mechanism and risk prevention mechanism that are systematic, normative and efficient.

The Company has established a scientific 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 review the 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 annual reports by external auditors, the Audit Committee also reviews periodic internal audit reports with regard to the Company's core businesses formulated by the audit department to check the effectiveness of the internal control system and risk management mechanism as well as resolves material inadequacies found in internal control. The Internal Review Committee manages and supervises the internal risk management system within relevant departments of the Company, guarantees the implementation and perfection of risk management system and measures, and manages disclosure of inside information. The Internal Review Committee, led by the Audit Committee, reports to the Audit Committee.

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 functioning departments within the Company to take charge of the implementation of internal control and the assessment of the soundness and effectiveness of all the internal systems within the Company. As the implementation units of the internal control, the Company's functioning departments, affiliates, wholly-owned and holding subsidiaries appoint certain persons to improve and evaluate the internal control system. The Company's internal risk management organizational structure is illustrated below:



In 2020, the Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of corporate risk management and internal control systems. During the Reporting Period, the Audit and Regulatory Department of the Company initiated several ad hoc audit projects concerning matters such as regional management, logistics operations and disposal of obsolete inventories, and actively assessed the plausibility, effectiveness and completeness of various aspects of management activities. The Audit Department also formulated several rules and regulations to tackle the above problems, 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 corporate internal system and avoid operational risks. The Company's Regulatory Department participated in and organized anti-corruption campaigns, involving a total of around 130,000 attendances. Meanwhile, it opened a WeChat subscription account named La Chapelle with Integrity, which now has accumulated 35,000 followers. All the efforts above have contributed to the improvement of the Company's network for anti-corruption and internal control.

For the year ended 31 December 2020, 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 corporate budget on accounting and financial reporting function. There were certain failures in the risk management and internal control system that could have negative impact on shareholders' interests. The Company's risk management and internal control systems were not deemed 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 complete the business goals, and can only provide the reasonable, but not absolute, guarantee on the 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 in strict accordance with the regulatory requirements both in Shanghai and Hong Kong and the internal system. The Company strengthened the management of confidentiality policy of insider information and seriously performed the duty with respect to confidentiality and filing of persons with knowledge of insider information, truly, accurately and completely recording persons with knowledge of insider information during the processes of counseling and planning, argumentation and consultation and compiling and reviewing. The Company timely performed filing of directors, supervisors and senior management, relevant staff and intermediary agents as well as irregularly carried out self-examination on insider trading, so as to make sure that the relevant information is legally collected, delivered, organized and disclosed in accordance with the relevant laws and regulations. During the Reporting Period, no person with knowledge of insider information was found using insider information to buy and sell the Company's shares.

Perfect corporate governance system to improve corporate governance

In order to enhance corporate governance and build a favorable internal control environment, the Company further perfected 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 as well as performed rights and duties based on the authority endowed by the Articles of Association and relevant regulations. No violation of law and regulations had been found. All Board Professional Committees performed duties in accordance with the Articles of Association and corresponding terms of reference. Each Board Professional Committee has its own meeting system and submits written resolutions regarding reviewed matters to the Board, which act as an important foundation for decision-making for the Board and the General Meeting and thus play a positive role in corporate governance.

The Company will continue to perfect its internal control and improve self-assessment in the follow-up. It will also continue to establish and improve its risk management and internal control systems that meet the demand of its development and management so as to make sure 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 goals.

INTERNAL CONTROL SELF-EVALUATION REPORT

Identification of deficiencies in internal control and rectification

1. **Identification of deficiencies in internal control over financial reporting and rectification**

   1.1 *Significant deficiencies*

   Whether there was a significant deficiency in the Company's internal control over financial reporting during the Reporting Period

   √ Yes ☐No

   Based on the above criteria for identifying deficiencies in internal control over financial reporting, the Company had two significant deficiencies in internal control over financial reporting during the Reporting Period.

Significant deficiencies in internal control over financial reporting	Description on the deficiency	Business sector	Deficiency rectification status/rectification plan	Whether the rectification is completed as of the reporting base date	Whether the rectification is completed as of the date of issuance of the report
Loss of control of a subsidiary without timely corresponding adjustment to the scope of consolidation of the accounting statements	The subsidiary was taken over by creditors and the information about the takeover was not disclosed in a timely manner and the scope of consolidation of the accounting statements was not adjusted accordingly in a timely manner	Financial Management	The Company has accepted the opinion of the annual audit body and corrected the exclusion of LaCha Fashion I and its subsidiaries (including Naf Naf SAS) from the scope of consolidation of financial statements to 25 February 2020, and made additional disclosures in the 2020 annual report on this matter and adjustments to the scope of consolidation of financial statements and the consolidated financial data. The Company has also formulated a work plan to address the matter, and in accordance with the relevant regulations, the impact of the matter on the interim financial report will be assessed and disclosed in a timely manner. At the same time, the Company will further enhance the business skills and risk awareness of its financial staff, strengthen effective communication between the Company's internal staff and external auditors, and implement management of the entire process of preparation, provision and analysis of financial reports to prevent the recurrence of such problems.	No	No
Late disclosure of litigation information	Failure to disclose information relating to litigation cases in a timely manner in accordance with relevant laws and regulations	Others	The Company has strengthened its internal communication mechanism for information disclosure by requiring timely reporting of litigation and other disputes involving various subsidiaries, establishing a litigation case ledger with sufficient information, monitoring the total amount of cases involved and assessing the significance of litigation and other disputes in a timely manner and making timely disclosure accordingly.	Yes	Yes

1.2 *Significant deficiencies*

Whether there was a significant deficiency in the Company's internal control over financial reporting during the Reporting Period

☐ Yes √ No

1.3 *General deficiencies*

Based on the above criteria for identifying deficiencies in internal control over financial reporting, the Company had no general deficiencies in internal control over financial reporting during the Reporting Period.

1.4 *Whether, as a result of the above rectification, the Company has any significant deficiencies in internal control over financial reporting that have not been rectified as at the reporting base date*

√ Yes ☐No

There is 1 significant deficiency in internal control over financial reporting that has not been rectified.

1.5 *Whether, as a result of the above rectification, the Company has any important deficiencies in internal control over financial reporting that have not been rectified as at the reporting base date*

☐ Yes √ No

2. Identification of deficiencies in internal control over non-financial reporting and rectification

2.1 *Significant deficiencies*

Whether there was a significant deficiency in the Company's internal control over non-financial reporting during the Reporting Period

√ Yes ☐No

Based on the above criteria for identifying deficiencies in internal control over non-financial reporting, the Company had three significant deficiencies in internal control over non-financial reporting during the Reporting Period.

Significant deficiencies in internal control over non-financial reporting	Description on the deficiency	Business sector	Deficiency rectification status/rectification plan	Whether the rectification is completed as of the reporting base date	Whether the rectification is completed as of the date of issuance of the report
Deficiencies in the internal control environment	Frequent changes in governance and management of the Company, loss of staff in key positions, and the absence of a full-time board secretary.	Others	The Company will take into account the recent changes in the shareholding of the Company to form a sustainable and stable composition of- the Board as soon as possible to ensure the smooth operation of the Board and specialised committees. Up to now, the Company has formed a management team that is in line with the actual situation at this stage, and has further clarified its core objectives of improving the quality of its operations and enhancing its profitability. It will continue to enhance the stability of the management and key personnel by adjusting its human resources policies, optimising its business, position settings and risk management control processes, so as to actively protect the normal operation and development of the Company and safeguard the legitimate interests of all investors.	No	No
Late compliance with decision-making process and failure to disclose information in a timely manner	The Company did not complete the share buy-back programme within the commitment period and did not comply with the corresponding decision-making process to vary or waive it in a timely manner.	Others	The Company has promptly explained to investors, in particular small and medium-sized investors, the reasons, difficulties and risks involved for the termination of the share buy-back, as well as the current business operation situation and the direction of subsequent development. In its subsequent work, the Company will conduct serious investigation in respect of the relevant decision-making resolutions, make comprehensive and systematic assessment and prudent decision-making, so as to ensure that the relevant matters will be subject to internal approval process in strict accordance with the statutory procedures, and to safeguard the compliance management and standard operation of the listed company.	Yes	Yes

Significant deficiencies in internal control over non-financial reporting	Description on the deficiency	Business sector	Deficiency rectification status/rectification plan	Whether the rectification is completed as of the reporting base date	Whether the rectification is completed as of the date of issuance of the report
Failure in the implementation of internal control systems relating to the management of external investments	During the Reporting Period, the Company did not obtain complete financial and operating information of its external investment enterprises and did not effectively implement the tracking and management of its external investment.	Investment management	Since 2018, the Company has started to divest itself of businesses that are not in line with the Company's strategy and has disposed of some of its investment brands that are unable to achieve the expected objectives. In 2021, the Company will continue to sort out and consolidate its investee companies, integrate resources with those investee companies that have synergies with its existing businesses and dispose of its equity interests in investee companies that do not have a strong connection with the Company's existing businesses. At the same time, the Company will further clarify the responsibilities and authority of the appointed personnel, improve the risk management procedures and information reporting mechanism of its subsidiaries, improve the reporting system and deliberation procedures of major events of its subsidiaries, obtain financial and operational information of its subsidiaries in a timely manner and strengthen the financial management of its subsidiaries; and require its subsidiaries to establish a complete internal control system in accordance with the Company's internal control requirements to guard against internal control risks.	No	No

2.2 *Significant deficiencies*

Whether there was a significant deficiency in the Company's internal control over non-financial reporting during the Reporting Period

☐ Yes √ No

2.3 *General deficiencies*

There may be general deficiencies in the daily operation of internal control processes. As the Company's internal control has established a dual supervision mechanism of self-evaluation and internal audit, the internal deficiencies will be corrected once identified and will not have any material impact on the operation of the Company's internal control system.

2.4 *Whether, as a result of the above rectification, the Company has any significant deficiencies in internal control over financial reporting that have not been rectified as at the reporting base date*

√ Yes ☐No

There are 2 significant deficiencies in internal control over financial reporting that has not been rectified.

2.5 *Whether, as a result of the above rectification, the Company has any important deficiencies in internal control over financial reporting that have not been rectified as at the reporting base date*

☐ Yes √ No

Description of other significant internal control related matters

1. Rectification of internal control deficiencies in the previous year

☐ Applicable "√ Not applicable"

2. Internal control for the year and directions for improvement in the next year

√ Applicable "☐ Not applicable"

The Company has conducted a self-evaluation of the effectiveness of the design and operation of the Company's internal controls as of 31 December 2020 in accordance with the requirements of the basic standards, evaluation guidelines and other relevant laws and regulations. In the year 2020, the self-evaluation of internal control revealed that there were significant internal deficiencies in the financial management of the Company, etc. In the year 2021, the Company will formulate rectification plans for the significant deficiencies in accordance with the relevant regulations of the corporate internal control system and implement the rectification work thoroughly to ensure compliance with the management requirements of the relevant regulatory authorities. At the same time, the Company will further establish and improve the Company's internal control management system, which is oriented towards comprehensive risk management, with governance at source and process control at its core, to strengthen its risk prevention capability, and to ensure the safe and sound operation of the Company through a series of measures such as system improvement, standardisation of risk control, strengthening of internal supervision of the Company and reinforcement of supervision in key areas.

DESCRIPTION ON THE INTERNAL CONTROL AUDIT REPORTING

The Company engaged Da Hua CPAs (Special General Partnership) to conduct an audit of the Company's internal controls for the year 2020 and issued a negative opinion on the internal control audit report. For details, please refer to the overseas regulatory announcement disclosed by the Company on 28 April 2021.

Disclosure of internal control audit report: Yes

Type of opinion on internal control audit report: Negative opinion

MATTERS RESULTING IN ADVERSE OPINION

According to the Internal Control Audit Report issued by Da Hua: "Material defect refers to a defect or a combination of defects in internal control that may result in material misstatement in financial statements which cannot be avoided, discovered and rectified on a timely basis.

The following material defects are found in La Chapelle's internal control in respect of financial reporting:

(1) On 25 February 2020, FASHION I was taken over by HTI ADVISORY COMPANY LIMITED due to failure to repay borrowings due. La Chapelle could not control or have any influence on FASHION I, and has lost its de facto control, which resulted in the loss of control of La Chapelle over its wholly-owned subsidiary FASHION I and its subsidiaries, APPAREL Ⅱ and Naf Naf SAS as a whole. On 15 May 2020, as Naf Naf SAS was unable to settle the debts owed to its suppliers and the local government, the local court ordered that the rehabilitation proceedings be initiated and an administrator be appointed, and Naf Naf SAS was no longer included in La Chapelle'sconsolidated financial statements.

The failure of La Chapelle to make any disclosure on the takeover of FASHION I and to adjust the scope covered by the consolidated financial statements accordingly on a timely basis is a failure in the implementation of the relevant internal control system over information disclosure in respect of financial reporting.

(2) As set out in the disclosure announcement of La Chapelle dated 9 December 2020, from 9 December 2019 to 9 December 2020, the Company was involved in 439 accumulated litigations, with a total claimed amount of approximately RMB1.523 billion. Among them, there was one material litigation which involved a litigation amount of approximately RMB176 million; and a total of 438 litigations which were cumulatively involved, with an amount of approximately RMB1.347 billion. The value of equity interests of subsidiaries being judicially frozen amounted to RMB435,709,300; 85 bank accounts in total were effectively frozen, with an aggregate frozen amount of approximately RMB205,468,800; the book value of the Company's seized real estate amounted to RMB1,296,502,100 in aggregate.

These matters or situations of La Chapelle fall within the definition of material matters under Article 30 of the Administrative Measures for Information Disclosure of Listed Companies (上市公司信息披露管理辦法) and fall within the criteria and requirements for disclosure under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則). Failure to disclose such matters on a timely basis is a failure in the implementation of the relevant internal control system over information disclosure in respect of financial reporting.

An effective internal control can provide a reasonable assurance for the authenticity and completeness of financial reporting and relevant information. The aforesaid material defects is a deficiency in the internal control of La Chapelle in respect of this function.

The aforesaid material defects are not included in the corporate's internal control assessment report. In the course of audit of La Chapelle's financial statements for 2020, we have taken into consideration the impact on the nature, schedule and covered area of the audit process of the aforesaid material defects. This report has no impact on our audit report dated 29 April 2021 on La Chapelle's financial statements for 2020.

AUDIT OPINION ON INTERNAL CONTROL IN RESPECT OF FINANCIAL REPORTING

We are of the opinion that, owing to the existence of the aforesaid material defects and its impact on achieving the objectives of internal control, La Chapelle failed to maintain an effective internal control in respect of financial reporting in all major aspects as at 31 December 2020 in accordance with the Basic Standards for Enterprise's Internal Control (企業內部控制基本規範) and the relevant requirements.

MATERIAL DEFECTS IN INTERNAL CONTROL NOT RELATED TO FINANCIAL REPORTING

In the course of our audit on internal control, we were aware of the following material defects in La Chapelle's internal control not related to financial reporting:

(1) During the reporting period, members of the governance and management of La Chapelle have changed frequently, and the turnover of staff holding key positions was severe. The position of secretary to the board of directors has not been created since 31 July 2019. There is a defect in the internal control environment of La Chapelle, which has resulted in material and adverse effect on the relevant information disclosure.

(2) On 28 August 2019, the board of directors of La Chapelle has considered and approved the Resolution in relation to the Adjustments to the A Share Repurchase Proposal and the Measures to Stabilize the Share Price (關於調整回購A股股份方案暨穩定股價措施的議案》), which was considered and passed at the general meeting on 16 October 2019. According to the Repurchase Proposal, the fund intended to be used by La Chapelle for repurchase shall be not more than RMB100 million and not less than RMB50 million, and the period for repurchase shall start from 22 March 2019 until 21 March 2020. As of 21 March 2020, an aggregate of 3,573,200 A shares were repurchased by La Chapelle with RMB20,009,900, which fell short of the lower limit of the promised repurchase amount. On 20 March 2020, the Resolution in relation to the Extension of the Implementation Period for Repurchasing A Shares (關於回購A股股份實施期限延期的議案) was considered and approved at the meeting of the board of directors, but the resolution has not been considered and passed in the general meeting before the expiry date of the promised period.

The Resolution in relation to the Extension of the Implementation Period for Repurchasing A Shares was considered and passed at the general meeting on 8 May 2020. According to the resolution, the fund intended to be used by La Chapelle for repurchase shall be not more than RMB100 million and not less than RMB50 million, with the implementation deadline extended to 21 September 2020. However, La Chapelle has not disclosed until 30 September 2020 that as of the expiry date of the repurchase period, an aggregate of 3,573,200 A Shares were repurchased with an amount of RMB20,009,900, which fell short of the lower limit of the overall repurchase amount. On 29 September 2020, the board of directors and the supervisory committee have considered and approved the termination of repurchase of A Shares. The resolution in relation to the termination of repurchase of A Shares was considered and passed at the general meeting on 21 October 2020.

La Chapelle failed to complete the share repurchase scheme within the promised period, failed to implement corresponding measures to amend or revoke the scheme, and failed to make timely disclosure of the risk information in relation to its failure at implement the share repurchase scheme as promised, which constituted a violation of Rule 1.4 of the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, Articles 5 and 41 of the Implementation Rules of Shanghai Stock Exchange for Share Repurchase by Listed Companies (上海證券交易所上市公司回購股份實施細則), and Article 5 of the Regulatory Guidelines for Listed Companies No. 4-Undertakings and Performance by Listed Companies and Listed Companies' De Facto Controllers, Shareholders, Related Parties and Acquirers (CSRC Announcement [2013] No. 555) (上市公司監管指引第4號—上市公司實際控制人、股東、關聯方、收購人以及上市公司承諾及履行(證監會公告[2013]555號)).

(3) The Administrative Measures for External Investment (對外投資管理辦法) of La Chapelle stipulated that (among others): the personnel appointed as the directors, supervisors and senior management members of investee companies shall report the investment status to the company on a timely basis; the appointed personnel shall submit a working report to and be inspected by the appointing company annually; the company shall inspect comprehensively the investment projects at the end of each year and conduct regular or specific audit on the subsidiaries it controlled.

During the reporting period, La Chapelle failed to implement the aforesaid requirements, which resulted in failure in the implementation of the internal control system in respect of the external investment management.

Due to the aforesaid material defects, users of this report are advised to pay attention to the relevant risks. Please also note that we do not express any opinion on or provide any assurance for La Chapelle's internal control which is not related to financial reporting.

This paragraph does not affect the audit opinion on the effectiveness of internal control in respect of financial reporting." For details, please refer to the overseas regulatory announcement of the Company dated 29 April 2021.

COMPANY SECRETARY

During the year ended 31 December 2020, 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. Yin Xinzai, a non-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 rules and 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 2020 in accordance with statutory requirements and applicable accounting standards.

The Board is accountable to the shareholders for a clear and balanced assessment on the Company's financial position and prospects. The management of the Company provides all relevant information and records to the Board, which enable it 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 2020.

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 during 2020 was RMB1,429,779,000, and have suffered three consecutive years of losses. As at 31 December 2020, the Group's current liabilities exceeded its assets by approximately RMB239,491,000. The Group is now facing significant litigations due to a large number of overdue debts, which also led to the frozen of its principal bank accounts and shares of subsidiaries and the seize of real estates (refer to notes XII/(II)/(1), VI/ (I), XV/III/1, VI/XII/(I)/4 respectively). The Company is presented as dishonest person. These events and conditions, indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group 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 2020. The resolution regarding the appointment of the auditor for the year ending 31 December 2021 will be tabled at the 2020 AGM.

The remuneration paid to Da Hua in respect of the audit services rendered for the year ended 31 December 2020 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.

Shareholders may also send their enquiries and concerns to the Board by sending them to the investor relations department of the Company to 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 interim 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 extraordinary general meetings held on 23 March 2020, 8 May 2020 and 29 September 2020 respectively. The revised Articles of Association has been published on both the websites of the Hong Kong Stock Exchange and the Company. According to the Company's announcement published on 29 April 2021, in light of the current circumstances of the Company, its future development plans, and the opinions of the relevant commercial and administrative regulatory authority in the PRC, the Company proposed cancelling the change of company name and cancelling the amendments to the Articles of Association which have been approved at the EGM held on 29 September 2020, subject to the approval of the Company's shareholders at the 2020 AGM of the Company.

Audit Report

D.H.S.Z. [2020] 008149

To the Shareholders of Shanghai La Chapelle Co., Ltd.

I QUALIFIED OPINION

We have audited the accompanying financial statements of XINJIANG LA CHAPELLE FASHION CO., LTD., (herein after "LA CHAPELLE Company"), Which comprise the consolidated and the parent company's balance sheet as at 31 December 2020, the consolidated and the parent company's statement of comprehensive income, the consolidated and the parent company's cash flow statement and the consolidated and the parent company's statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, except for the possible financial impact of the matters as set out in the section "Basis for qualified opinion", the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and the company's financial position as at 31 December 2020, and the consolidated and the company's financial performance and cash flows for the year then ended, and are prepared in accordance with Accounting Standards for Business Enterprises ("ASBEs").

II BASIS FOR QUALIFIED OPINION

(I) Impacts of oversea subsidiaries on financial statements

As of June 4, 2019, the acquisition of 100% of equity interest in Naf Naf SAS has cost La Chapelle Company a cumulative consideration of EUR56,140,000 (equivalent to RMB427,141,000). In 2019, La Chapelle Company has made provision for the long-term asset and goodwill generated from combination of RMB227,312,000, therefore, the net asset of Naf Naf in the consolidated statement in the year of 2019 was RMB21,428,000, which have been recognized as loss in the consolidated financial statement of 2020. As stated in XII, FASHION I LIMITED (FASHION I) was taken over by HTI ADVISORY COMPANY LIMITED on February 25, 2020 due to its default on the loan. LA CHAPELLE Company has therefore lost control over FASHION I, which is its subsidiary, and APPAREL I, APPAREL II as well as Naf Naf SAS, which are subsidiaries of FASHION I. On June 19, 2020 local time in France, Naf Naf SAS was transferred into judicial liquidation, and the procedure has not been completed.

Based on the impact of above events, we are unable to audit the financial statements of FASHION I and its subsidiaries for the year ended 31 December 2020, we cannot identify whether adjustment is needed for the opening balance of the consolidated financial statements in 2020 and its influence over the financial report for this period, we cannot confirm the rationality and accuracy of the provision for asset impairment of long-term equity investment of Naf Naf SAS, as well as the completeness of the guarantee or liability obligation recorded in the financial accounts which has been provided to FASHION I and its subsidiaries.

(II) Litigation

As stated in Note XII/(II)/ (1) Litigation, La Chapelle Company has suffered from financial constraints due to debt default. As of December 31, 2020, the cumulative amounts involved in litigation and arbitration that have not been judged was RMB782,468,000, among which the amount involved in respect of the judged cases till the reporting date is RMB236,904,000. As stated in Note XIII/(I)/2. Effect of newly added litigation or arbitration, from January 1, 2021 to the reporting date, the amount of the Company's new litigation involved was RMB1,005,987,000. We are unable to obtain sufficient and appropriate audit evidence to identify the potential losses that may be generated from the above litigation events, and the accuracy and completeness of accrued liability in respect of litigation and arbitration.

We conducted our audit work in accordance with Chinese Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with China Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III MATERIAL UNCERTAINTIES RELATED TO GOING CONCERN

We draw attention to Note III/(II) Going concern to the consolidated financial statements which indicates that La Chapelle Company incurred a net loss of RMB1,878,357,000, and has suffered a consecutive year loss. As at 31 December 2020, the Group's total liability exceeded its total asset by RMB688,069,000. La Chapelle Company is now facing significant litigations due to large number of overdue debts, which also led to the frozen of its principal bank accounts and shares of subsidiaries and the seize of real estates. La Chapelle Company has been presented on the list of dishonest person. All these events along with the events as at the balance sheet date stated in Note XII of the financial statements indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

IV KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We determine that the carrying amounts of fixed asset and construction in progress are the key audit matters that need to be presented in the audit report.

1. Description of the matter

As stated in Note VI (13) and Note (14), the carrying amount of fixed asset and construction in progress was RMB1,693,956,000 in the consolidated financial statement of LA CHAPELLE, accounting for 47.29% of the total assets of the Group. The following judgment by the management will affect the carrying amount and depreciation policy of fixed asset and construction in progress, including: (1) recognizing the expenses in accordance with the principle of capitalization; (2) recognizing the timing of construction in progress transferring to fixed asset and starting of depreciation; (3) estimating the expected residual life of fixed assets. We determine that the company's fixed assets and construction in progress are the key matters due to the fact that assessment of the carrying amount of fixed asset and construction in progress involving significant management judgment and it's important for consolidated financial statements.

2. Audit response

The key auditing procedures we implemented for the carrying amount of fixed asset and construction in progress include:

(1) Evaluated the effectiveness of the internal control (including expected useful life and residual value) design and implementation related to completeness, existence and accuracy of fixed asset and construction in progress.

(2) Understood the condition of fixed asset and construction in progress, and implemented the supervision and sampling stocktaking procedures for the major fixed asset and construction in progress, and checked the status and use in the current period of these assets.

(3) Checked whether it met the conditions in accordance with the principle of capitalization by analyzing the construction situation of construction in progress in 2020;

(4) Assessed the timing accuracy of construction in progress transferring to fixed asset by checking acceptance report or project supervision report;

(5) Analyzed the rationality of the judgment made by management about whether there are signs of possible impairment and key assumptions used in the impairment test of construction in progress. Assessed the competence, professional quality and objectivity of third-party valuation experts hired by management; obtained the evaluation report of the construction in progress from a third-party agency and review its evaluation method, basis and key indicators. Discussed with external evaluation expert and analyzed the appropriateness of the evaluation method management adopted;

(6) Checked the adequacy and completeness of relevant disclosures in the notes of the financial statements of the Group.

In our opinion, based on the work we have performed, the carrying amounts of fixed asset and construction in progress are of authenticity and accuracy, and recorded in the appropriate accounting period, which are recorded under the requirements of accounting standards.

V OTHER INFORMATION

Management of the Group is responsible for the other information. The other information comprises all of the information included in 2020 annual report of the Company other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As detailed in the section of "Basis for qualified opinion", we were not able to obtain sufficient and appropriate audit evidence of oversea subsidiaries and litigations, accordingly, we were not able to determine whether there are any significant misstatements regarding the information as set out in the other information.

VI RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of LA CHAPELLE Group is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines 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, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

VII AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit, we also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances;

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

(4) Conclude on the appropriateness of the management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by CSAs to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Audit Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Da Hua Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: 何祚文
（The engagement partner）

Chinese Certified Public Accountant: 劉任武

China Beijing

29 April 2021

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

	VI	**Closing Balance**	Opening Balance
ASSETS			
Current assets:			
Cash and bank	(I)	**206,477**	357,684
Financial assets held for trading		**–**	–
Derivative financial assets		**–**	–
Notes receivable		**–**	–
Accounts receivable	(II)	**270,637**	587,123
Accounts receivable financing		**–**	–
Prepayments	(III)	**122,926**	101,679
Other receivables	(IV)	**125,636**	174,643
Including: Interest receivables		**–**	–
Dividend receivables		**–**	–
Inventories	(V)	**438,716**	1,728,645
Contract assets		**–**	
Held-for-sale assets		**–**	
Non-current assets due within one year	(VI)	**25,844**	25,588
Other current assets	(VII)	**88,952**	224,559
Total current assets		**1,279,188**	3,199,921
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables	(VIII)	**4,447**	189,020
Long-term equity investments	(IX)	**180,825**	193,216
Other equity instruments	(X)	**4,741**	11,646
Other non-current financial assets	(XI)	**94,050**	97,777
Investment properties			
Fixed assets	(XII)	**1,624,902**	1,678,939
Construction in progress	(XIII)	**69,054**	141,787
Productive biological assets			
Right-of-use assets	(XIV)	**47,846**	1,609,398
Intangible assets	(XV)	**166,856**	183,554
Development expenditure			
Goodwill	(XVI)	**78,231**	78,231
Long-term prepaid expenses	(XVII)	**22,984**	274,241
Deferred tax assets	(XVIII)	**0**	335,914
Other non-current assets	(XIX)	**8,591**	17,879
Total non-current assets		**2,302,527**	4,811,602
Total assets		**3,581,715**	8,011,523

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

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

	VI	**Closing Balance**	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings	(XXI)	**1,167,400**	1,481,107
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	(XXII)		255,476
Accounts payable	(XXIII)	**1,164,154**	1,721,205
Advance from customers	(XXIV)	**1,428**	2,489
Contract liabilities	(XXV)	**7,330**	52,268
Employee benefits payable	(XXVI)	**65,636**	190,991
Tax payables	(XXVII)	**163,914**	227,208
Other payables	(XXVIII)	**922,343**	754,676
Including: Interest payables		**58,830**	6,774
Dividend payables		**–**	
Held-for-sale liabilities		**–**	
Non-current liability due within one year	(XXIX)	**368,670**	799,667
Other current liabilities			
Total current liabilities		**3,860,875**	5,485,087
Non-current liabilities:			
Long-term borrowings	(XXX)		
Bonds payable			
Including: Preferred stock			
Including: Perpetual debt			
Lease liabilities	(XXXI)	**36,263**	1,300,452
Long-term payables			
Long-term employee benefits payable			
Accrued liabilities	(XXXII)	**350,585**	35,299
Deferred income			
Deferred tax liabilities	(XVIII)	**13,911**	37,517
Other non-current liabilities	(XXXIII)	**8,150**	26,972
Total non-current liabilities		**408,909**	1,400,240
Total liabilities		**4,269,784**	6,885,327

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

Consolidated Balance Sheet

As at 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

	VI	Closing Balance	Opening Balance
Equity:			
Share capital	(XXXIV)	**547,672**	547,672
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserves	(XXXV)	**1,910,806**	1,910,800
Less: Treasury share	(XXXVI)	**20,010**	10,165
Other comprehensive income	(XXXVII)	**(38,866)**	(39,958)
Special reserves			
Surplus reserve	(XXXVIII)	**246,788**	246,788
Undistributed profits	(XXXIX)	**(3,255,667)**	(1,414,703)
Equity attributable to Shareholders of the Company		**(609,277)**	1,240,434
Non-controlling interests		**(78,792)**	(114,238)
Total equity		**(688,069)**	1,126,196
Total liabilities and equity		**3,581,715**	8,011,523

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

Items	VI	2020	2019
1. Revenue	(XL)	**1,819,317**	7,666,229
Less: Costs of sales	(XL)	**933,721**	3,242,779
Taxes and surcharges	(XLI)	**25,892**	47,938
Selling and distribution expenses	(XLII)	**1,646,262**	5,174,636
General and administrative expenses	(XLIII)	**264,580**	483,183
Research and development expenses			
Finance expenses	(XLIV)	**152,739**	241,713
Including: Interest expenses		**138,859**	234,312
Interest income		**8,645**	8,915
Add: Other income	(XLV)	**23,606**	103,257
Investment income	(XLVI)	**(39,201)**	60,267
Including: Investment income from associates and joint ventures		**(7,095)**	99,618
Derecognition of financial assets at amortized cost			
Gain/(Loss) from net exposure hedging			
Gain/(Loss) on fair value changes	(XLVII)	**(3,727)**	4,577
Credit impairment losses	(XLVIII)	**(149,409)**	(151,925)
Asset impairment losses	(XLIX)	**(341,184)**	(778,479)
Gain/(Loss) on disposal of assets	(L)	**214,334**	19,876
2. Operating profit		**(1,499,458)**	(2,266,447)
Add: Non-operating income	(LI)	**2,034**	21,798
Less: Non-operating expenses	(LII)	**17,000**	20,357
3. Profit before tax		**(1,514,424)**	(2,265,006)
Less: Income tax expenses	(LIII)	**363,933**	(12,727)
4. Net profit		**(1,878,357)**	(2,252,279)
Including: Net profit realized before business combinations under common control			
I. Classified by continuity of operations			
Net profit from continuing operations		**(1,823,505)**	(2,252,279)
Net profit from discontinuing operations		**(54,852)**	
II. Classified by ownership of the equity			
Net profit attributable to shareholders of the parent company		**(1,840,964)**	(2,166,306)
Net profit attributable to non-controlling interests		**(37,393)**	(85,973)

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

Consolidated Income Statement

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	VI	2020	2019
5. Other comprehensive income, net of tax		**1,092**	(26,771)
Other comprehensive income after tax attributable to parent company		**1,092**	(26,771)
I. Items of other comprehensive income that cannot be reclassified into profit and loss		**19,182**	(32,531)
i. Changes in fair value of investments in equity instruments		**19,182**	(32,531)
II. Items of other comprehensive income reclassified to profit or loss		**(18,090)**	5,760
i. Translation differences on translation of foreign currency financial statement		**(18,090)**	5,760
Other comprehensive income attributable to non-controlling interests after tax			
6. Total comprehensive income		**(1,877,265)**	(2,279,050)
Attributable to shareholders of the company		**(1,839,872)**	(2,193,077)
Attributable to non-controlling interests		**(37,393)**	(85,973)
7. Earnings per share			
I. Basic earnings per share	(LIV)	**(3.38)**	(3.96)
II. Diluted earnings per share		**(3.38)**	(3.96)

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

Items	VI	2020	2019
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**2,285,276**	8,524,829
Tax and surcharge refunds		**–**	–
Cash received relating to other operating activities	(LVI)	**256,525**	288,089
Total cash inflows from operating activities		**2,541,801**	8,812,918
Cash paid for goods and services		**(1,140,348)**	(4,133,597)
Cash paid to and for employees		**(596,440)**	(2,084,805)
Taxes and surcharges paid		**(58,373)**	(231,590)
Other cash payments related to operating activities	(LVI)	**(647,044)**	(764,912)
Total cash outflows from operating activities		**(2,442,205)**	(7,214,904)
Net cash flows from operating activities		**99,596**	1,598,014
2. Cash flows from investing activities			
Cash received from return on investments		**–**	25,475
Cash received from gain on investment		**–**	6,199
Net cash received from disposals of fixed assets, intangible assets		**2,676**	31,179
Net cash received from disposal of subsidiaries and other		**52,836**	154,695
Cash received relating to other investing activities	(LVI)	**–**	1,769
Total cash inflows from investing activities		**55,512**	219,317
Cash paid for fixed assets, intangible assets and other long-term assets		**(45,035)**	(477,594)
Cash paid for investments		**–**	(65,000)
Net cash paid for acquiring subsidiaries and other business units		**(8,449)**	(251,595)
Cash paid relating to other investing activities	(LVI)	**(7,223)**	(33,705)
Total cash outflows from investing activities		**(60,707)**	(827,894)
Net cash flows from investing activities		**(5,195)**	(608,577)

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

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	VI	2020	2019
3. Cash flows from financing activities			
Cash received from investments by others		**–**	–
Including: Cash received by subsidiaries from non-controlling investors		**–**	–
Cash received from borrowings		**358,000**	1,277,311
Other cash receipts related to other financing activities		**–**	
Total cash inflows from financing activities		**358,000**	1,277,311
Cash repayments of borrowings		**(283,038)**	(1,721,964)
Cash payments for distribution of dividends, profits or interest		**(51,389)**	(128,993)
Including: Dividends or profit paid by subsidiaries to non–		**–**	–
Other cash payments related to financing activities	(LVI)	**(268,920)**	(675,986)
Total cash outflows from financing activities		**(603,347)**	(2,526,943)
Net cash flows from financing activities		**(245,347)**	(1,249,632)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		**(284)**	(14,119)
5. Net increase in cash and cash equivalents		**(151,230)**	(274,314)
Add: Opening balance of cash and cash equivalents		**175,549**	449,863
6. Closing balance of cash and cash equivalents		**24,319**	175,549

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

Items	2020									
	Attributable to shareholders of the Company									
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed 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	-	-	(1,840,964)	35,446	(1,814,265)
I. Total comprehensive income					1,092			(1,840,964)	(37,393)	(1,877,265)
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										-
iv. Others			6	9,845						(9,839)
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 reserves 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	(3,255,667)	(78,792)	(688,069)

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	2019									
	Equity attributable to parent company									
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Non-controlling interests	Total equity
1. Closing balance of last year	547,672		1,895,342		(13,187)		246,885	770,706	114,539	3,561,957
Add: Increase/decrease due to changes in accounting policies							(97)	(19,103)		(19,200)
Increase/decrease due to corrections of errors in prior period										–
Business combination under common control										–
Others										–
2. Opening balance of current year	547,672	–	1,895,342	–	(13,187)	–	246,788	751,603	114,539	3,542,757
3. Increase/decrease for current year	–	–	15,458	10,165	(26,771)	–	–	(2,166,306)	(228,777)	(2,416,561)
I. Total comprehensive income					(26,771)			(2,166,306)	(85,973)	(2,279,050)
II. Shareholders invest and reduce capital	–	–	15,458	10,165	–	–	–	–	(142,804)	(137,511)
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			1,923							1,923
iv. Others			13,535	10,165					(142,804)	(139,434)
III. Profits distribution	–	–	–	–	–	–	–	–	–	–
i. Appropriation of surplus reserve								–		–
ii. Distribution to owners										–
iii. Others									–	–
IV. Transfers within owners' equity	–	–	–	–	–	–	–	–	–	–
i. Capital reserves 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	–	1,910,800	10,165	(39,958)	–	246,788	(1,414,703)	(114,238)	1,126,196

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

	XV	Closing Balance	Opening Balance
Assets			
Current assets:			
Cash and bank		**146,321**	144,399
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	(I)	**2,606,863**	2,242,671
Accounts receivable financing			
Prepayments		**73,793**	24,417
Other receivables	(II)	**413,944**	584,616
Including: Interest receivables			
Dividend receivables			
Inventories		**399,261**	1,269,526
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		**25,844**	25,588
Other current assets		**15,039**	88,696
Total current assets		**3,681,065**	4,379,913
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables		**53**	60,569
Long-term equity investments	(III)	**645,539**	680,078
Other equity instruments			
Other non-current financial assets		**27,032**	22,777
Investment properties			
Fixed assets		**11,871**	21,732
Construction in progress			4,387
Productive biological assets			
Right-of-use assets		**130**	31,044
Intangible assets		**17,725**	24,666
Development expenditure			
Goodwill			
Long-term prepaid expenses		**25,597**	50,743
Deferred tax assets		**0**	74,126
Other non-current assets			
Total non-current assets		**727,947**	970,122
Total assets		**4,409,012**	5,350,035

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

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

	XV	Closing Balance	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings		**617,400**	737,400
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			165,594
Accounts payable		**1,409,346**	1,518,460
Advance from customers			167
Contract liabilities			88,495
Employee benefits payable		**13,862**	31,397
Tax payables		**66,615**	60,413
Other payables		**1,376,328**	1,076,630
Including: Interest payables		**11,829**	
Dividend payables			
Held-for-sale liabilities			
Non-current liability due within one year		**2,985**	32,648
Other current liabilities			
Total current liabilities		**3,486,536**	3,711,204
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred stock			
Perpetual debt			
Lease liabilities			25,327
Long-term payables			
Long-term employee benefits payable			
Accrued liabilities		**1**	206
Deferred income			
Deferred tax liabilities		**2,240**	
Other non-current liabilities			49
Total non-current liabilities		**2,241**	25,582
Total liabilities		**3,488,777**	3,736,786

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

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

	XV	**Closing Balance**	Opening Balance
Equity:			
Share capital		**547,672**	547,672
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserves		**1,897,270**	1,897,265
Less: Treasury share		**20,010**	10,165
Other comprehensive income			
Special reserves			
Surplus reserve		**246,788**	246,788
Undistributed profits		**(1,751,485)**	(1,068,311)
Total equity		**920,235**	1,613,249
Total liabilities and equity		**4,409,012**	5,350,035

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

Items	XV	2020	2019
1. Revenue	(IV)	**775,458**	3,470,134
Less: Costs of sales	(IV)	**686,139**	2,458,776
Taxes and surcharges		**6,899**	10,230
Selling and distribution expenses		**260,486**	950,167
General and administrative expenses		**101,164**	246,665
Research and development expenses		**–**	
Finance expenses		**26,849**	38,760
Including: Interest expenses		**36,956**	60,527
Interest income		**10,425**	28,257
Add: Other income		**14,584**	39,146
Investment income	(V)	**(21,166)**	(44,921)
Including: Investment income from associates and joint ventures		**(5,619)**	(55)
Derecognition of financial assets at amortised cost		**–**	
Gain/(Loss) from net exposure hedging		**–**	
Gain/(Loss) on fair value changes		**4,255**	4,577
Credit impairment losses		**(1,849)**	(479,519)
Asset impairment losses		**(317,943)**	(795,885)
Gain/(Loss) on disposal of assets		**26,115**	(86)
2. Operating profit		**(602,083)**	(1,511,152)
Add: Non-operating income		**135**	2,583
Less: Non-operating expenses		**4,860**	176
3. Profit before tax		**(606,808)**	(1,508,745)
Less: Income tax expenses		**(76,366)**	6,191
4. Net profit		**(683,174)**	(1,514,936)
i. Net profit from continuing operations		**(683,174)**	(1,514,936)
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		**–**	–
II. Items of other comprehensive income reclassified to profit or loss		**–**	–
6. Total comprehensive income		**(683,174)**	(1,514,936)

Legal representative: **Wu Jinying**

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 2020
(All amounts in RMB'000 unless otherwise stated)

Items	XV	2020	2019
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**420,098**	2,659,160
Tax and surcharge refunds			
Cash received relating to other operating activities		**448,442**	70,716
Total cash inflows from operating activities		**868,540**	2,729,876
Cash paid for goods and services		**(485,525)**	(2,787,827)
Cash paid to and for employees		**(169,693)**	(498,595)
Taxes and surcharges paid		**(34,429)**	(26,272)
Other cash payments related to operating activities		**(144,967)**	(243,288)
Total cash outflows from operating activities		**(834,614)**	(3,555,982)
Net cash flows from operating activities		**33,926**	(826,106)
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**	52,219
Net cash received from disposal of subsidiaries and other business units		**54,976**	110,000
Cash received relating to other investing activities		**–**	1,246,206
Total cash inflows from investing activities		**56,169**	1,408,425
Cash paid for fixed assets, intangible assets and other long-term assets		**(247)**	(54,191)
Cash paid for investments			(6,500)
Net cash paid for acquiring subsidiaries and other business units			
Cash paid relating to other investing activities		**(6,012)**	(103,982)
Total cash outflows from investing activities		**(6,259)**	(164,673)
Net cash flows from investing activities		**49,910**	1,243,752

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

Company Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	XV	2020	2019
3. Cash flows from financing activities			
Cash received from investments by others			
Cash received from borrowings		**576,450**	629,400
Other cash receipts related to other financing activities			646,400
Total cash inflows from financing activities		**576,450**	1,275,800
Cash repayments of borrowings		**(637,600)**	(1,795,790)
Cash payments for distribution of dividends, profits or interest		**(25,789)**	(75,108)
Other cash payments related to financing activities		**(986)**	(67,010)
Total cash outflows from financing activities		**(664,375)**	(1,937,908)
Net cash flows from financing activities		**(87,925)**	(662,108)
4. Effect of changes in foreign exchange rates on cash and cash equivalents			
5. Net increase in cash and cash equivalents		**(4,089)**	(244,462)
Add: Opening balance of cash and cash equivalents		**4,099**	248,561
6. Closing balance of cash and cash equivalents		**10**	4,099.00

Legal representative: **Wu Jinying**

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 Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	2020								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
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**	**-**	**-**	**-**	**(683,174)**	**(693,013)**
I. Total comprehensive income					-			(683,174)	(683,174)
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 reserves 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**	**(1,751,485)**	**920,235**

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

Items	2019								
	Share capital	Other equity instruments	Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total equity
1. Closing balance of last year	547,672		1,895,342				246,885	447,501	3,137,400
Add: Increase/decrease due to changes in accounting policies							(97)	(876)	(973)
Increase/decrease due to corrections of errors in prior period									–
Others									–
2. Opening balance of current year	547,672	–	1,895,342	–	–	–	246,788	446,625	3,136,427
3. Increase/decrease for current year	–	–	1,923	10,165	–	–	–	(1,514,936)	(1,523,178)
I. Total comprehensive income					–			(1,514,936)	(1,514,936)
II. Shareholders invest and reduce capital	–	–	1,923	10,165	–	–	–	–	(8,242)
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			1,923						1,923
iv. Others				10,165					(10,165)
III. Profits distribution	–	–	–	–	–	–	–	–	–
i. Appropriation of surplus reserve								–	–
ii. Distribution to owners									–
iii. Others									–
IV. Transfers within owners' equity	–	–	–	–	–	–	–	–	–
i. Capital reserves 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	–	1,897,265	10,165	–	–	246,788	(1,068,311)	1,613,249

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Wu Jinying	**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 2020
(All amounts in RMB'000 unless otherwise stated)

I. GENERAL INFORMATION

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

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

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

(II) Business nature and major activities of the Group

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

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

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

(III) Approval of the financial statements

These financial statements were approved by all the Directors of the Group on 29 April 2021.

(All amounts in RMB'000 unless otherwise stated)

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

During the period, 28 entities were consolidated in the consolidated financial statements, which were:

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

(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 Storage Co., Ltd. (Taicang Xiawei)	Wholly-owned subsidiary	First	100	100
Xinjiang Tongrong Fashion Co., Ltd. ("Xinjiang Tongrong")	Wholly-owned subsidiary	Second	100	100
Tianjin Xiawei Storage Co., Ltd. ("Tianjin Xiawei")	Wholly-owned subsidiary	Second	100	100
Shanghai Pinxi Technology Co., Ltd. ("Shanghai Pinxi")	Wholly-owned subsidiary	Second	100	100
Yixin Retail Co., Ltd. ("Yixin Lingshou")	Wholly-owned subsidiary	Second	100	100
Chengdu Xiawei Storage Co., Ltd. ("Chengdu Xiawei")	Wholly-owned subsidiary	Second	100	100
Taicang Jiachang Storage Co., Ltd. ("Taicang Jiachang")	Wholly-owned subsidiary	First	100	100
Taicang Chongan Fashion Co., Ltd. ("Taicang Chongan")	Wholly-owned subsidiary	Second	100	100
Taicang Xiawei Storage Co., Ltd. ("Taicang Xiawei Cangchu")	Wholly-owned subsidiary	First	100	100

During the reporting period, 1 entity was newly consolidated in the consolidated financial statements, and 9 entities were excluded from the scope of consolidation. Including:

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Following are conditions of the subsidiary newly consolidated in the scope of consolidation during the reporting period:

Name	Reason for change
Yixin Retail Co., Ltd.	Established by investment

(II) Following are conditions of subsidiaries excluded from the scope of consolidation during the reporting period, with special purpose and operating entities gained control through entrusted operation or lease:

Name	Reason for change
LACHA FASHION I LIMITED ("FASHION I")	Taken over by third party, loss of control
APPAREL I	Taken over by third party, loss of control (cancelled)
APPAREL II	Taken over by third party, loss of control
Naf Naf SAS	Taken over by third party, loss of control
Jack Walk (Shanghai) Fashion Co., Ltd. ("Jack Walk")	Bankruptcy liquidation, administrator took over the company, loss of control
Dongguan Dianlan Xinlong Fashion Co. Ltd. ("Dianlan Xinlong")	Subsidiary of Jack Walk, administrator took over Jack Walk, loss of control of the company
Shanghai Pincheng Industrial Co., Ltd. ("Pincheng")	Equity transfer
La Chapelle E-Commerce (Shanghai) Co., Ltd. ("LaCha Dianzi")	Equity transfer
Dongtai Yingxiao Fashion Co., Ltd. ("Dongtai Yingxiao")	Cancelled

Details of changes in scope of consolidation were set out in "Note VII. Changes in Consolidation Scope".

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of Preparation of the Financial Statements

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

(II) Going concern

The net loss of the Group during 2020 was RMB1,878,357, and have suffered three consecutive years of losses. As at 31 December 2020, the Group's current liabilities exceeded its assets by approximately RMB688,069. La Chapelle Company is now facing significant litigations due to a large number of overdue debts, which also led to the frozen of its principal bank accounts and shares of subsidiaries and the seize of real estates (refer to XII/(II)/(1), VI/ (I), XV/ III/1, VI/XII/(I)/4 respectively). The Company is presented as dishonest person. These events and conditions, indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group to continue as a going concern. The board of directors of the Company is taking active measures to ensure the Company's continuous operation ability based on current actual operation situation. The main plans are as follows:

1. To adjust the current operating strategies and developing ideas. On the one hand, the Company will focus on developing the refinement management level of high-quality boutiques owned, and carry out the method of "the headquarter takes responsibility of stores directly while each employee takes his own duty". Focusing on developing the effectiveness of both stores and employees, and profitability of each boutique. On the other hand, the Company will continue to increase promotion on authorization business, in order to achieve business model transformation with light asset, high gross profit and fast turnover. In the fourth quarter of 2020, the Company has achieved revenue of approximately RMB19,179,000 through online (not main brand) authorization business. The Company will continue broadening the brands, categories and platform channels of online authorization business, to take full advantage of "light asset" operating model, and to improve the asset turnover and profitability.

2. To "unload heavy and travel light" as soon as possible. The Company will promote the lease or sale of current inefficient property assets (including the headquarter district property and warehouse logistic asset), and strive to sell at the maximum premium. To withdraw funds by stripping off assets that do not conform to the company's strategy to improve the liquidity and asset structure of the Company, and to provide financial support for the development of core business.

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

(II) Going concern (continued)

3. To sort out the current inventories, by taking measures like identifying by pattern, high-quality selection, group packaging and channel matching, etc., and to encourage regions and partners in different regions to follow a unified policy to help the Company to destock inventories effectively, accelerate the withdrawal of funds, while actively developing new products and improve the performance and image of business terminal.

4. The Company will continue modifying and optimizing the management system, strengthening overall budget management and cost controlling, and focusing on "cost reducing". In 2021, the Company will pay more attention to the following matters, preparation, controlling and executing of budget, cost controlling from the source, controlling costs and expenditures strictly, making input and output analysis of key expenses, managing and supervising important expenses from each steps, do a monitoring dynamically and process supervision of the overall budget, and to maximize the profitability of main business.

5. For the debt issues that the Company is facing, the company will be responsible to all shareholders and creditors, to negotiate with relevant courts, creditors and financial institutions to reach a centralized solution for debt settlement as soon as possible. By adopting the settlements including but not limited to debt extension, exemption, concession and reconciliation, release the Company's pressure on debt, and to promote the Company to return to a healthy development track. There are RMB 165,818,000 in frozen in the Company's bank account, the Company will make plans of feasible solutions for debt repayment, to further optimize the asset-liability structure of the Company by Realizing the combination of reducing operating burden and debt restructuring income.

6. The Company will also strive to absorb new investors and external financing while the Company is taking actions to get out of the track. Taking good advantage of the resources of new major shareholders in financing credit, capital strength and professional capability, to restore and enhance the credit and financing ability by optimizing the overall business and seeking incremental funds.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Accounting principal and cost principal

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

(II) Declaration following Accounting Standards for Business Enterprises

The financial statements have been prepared by the Group in accordance with the Accounting Standards for Business Enterprises, and presented the Company's and the Group's financial position as on 31 December 2020, and the operating results and cash flows in 2020 truly and completely.

(III) Accounting period

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

(IV) Operating cycle

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

(V) Functional currency

The Group adopts Renminbi as its functional currency.

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

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

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

(1). These transactions occurred simultaneously or mutual influence have been considered.

(2). These deals have to be carried out as full transactions in order to achieve complete results.

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

(4). A separate transaction can be considered uneconomical, however, it can be economical with all transactions taken into consideration.

2. Business combination involving enterprises under common control

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

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

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

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

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

(1) A business merger contract or agreement has been approved by the Group's internal authority.

(2) Approval for business merger matters that need to be approved by the relevant national competent authority has been obtained.

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

(4) The Group has paid most of the combination consideration and has the ability and plans to pay the remaining amount.

(5) The Group has actually controlled the financial and operating policies of the acquired party and enjoyed corresponding benefits and assumed corresponding risks.

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

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

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)

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

4. Relevant expenses in relation to combination

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements

1. Scope of consolidation

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

2. Consolidated procedure

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

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

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

(1) Addition to subsidiary or business

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(1) Addition to subsidiary or business (continued)

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

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

(2) Disposal of subsidiaries or business

1) General treatment

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business (continued)

1) General treatment (continued)

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

2) Disposal of subsidiary achieved by stages

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

A. These transactions are entered at the same time or the mutual effects on each other are considered;

B. A complete set of commercial results can be achieved with reference to the series of transactions as a whole;

C. Achieving a transaction depends on at least achieving of one of the other transaction;

D. One transaction recognized separately is not economical, but it is economical when considered together with other transactions.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business (continued)

2) Disposal of subsidiary achieved by stages (continued)

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

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

(3) Acquisition of minority interest of subsidiary

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Classification of joint venture arrangements

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

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

(1) its legal form shows the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

(2) contract terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.

(3) other relevant facts and situations show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' supports.

2. Accounting treatment method for joint operation

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

(1) assets it solely holds and its share of jointly-held assets based on its percentage;

(2) liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;

(3) incomes from sale of output enjoyed by it from the joint operation;

(4) incomes from sale of output from the joint operation based on its percentage;

(5) separate costs and costs for the joint operation based on its percentage.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

2. Accounting treatment method for joint operation (continued)

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

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

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

(IX) Determination of cash and cash equivalent

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Translations involving foreign currencies

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

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

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

2. Translation of foreign currency financial statements

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments

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

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

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

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

1. Classification and measurement of financial instruments

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

(1) Financial assets measured at amortized cost.

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. Classification and measurement of financial instruments (continued)

(1) Classified as financial assets measured at amortized cost

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

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

1) For financial assets purchased or originated that have suffered credit impairment, the Group has calculated and determined its interest income based on the amortized cost of the financial asset and the credit-adjusted actual interest rate since initial recognition.

2) For the financial assets purchased or originated without credit impairment, but become credit impaired in the subsequent period, the Group will calculate and determine the interest income based on the amortized cost of the financial asset and the actual interest rate in the subsequent period. If the financial instrument has no credit impairment due to the improvement of its credit risk in the subsequent period, the Group will use the actual interest rate multiplied by the financial asset's book balance to calculate and determine the interest income.

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. Classification and measurement of financial instruments (continued)

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

1. Classification and measurement of financial instruments (continued)

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

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

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

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

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

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

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

1) The embedded derivatives do not materially change the cash flow of a hybrid contract.

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

2. Classification and measurement of financial liabilities

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

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

Subsequent measurement of financial liabilities depends on their classification:

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

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

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

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

1) Can eliminate or significantly reduce accounting mismatches.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

2. Classification and measurement of financial liabilities (continued)

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

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

(2) Other financial liabilities

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

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

2) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement of the transferred financial assets.

3) Financial guarantee contracts not classified as those specified in the two preceding items above, and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the above item.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

3. Derecognition of financial assets and liabilities

(1) Financial assets that meet one of the following conditions shall be derecognized, that is to be written off from the accounts and the statement of financial position:

1) The contractual right to receive the cash flow of the financial assets is terminated.

2) The financial assets have been transferred, and the transfer meets the requirements regarding the derecognition of financial assets.

(2) Conditions for derecognition of financial liabilities

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

4. Recognition basis and measurement method of financial asset transfer

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

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

(2) If all the risks and rewards of ownership of financial assets are retained, the financial assets will continue to be recognized.

(3) There is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (i.e., other than (1), (2)), depending on whether they retain control over financial assets, respectively, the situations are handled as follows:

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

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

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

(1) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included in the current profit and loss:

1) The book value of the transferred financial assets on the derecognition date.

2) The sum of the consideration received from the transfer of the financial asset and the amount of the corresponding derecognized part in the accumulated changes in fair value previously recorded directly in other comprehensive income (the financial assets involved in the transfer are financial asset measured at fair value through other comprehensive income).

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

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

(2) If the financial assets are partially transferred and the transferred part as a whole meets the conditions for derecognition, the entire carrying amount of the financial asset transferred shall be proportionally amortized between the derecognized portion and the retained portion (in this case, the retained service assets shall be deemed to be part of the continuing recognition of the financial assets) according to their respective relative fair value on the transfer date. Then, the balance between the following two amounts will be included in the current profit and loss:

1) The book value of the derecognition part on the derecognition date.

2) The sum of the consideration received from the derecognized part and the amount corresponding to the derecognized part in the accumulated amount of the fair value change that is previously included in other comprehensive income (the financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income).

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments

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

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

For the receivables and contract assets and lease receivables formed by the transactions regulated by the income standards, the Group uses a simplified measurement method to measure the loss provision based on the amount equivalent to the expected credit loss throughout the entire period.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments (continued)

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

(1) If the credit risk of the financial instrument has not increased significantly since the initial recognition, it is in the first stage, the loss provision is measured at the amount equivalent to the expected credit loss of the financial instrument in the next 12 months, and the interest income is calculated according to the book balance and the actual interest rate.

(2) If the credit risk of the financial instrument has increased significantly since the initial recognition, however, if credit impairment has not occurred, it is in the second stage, the loss provision is measured at the amount equivalent to the expected credit loss throughout the useful time of the financial instrument, and the interest income is calculated according to the book balance and the actual interest rate.

(3) If the financial instrument has suffered credit impairment since its initial recognition, it is in the third stage. The Group measures its loss provisions at an amount equivalent to the expected credit loss throughout the useful life of the financial instrument, and the interest income is calculated at amortized cost and actual interest rate.

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(1) Credit risk increased significantly

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

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

1) Whether the actual or expected operating results of the debtor have changed significantly;

2) Whether the debtor's regulatory, economic or technological environment has undergone significant adverse changes;

3) Whether there has been a significant change in the value of the collateral used as debt collateral or the guarantee provided by a third party or the quality of credit enhancement, and these changes are expected to reduce the economic motivation of the debtor to repay the loan within the time limit specified in the contract or affect the probability of default;

4) Whether the debtor's expected performance and repayment behavior have changed significantly;

5) Whether the Group's credit management methods for financial instruments have changed, etc.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(2) Financial assets with credit impairment

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

1) significant financial difficulty of the issuer or debtor;

2) breach of contract by the debtor: such as delinquency or default in interest and principal payments;

3) the creditor(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the creditor(s) would not otherwise consider;

4) it becomes probable that the debtor will enter bankruptcy or financial reorganization;

5) the disappearance of active markets for that financial asset because of financial difficulties of the issuer or debtor;

6) a substantial discount during acquisition or sourcing of a financial asset reflects the fact the occurrence of credit losses.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(3) Determination of expected credit losses

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

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

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

1) For financial assets, the credit loss is the present value of the difference between the contractual cash flow that the Group should receive and the expected cash flow.

2) For a financial guarantee contract, the credit loss is the present value of the difference between the estimated payment to the contract holder by the Group for the credit loss less the expected amount received by the Group from the contract holder, debtor or any other party.

3) For a financial asset that is credit-impaired at the balance sheet date, but that is not a purchased or originated credit-impaired financial asset, the credit loss is the present value of the difference between the financial asset's book balance and the estimated future cash flow discounted at the original effective interest rate.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(4) Written-off of financial assets

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

7. Offset of financial assets and financial liabilities

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

(1) The Group has the legal right to offset the recognized amount and such right is exercisable;

(2) The Group plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Notes receivable

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Accounts receivable

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIV) Receivables financing

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

(XV) Other receivables

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Inventory

1. Classification of inventories

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

2. Measurement of inventories

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Inventory (continued)

4. Inventory system

Adopting the perpetual inventory system.

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

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

(XVII) Other debt investment

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

(XVIII) Long-term equity instruments

1. Initial determination of investment costs

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

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

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

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

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

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

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

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

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

(2) Equity method

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

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

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

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

(4) Change of cost method to equity method

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

4. Disposal of long-term equity investment

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

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

(1) these transactions were entered into at the same time or after considering the effects of each other;

(2) only when regarding these transactions as a whole, can it achieve a complete business result;

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

(4) a transaction is not economical when treated alone, but is economical when considered with other transactions.

For those transactions that cannot be considered as package transactions, losing control over the original subsidiaries due to disposal of part equity investment or other reasons, they shall be distinguished between individual financial statement and consolidated financial statement with separate accounting treatments.

(1) In separate financial statements, for equity disposed, the difference between the book value and the actual payment is included in current profit or loss. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity method is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of Accounting Standards for Enterprises No.22-Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the book value is included in current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

(2) In consolidated financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will. Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

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

(1) In separate financial statements, the difference between the book value of the long-term equity investment corresponding to disposal price and equity disposed before the loss of control is recognized as other comprehensive income; and transferred to current profit or loss at the time of loss of control.

(2) In consolidated financial statements, the difference between the accumulated disposal considerations before control is lost and the share of net assets in the subsidiary is recognized as other comprehensive income, and shall be transferred to profit or loss for the period when control was lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

5. Criteria for determination of common control and significant impact

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset

1. Recognition of fixed assets

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

(1) Economic benefits related to such fixed assets are likely to flow into the enterprise;

(2) Costs of such fixed assets can be reliably measured.

2. Initial measurement of fixed assets

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

(1) The cost of the externally purchased fixed assets include the purchase price, the import duties, and the other expenditure direct attributable to such assets for such assets to be available for its intended use.

(2) The cost of a self-constructed fixed asset consists of all necessary expenses incurred from the construction for enabling the asset to be available for its intended use.

(3) The cost invested to a fixed asset by the investor is determined according to the value agreed upon in the investment contract or agreement. Where the valued agreed upon in the said investment contract or agreement is unfair, the said cost will be determined according to the fair value of the asset.

(4) Where the price for purchase of the fixed assets exceeds the deferred payment on normal credit terms with substantial financing nature, the cost is determined on the basis of the present value of the purchase price. The difference between the actual payment and the purchase price, besides being capitalized, shall be included in current profit or loss during the credit period.

(All amounts in RMB'000 unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset (continued)

3. Subsequent measurement and disposal of fixed assets

(1) Depreciation of fixed assets

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

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

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

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

(2) Subsequent measurements of fixed assets

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

(3) Disposal of fixed assets

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset (continued)

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

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

(1) Ownership of the lease asset will be transferred to the Group when rental period expire;

(2) The Group has the purchase option of the lease asset, and if it is reasonable to determine that the option will be exercised on the date it begins;

(3) Although the ownership of the asset will not transfer, the rental period accounts for most of its useful life;

(4) The present value of minimum lease payments on the commencement date is almost equivalent to its fair value on that date.

(5) The lease asset is of special nature, and it can only be used by the Group if not taking big modifications.

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Construction in progress

1. Initial measurement of construction in process

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

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

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

(XXI) Borrowing costs

1. Principles of recognizing capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized, and other borrowing costs are recognized in profit or loss for the period.

Qualifying assets are fixed assets, investment property and inventory that necessarily take a substantial period of time to get ready for its intended use or sale.

Borrowing costs are capitalized only when:

(1) Expenditure for such asset has occurred, which includes expenses in the form of cash paid, non-monetary asset transferred or interest-bearing obligations assumed for the construction or production of a qualifying asset;

(2) Borrowing costs have occurred;

(3) The acquisition, construction or production activities which are necessary to prepare the asset for its intended use or sale have started.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Borrowing costs (continued)

2. Capitalization period of borrowing costs

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

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

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

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

3. Suspension of capitalization period

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

4. Calculation of capitalization of borrowing cost

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Right-of-use assets

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets

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

1. Initial measurement of intangible assets

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets (continued)

2. Subsequent measurement of intangible assets

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

(1) Intangible assets with limited useful life

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Impairment of long-term assets

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

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Long-term prepaid expenses

1. Amortization method

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

2. Amortization period

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

(XXVI) Contract liabilities

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

(XXVII) Employee benefits

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

1. Short-term employee benefits

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Employee benefits (continued)

2. Post-employment benefits

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

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

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

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

3. Termination benefits

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Lease liabilities

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

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

(XXIX) Accrued Liabilities

1 Recognition criteria for estimated liabilities

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

the obligation is a present obligation of the Group;

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

the amount of the obligation can be measured reliably.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Accrued Liabilities

2. Method of measuring estimated liabilities (continued)

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments

1. Classification of share-based payments

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

2. Determination of fair value of equity instruments

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

4. Accounting treatment method

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue

1. General principles of revenue recognition

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

2. Accounting treatment principle on the revenue of specific transactions

(1) Contracts with sales return clause

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

(2) Reward points program

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

(3) Primary responsible/agent

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

3. Specific methods of revenue recognition

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

(1) retail

(2) wholesale

(3) brand authorization

(4) property rental

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

4. Specific principle of recognition of revenue：

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

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

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

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

(XXXII) Contract costs

1. Contract performance costs

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

(1) The cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), clear costs borne by the customer, and other costs incurred solely for the contract;

(2) This cost increases the resources that the company will use to fulfill its performance obligations in the future;

(3) The cost is expected to be recovered.

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contract costs (continued)

2. Contract acquisition costs

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

3. Amortization of contract costs

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

4. Impairment of contract costs

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants

1. Classification

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

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

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

2. Recognition of government grants

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants (continued)

3. Accounting treatment method

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

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

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

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIV) Income tax

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

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

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

1. Criteria for recognition of deferred income tax assets

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

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

2. Criteria for recognition of deferred income tax liabilities

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

(1) temporary difference arising from the initial recognition of goodwill;

(2) transactions or events arising from non-business combination, and neither the accounting profit or the taxable income (or deductible losses) is affected when the transaction or event occurs;

(3) for taxable temporary difference in relation to investment in subsidiaries or associates, the time for reversal of the difference can be controlled and the difference is probably not reversed in a foreseeable future.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease

1. Identification of lease

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

2. Separate leases identification

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

(1) The lessee may benefit from using the asset alone or in conjunction with other resources that are readily available;

(2) The asset is not highly dependent or highly correlated with other assets in the contract.

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

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

4. Assessment of lease term

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

5. As lessee

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

6. Lease modification

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

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

(1) The lease modifications expand the scope of the lease by adding the rights of use of one or more leased assets; and

(2) The increased consideration and the individual price of the enlarged portion of the lease are equivalent to the amount adjusted for the contract.

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

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

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

(2) Making a corresponding adjustment to the book value of right-of-use asset for all other lease modifications.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

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

The Group recognizes the lease whose lease term is not more than 12 months and the lease does not include the purchase option on the commencement date of the lease term as a short-term lease. The Group recognizes the lease, that with a value of not more than RMB35,000 while the single leased asset is a new, as a low value lease. If the Group subleases or expects to sublease the leased assets, the original lease is not recognized as a low-value asset lease. The Group does not recognize the right-of-use assets and lease liabilities for short-term leases and low-value asset leases. During each period of the lease term, the related asset costs or profit or loss for the current period are included by using the straight-line method.

8. As lessor

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

(XXXVI) Repurchase of shares

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

(XXXVII) Distribution of profits

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVIII) Fair value measurement

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

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

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

(XXXIX) Significant accounting judgments and estimates

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

1. Judgments

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

(1) Business model

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

(2) Contractual cash flow characteristics

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

(3) Lease period – Lease contract with renewal/cease option

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

1. Judgments (continued)

(4) Deferred income tax assets

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

2. Estimation uncertainty

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

(1) Impairment of financial instruments

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

(2) Impairment of goodwill

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(4) Sales return

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

(5) Provision for impairment of inventories

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

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(5) Lessee's incremental borrowing rate

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

(6) Long-term impairment losses

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

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Discontinued operation

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

(1) the component represents an independent main business or a separate major business area;

(2) This component is proposed disposal plan on an independent main business or proposed disposal in a separate major business area;

(3) This component is a subsidiary that is specifically acquired for resale.

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

(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%, 20%	note
	Real estate lease income	9%	
	Other taxable service income	6%	
	Simplified value-added tax calculation method	3%, 1%	
City maintenance and construction tax	Levied at the turnover tax paid	7%, 5%, 1%	
Enterprise income tax	Taxable income (for domestic company)	25%	
Enterprise income tax	Taxable income (for Hong Kong company)	8.25%	
Property tax	Calculate and pay at 70% of the original value of the real estate (or rental income).	1.2%(or 12%)	

Note: (For general taxpayers) VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value since 1 April 2019. The output tax of the taxable income of NaF NaF SAS is calculated at the tax rate of 20%, and the value-added tax is calculated and paid according to the difference after deducting the input tax allowed to be deducted in the current period.

(II) Tax incentive policies and basis

According to the Announcement No. 13 of 2020 by the Ministry of Finance and the State Administration of Taxation, from March 1 to May 31, 2020, as for a small-scale VAT taxpayer in Hubei province, its taxable sales income to which the VAT rate of 3% applies shall be exempt from VAT; and the prepayment of VAT on its items subject to prepayment of VAT at the rate of 3% shall be suspended. As for a small-scale VAT taxpayer in a province, autonomous region or municipality directly under the Central Government other than Hubei province its taxable sales income to which the VAT rate of 3% applies shall be subject to VAT at the reduced rate of 1%; and the VAT on its items subject to prepayment of VAT at the rate of 3% shall be prepaid at 1%.

According to the Announcement No. 24 of 2020 by the Ministry of Finance and the State Administration of Taxation, the implementation period of preferential policies announced in Announcement of the Ministry of Finance and the State Taxation Administration on the Value-Added Tax Policies on Supporting the Resumption of Work and Business of Individual Industrial and Commercial Households (Announcement No. 13 of 2020 by the Ministry of Finance and the State Administration of Taxation) shall be extended to December 31 2020.

VI. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts were in RMB'000 if not otherwise specified. The opening balances are presented on 31 December 2019.)

(I) Bank and cash

Items	**December 31, 2020**	December 31, 2019
Cash on hand	**321**	6,763
Bank deposits	**23,998**	168,786
Other monetary funds	**182,158**	182,135
Total	**206,477**	357,684
Including: total amount of funds abroad	**2**	76,030

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

Items	**December 31, 2020**	December 31, 2019
Bank deposits temporarily blocked or frozen due to the judicial system	**182,158**	154,090
Bank deposits	**–**	28,045
Total	**182,158**	182,135

As of December 31, 2020, the balance of monetary fund was RMB 151,207,000, representing a decrease of 42%. The decrease was mainly due to large amount of monetary funds which were used for the repayment of debts.

(II) Accounts receivable

1. Classified disclosure on aging

Aging	**December 31, 2020**	December 31, 2019
Within 90 days	**221,448**	528,954
90 days to 1 year	**60,324**	77,813
1 to 2 years	**21,136**	14,016
2 to 3 years	**14,098**	15,121
3 years above	**44,508**	30,221
Sub-total	**361,514**	666,125
Less: provision for bad debts	**90,877**	79,002
Total	**270,637**	587,123

Notes to the Financial Statements

For the year ended 31 December 2020

(All amounts in RMB'000 unless otherwise stated)

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

(II) Accounts receivable (continued)

2. Classified on bad debt provision

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

Continued:

	Opening balance				
	Book balance		Bad debt provision		
Items	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Accounts receivable subjected to provision for expected credit losses on individual basis	169,345	25	63,066	37	106,279
Accounts receivable subjected to provision for expected credit losses on portfolio basis	496,780	75	15,936	3	480,844
Including: Provision for bad debts on portfolio	496,780	75	15,936	3	480,844
Total	666,125	100	79,002	12	587,123

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

	Closing balance			
Items	Book balance	Bad debt provision	Proportion (%)	Reason
Hongche Industrial (Shanghai) Co., Ltd. (Hongche Industrial)	**4,284**	**4,284**	**100**	**1)**
Accounts receivables from shopping malls	**66,634**	**65,034**	**98**	**2)**
Total	**70,918**	**69,318**	**100**	**–**

(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 provision for expected credit losses on individual basis (continued)

1). As at December 31,2020, accounts receivables from related parties Hongche Industrial, which was out of the consolidation was RMB4,284,000. Due to the poor operating conditions and capital turnover problems of Hongche Industrial, the Group considered that these receivables could not be collected, therefore it made full provision for bad debts.

2). As at December 31,2020, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions and capital turnover problems of the shopping malls, and some shopping malls were closed. The group considered that the receivables could not be collected, therefore it made full provision for bad debts.

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

1) Bad debt provision on portfolio basis

	Closing balance			Opening balance		
Aging	**Carrying amount**	**Provision for bad debt**	**Proportion (%)**	Carrying amount	Provision for bad debt	Proportion (%)
Within 90 days	**196,834**	**3,936**	**2**	424,655	8,494	2
90 days to 1 year	**60,324**	**3,016**	**5**	59,550	2,978	5
1 to 2 years	**21,136**	**6,341**	**30**	10,334	3,100	30
2 to 3 years	**10,091**	**6,055**	**60**	2,191	1,314	60
3 years above	**2,211**	**2,211**	**100**	50	50	100
Total	**290,596**	**21,559**		496,780	15,936	

(All amounts in RMB'000 unless otherwise stated)

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

(II) Accounts receivable (continued)

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

Items	Opening balance	Changes: Provision	Changes: Recovered or reversed	Changes: Written off	Changes: Other changes	Closing balance
Accounts receivable subjected to provision for expected credit losses on individual basis	**63,066**	**6,252**	**–**	**–**	**–**	**69,318**
Accounts receivable subjected to provision for expected credit losses on portfolio basis	**15,936**	**7,370**	**1,307**	**–**	**440**	**21,559**
Including: Provision for bad debts on portfolio	**15,936**	**7,370**	**1,307**	**–**	**440**	**21,559**
Total	**79,002**	**13,622**	**1,307**	**–**	**440**	**90,877**

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

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

Name of company	Closing balance	Percentage of total accounts receivable balance (%)	Provision for bad debts
Shanghai Feiliang Information Technology Co., Ltd.	21,285	6	426
Shanghai Xiang'an Information Technology Co., Ltd.	12,211	3	2,643
Shenyang Juxingyu Trading Co., Ltd.	6,004	2	120
Shanghai Tianfei Import and Export Trade Co., Ltd.	5,992	2	5,174
Henan Jiangyou Trading Co., Ltd.	5,222	1	104
Total	50,714	14	8,467

As at December 31, 2020, the carrying amount of accounts receivable decreased RMB316,486,000, representing a decrease of 54% compared with last year, which was mainly due to the closure of lots of counters in the shopping malls, leading to the decrease of accounts receivable.

(All amounts in RMB'000 unless otherwise stated)

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

(III) Advances to suppliers

1. Advances to suppliers classified by aging

	Closing balance		Opening balance	
Aging	**Amount**	**Proportion (%)**	Amount	Proportion (%)
Within 1 year	**105,765**	**86**	88,091	87
1 to 2 years	**17,161**	**14**	13,588	13
Total	**122,926**	**100**	101,679	100

2. Reasons of advances to suppliers with an aging of more than 1 year and significant amounts not paying in time

As at December 31, 2020, the prepaid accounts with an aging of more than 1 year were mainly the purchase payment to the suppliers. Due to the decrease in purchase volume, the aging accounts exceed 1 year.

3. Total amount of the top five advances to suppliers analyzed as follows:

Name of company	**Closing balance**	**Percentage of total prepayments (%)**
Total amount of the top five advances to suppliers	8,549	7

(IV) Other receivables

Items	**December 31, 2020**	December 31, 2019
Interest receivable	**—**	—
Other receivables	**125,636**	174,643
Total	**125,636**	174,643

(All amounts in RMB'000 unless otherwise stated)

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

(IV) Other receivables (continued)

(I) Interests receivable

1. Classification of interest receivable

Items	Closing balance	Opening balance
Interest receivable on related party loans	5,622	3,314
Sub-total	5,622	3,314
Less: provision for bad interest	5,622	3,314
Total	–	–

2. Particulars of provision for bad debts of interest receivable

Provision for bad debt	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime expected credit losses (without credit losses)	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	–	–	3,314	3,314
Opening balance during the period that:	–	–	–	–
– transferred to stage II	–	–	–	–
– transferred to stage III	–	–	–	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	–	–	2,308	2,308
Reversal in the current period	–	–	–	–
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Other changes (disposal of subsidiaries)	–	–	–	–
Closing balance	–	–	5,622	5,622

(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*

Aging	December 31, 2020	December 31, 2019
Within 1 year	**227,484**	70,563
1 to 2 years	**31,410**	37,331
2 to 3 years	**12,776**	26,636
3 years above	**30,443**	97,292
Sub-total	**302,113**	231,822
Less: bad debt provision	**176,477**	57,179
Total	**125,636**	174,643

2. *Classified by nature*

Nature	December 31, 2020	December 31, 2019
Deposits	**158,968**	166,224
Tax return receivable from subsidiaries overseas	**–**	18,868
Refund of service charges	**13,778**	14,028
Staff advances	**1,420**	4,532
Property rental fees	**5,437**	—
Current receivables	**120,279**	—
Others	**2,231**	28,170
Total	**302,113**	231,822

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

	Closing balance			Opening balance		
Items	**Carrying amount**	**Provision for bad debt**	**Book value**	Carrying amount	Provision for bad debt	Book value
Stage I	**166,863**	**82,681**	**84,182**	115,247	7,000	108,247
Stage II	**62,916**	**21,462**	**41,454**	83,122	16,726	66,396
Stage III	**72,334**	**72,334**	**–**	33,453	33,453	—
Total	**302,113**	**176,477**	**125,636**	231,822	57,179	174,643

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

Provision for bad debts	Stage I Expected credit loss in the next 12 months	Stage II Expected credit loss for the entire lifetime (no credit impairment occurred)	Stage III Expected credit loss for the entire lifetime (credit impairment occurred)	Total
Opening balance	7,000	16,726	33,453	57,179
Opening balance during the period that:	–	–	–	–
– transferred to stage II	–	–	–	–
– transferred to stage III	(113)	(1,842)	1,955	–
– reversed to stage II	–	–	–	–
– reversed to stage I	–	–	–	–
Provision in the current period	75,794	10,769	47,107	133,670
Reversal in the current period	–	(4,191)	–	(4,191)
Charge-off in the current period	–	–	–	–
Write-off in the current period	–	–	–	–
Other changes (disposal of subsidiaries)	–	–	(10,181)	(10,181)
Closing balance	82,681	21,462	72,334	176,477

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

Name of company	Nature	Closing balance	Aging	Percentage of the closing balance of other receivables (%)	Closing balance of provision for bad debts
FASHION I	Transaction between related parties	120,279	Within 1 year	40	120,279
Shanghai Ice Cocoon Digital Media Co., Ltd	Refund of service charges	13,778	1 to 2 years	5	4,000
Tianjin International Mall Co., Ltd.	Deposit	2,016	Within 1 year	1	101
Beijing Kaide Jiamao Xizhimen Land Property Operation Management Co., Ltd.	Deposit	1,768	1 to 2 years、2 to 3 years、3 years above	1	1,768
Shanghai Zhongsheng World Mall Management Co., Ltd.	Deposit	1,351	Within 1 year	–	66
Total		139,192		47	126,214

(V) Inventories

1. Classification of inventories

Items	December 31, 2020			December 31, 2019		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	32,716	–	32,716	8,025	–	8,025
Finished goods	760,409	427,346	333,063	2,054,011	342,606	1,711,405
Goods in transit	116,403	51,274	65,129	–	–	–
Low value consumables	7,808	–	7,808	9,215	–	9,215
Total	917,336	478,620	438,716	2,071,251	342,606	1,728,645

As of December 31, 2020, there was a decrease in inventory of RMB1,153,915,000 as compared with the same period last year, representing a decrease of 56%, which was mainly due to the decrease of new product purchase to reduce inventory.

Reasons like difficulties in capital turnover have led to situations like inventories detained by third party. The book balance of closing inventory at third party was RMB69,779,000, and provision for impairment was RMB38,473,000, so the book value was RMB31,306,000.

(All amounts in RMB'000 unless otherwise stated)

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

(V) Inventories (continued)

2. Provision for decline in the value of inventories

Items	Opening balance	Increase in the current period		Decrease in the current period			Closing balance
		Provision	Others	Reversal	Write off	Others	
Finished goods	342,606	289,910	–	–	178,944	26,226	427,346
Goods in transit	–	51,274	–	–	–	–	51,274
Total	342,606	341,184	–	–	178,944	26,226	478,620

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

(VI) Non-current asset due within a year

Items	December 31, 2020	December 31, 2019
Equity disposal receivable (Note 1)	25,844	25,588
Debt investment (Note 2)	7,547	7,287
Less: impairment provision for non-current assets due within one year	7,547	7,287
Total	25,844	25,588

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

(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 (continued)

Note 2: In 2017, the Group provided a loan of RMB6,500,000 to Shanghai Jiuwo Co., Ltd., at an interest rate of 5.22%. The loan was extended for two years after its expiration on November 30, 2018, the loan interest rate during the extended period was 5.77% and the loan's due date is November 30, 2020. As of December 31, 2020, the Group have not received principal and interest, so it made full provision for bad debts.

(VII) Other current assets

(I) Particulars of other current assets

Items	December 31, 2020	December 31, 2019
Input VAT to be certified	36,656	89,094
Bank borrowings deposit	13,200	72,000
Prepaid tax presented at the deducted net amount	39,015	63,967
Borrowing to related parties (Note 1)	40,000	39,500
Entrusted loan (Note 2)	42,400	42,400
Prepaid stock repurchases	–	8,858
Cost of returns receivable	81	4,106
Less: impairment loss	82,400	95,366
Total	88,952	224,559

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

Note 2: As at 31 December 2020, the Group provided a total loan of RMB37,400,000 (2019: RMB37,400,000) to Xingji Industrial (Shanghai) Co., Ltd., at an interest rate of 5.22% to 5.66%. Because Xingji was no longer in the scope of consolidation, fully accrued provision has been made. The borrowing provided by the Group to Chengdu BeCool Technology Co., Ltd. amounted to RMB5,000,000 in total at an interest rate of 6%, a full provision has been made for this borrowing.

(All amounts in RMB'000 unless otherwise stated)

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

(VIII) Long-term receivables

Item	2020			2019		
	Carrying amount before provision	**Impairment provision**	**Carrying amount**	Carrying amount before provision	Impairment provision	Carrying amount
Disposal of subsidiaries	–	–	–	55,188	–	55,188
Deposit	**4,565**	**118**	**4,447**	137,613	3,781	133,832
Total	**4,565**	**118**	**4,447**	192,801	3,781	189,020

As at December 31, 2020, the closing balance of long-term receivable decreased by RMB 188,236,000, representing a decrease of 98%. The decrease was mainly due to the closure of boutiques and counters, so there were deposits to be received.

(IX) Long-term equity investment

Investee company	Opening balance	Balance of provision for impairment	Increase/decrease during the year: Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equities	Cash dividends declared	Provision for impairment	Closing balance	Balance of provision for impairmen
1. Associates											
Tibet Baoxin Equity Investment Partnership Enterprise (limited partnership) (Tibet Baoxin)	157,660	-	-	-	(711)	-	-	-	-	156,949	-
Hongche Industrial (Shanghai)Co., Ltd. (Hongche Industrial)	39,250	39,250	-	-	-	-	-	-	-	39,250	39,250
Beijing Aoni Trading Co., Ltd. (Beijing Aoni)	21,522	-	-	-	(765)	-	-	-	-	20,757	-
Shanghai Youshi Household Science and Technology Co., Ltd. (Shanghai Youshi Household) (Note 1)	-	-	-	-	-	-	-	-	-	-	-
Zhejiang Yuanrui Information Science and Technology Co., Ltd. (Zhejiang Yuanrui)	2,462	-	-	-	(2,462)	-	-	-	-	-	-
Fuzhou Badi Apperal Co., Ltd. (Fuzhou Badi)	6,871	-	-	-	(3,752)	-	-	-	-	3,119	-
Xinjiang Hengding Cotton Textile International Trading Co., Ltd. (Xinjiang Hengding) (Note 2)	4,701	-	-	5,296	595	-	-	-	-	-	-
Total	232,466	39,250	-	5,296	(7,095)	-	-	-	-	220,075	39,250

(All amounts in RMB'000 unless otherwise stated)

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

(IX) Long-term equity investment (continued)

Note 1: As of September 22, 2020, the Group transferred its equity interest in Shanghai Youshi Household Science and Technology Co., Ltd. at a consideration of RMB1 to a natural person named Fu Dengli.

Note 2: As of March 10, 2020, the Group transferred its equity interest in Xinjiang Hengding Cotton Textile International Trading Co., Ltd. to Maierfu Fashion Apparel Co., Ltd. at a consideration of RMB5,000,000

(X) Other equity instrument investment

1. Other equity instrument investment

Item	2020	2019
Beijing Mingtongsiji Technology Co., Ltd. (Beijing Mingtong)	**4,313**	10,534
Shanghai O2bra Co., Ltd. (Shanghai O2bra)	**428**	1,112
Total	**4,741**	11,646

2. Particulars of equity instrument investment not for trading

Items	Reasons for designated as measured at fair value through other comprehensive income	Dividend income recognized in the current period	Accumulated gains	Accumulated losses	Amount of other comprehensive income recognized in retained earnings	Reasons for other comprehensive income recognized in retained earnings
Beijing Mingtong	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	–	–	25,689	–	–
Shanghai O2bra	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	–	–	13,177	–	–
Total		–	–	38,866	–	–

(All amounts in RMB'000 unless otherwise stated)

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

(X) Other equity instrument investment (continued)

3. Other particulars of non-trading equity instrument investments

(1). In 2017, the Group acquired 1,075,000 shares, or 3.75% equity interests in Beijing Mingtong Siji Technology Co., Ltd. (北京明通四季科技股份有限公司) through National Equities Exchange and Quotations with a consideration of RMB15,000,000. In 2019, the Group completed the equity change in the equity investment in Beijing Mingtong Siji Technology Co., Ltd. due to the increase of other equity instrument investment of RMB15,002,000 this year, and the shareholding ratio changed to 7.07%. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. Therefore, the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 31 December 2020, the fair value of the equity instrument was RMB4,313,000.

(2). In July 2017, Shanghai Yanghe Culture Communication Co., Ltd. (Yanghe Culture) entered into an acquisition agreement with the Group whereby it transferred its 9.07% equity interest in O2bra Co. Ltd. to the Group at the consideration of RMB13,605,000. In March 2018, Shanghai O2bra Co. Ltd. completed the aforementioned transaction. The Group chose to designate the equity investment as financial assets at fair value through other comprehensive income, which are presented in other equity instrument investments. As at 31 December 2020, the fair value of the equity instrument was RMB428,000.

(XI) Other non-current financial assets

Item	**December 31, 2020**	December 31, 2019	Note
Financial assets at fair value through profit or loss	**94,050**	97,777	
Including: Ningbo Lansheng Qianhui Investment Partnership (limited partnership)	**27,031**	22,777	(1)
Nantong Xunming Fund Partnership (limited partnership)	**58,319**	65,000	(2)
Hangzhou Smart Investment Equity Investment Partnership (limited partnership)	**8,700**	10,000	(3)

(All amounts in RMB'000 unless otherwise stated)

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

(XI) Other non-current financial assets (continued)

(1) The Group entered into a written agreement which was Agreement About Ningbo Lansheng Qianhui Investment Partnership (Limited Partnership) with related parties in November 2017. The agreement stipulates that the subscribed capital contribution is RMB 26,000,000, accounting for 5.2% of the total subscribed capital contribution, the Group paid a total of RMB 18,200,000 in installments in 2017. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.

(2) The Group entered into a written agreement which was Agreement About Nantong Xunming Fund Partnership (Limited Partnership) with related parties in August 2018. The agreement stipulates that the subscribed capital contribution is RMB 10,000,000, accounting for 33% of the total subscribed capital contribution, the Group paid a total of RMB 65,000,000 in installments in 2019. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.

(3) The Group entered into a written agreement which was Agreement About Hangzhou Smart Investment Equity Investment Partnership (Limited Partnership) with related parties in May 2018, and renewed the agreement in November 2017. The agreement stipulates that the subscribed capital contribution is RMB 10,000,000, accounting for 19.57% of the total subscribed capital contribution, the Group paid a total of RMB 10,000,000 in installments in June 2017. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to current financial assets, so it is presented as other non-current financial assets.

(XII) Fixed asset

Item	2020	2019
Fixed asset	**1,624,902**	1,678,939
Disposal of fixed asset	**—**	—
Total	**1,624,902**	1,678,939

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

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset (continued)

1) Fixed asset

1. Particulars of fixed asset

Item	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
I. Original cost					
1. 31 December 2019	1,710,848	66,710	4,513	139,783	1,921,854
2. Increases in the current year	75,155	81	–	22	75,258
(1) Purchase	3,798	81	–	22	3,901
(2) Transferred from construction in progress	71,357	–	–	–	71,357
3. Decreases in the current year	2,712	6,131	2,294	47,372	58,509
(1) Disposal or retirement	–	28	2,121	44,928	47,077
(2) Disposal of subsidiaries	2,712	6,103	173	2,444	11,432
4. 31 December 2020	1,783,291	60,660	2,219	92,433	1,938,603
II. Accumulated depreciation					
1. 31 December 2019	109,612	25,203	2,063	97,222	234,100
2. Increases in the current year	92,154	8,881	302	19,441	120,778
(1) Accrual	92,154	8,881	302	19,441	120,778
3. Decreases in the current period	–	21	1,068	40,088	41,177
(1) Disposal or retirement	–	16	1,068	38,864	39,948
(2) Disposal of subsidiaries	–	5	–	1,224	1,229
4. 31 December 2020	201,766	34,063	1,297	76,575	313,701
III. Provision for bad debt					
1. 31 December 2019	2,712	6,103	–	–	8,815
2. Increases in the current year	–	–	–	–	–
3. Decreases in the current period	2,712	6,103	–	–	8,815
(1) Disposal or retirement	–	–	–	–	–
(2) Disposal of subsidiaries	2,712	6,103	–	–	8,815
4. 31 December 2020	–	–	–	–	–
IV. Carrying amount					
1. 31 December 2020	1,581,525	26,597	922	15,858	1,624,902
2. 31 December 2019	1,598,524	35,404	2,450	42,561	1,678,939

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset (continued)

1) Fixed asset (continued)

2. *Fixed asset leased out by finance*

Item	Closing carrying amount
Wujing headquarter 5th building	**67,504**
Total	**67,504**

3. *Fixed asset without certificate*

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

4. *Other particulars of fixed asset*

As of December 31, 2020, the Group's real property located at No.58, Tanzhu road, Minhang district, Shanghai, is pledged as collateral for short-term borrowings of RMB 332,400,000 from Bank of Communications (Note VI (XXI)), the real property ownership certificate number is Hu (2020) Min real property right No.023353. And as of December 31, 2020, the carrying amount of this real property was RMB1,057,999,000, which includes property and plants of RMB 1,001,656,000 and land use right of RMB56,343,000. The above-mentioned assets were seized by No. 1 Intermediate People's Court of Shanghai Municipality on July 16, 2020 due to litigation.

As of December 31, 2020, the Group's real property located at No.116, Guangzhou East road, Taicang, is pledged as collateral for short-term borrowings of RMB 550,000,000 from Bank of Urumqi (Note VI (XXI)), the real property ownership certificate numbers are Su (2019) Taicang real property right No. 0006322 and Su (2018) Taicang real property right No. 0029259. And as of December 31, 2020, the carrying amount of this real property is RMB 387,037,000, which includes property and plants of RMB 351,290,000 and land use right of RMB 35,747,000. The above-mentioned assets were seized by Shanghai Xuhui People's Court on September 20, 2020 due to litigation.

(All amounts in RMB'000 unless otherwise stated)

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

(XII) Fixed asset (continued)

1) Fixed asset (continued)

4. Other particulars of fixed asset (continued)

As of December 31, 2020, the Group's real property located at No.24, Xinghua 4th road, Daxing town, Xiqing district, Tianjin, is pledged as collateral for short-term borrowings of RMB 189,000,000 from Everbright Bank (Note VI (XXI)), the real property ownership certificate number is Jin (2018) Xiqing district real property right No. 1016982. And as of December 31, 2020, the carrying amount of this real property is RMB 237,194,000, which includes property and plants of RMB 131,711,000, land use right of RMB 36,946,000 and construction in progress of 68,537,000. The above-mentioned assets were seized by Shanghai Xuhui People's Court on December 23, 2020 due to litigation.

As of December 31, 2020, the Group's right use land located at second and third group of Guangming Community, Jinma Town, Wenjiang District, Chengdu (Wen State Owned(2015) No.66859) is pledged as collateral for short-term borrowings of RMB87,000,000, details are stated in Note VI(XXI). As of December 31, 2020, the carrying amount of this land and the plants and buildings above was RMB115,147,000, which includes property and plants of RMB96,868,000 and land use right of RMB18,279,000.

As of December 31, 2020, the Group's fixed assets that the right-of-use or ownership has been restricted are stated in Note VI (LVIII).

(XIII) Construction in progress

Item	31 December 2020	31 December 2019
Construction in progress	**69,054**	141,787
Total	**69,054**	141,787

(All amounts in RMB'000 unless otherwise stated)

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

(XIII) Construction in progress (continued)

I) Construction in progress

1. Particulars of construction in progress

	31 December 2020			31 December 2019		
Project	**Carrying amount before provision**	**Provision for impairment**	**Carrying amount**	Carrying amount before provision	Provision for impairment	Carrying amount
Tianjin logistics center	**68,537**	**–**	**68,537**	68,165	–	68,165
Wujing headquarter project	**–**	**–**	**–**	71,232	–	71,232
La Chapelle AI commodity operation platform project	**–**	**–**	**–**	2,390	–	2,390
Others	**517**	**–**	**517**	12,034	12,034	–
Total	**69,054**	**–**	**69,054**	153,821	12,034	141,787

2. Movement in significant construction in progress

Project	**Forecast**	**31 December 2019**	**Increase in the current year**	**Transferred into fixed assets**	**Other decreases in the current period**	**31 December 2020**
Tianjin logistics center	296,286	68,165	372	–	–	68,537
Wujing headquarter project	1,099,961	71,232	–	71,232	–	–
La Chapelle AI commodity operation platform project	4,999	2,390	–	–	2,390	–
Others	–	–	642	125	–	517
Total	1,401,246	141,787	1,014	71,357	2,390	69,054

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

(XIII) Construction in progress (continued)

I) Construction in progress (continued)

2. Movement in significant construction in progress (continued)

Continued:

Project	Completion percentage (%)	Accumulative capitalization of borrowings	Including; interest of capitalized borrowing costs	interest rate of capitalized borrowing costs(%)	Sources of funds
Tianjin logistics center	69	14,894	—	—	Borrowing and working capital
Wujing headquarter project	100	47,027	—	—	Borrowing and working capital
La Chapelle AI commodity operation platform project	—	—	—	—	Working capital
Others	—	—	—	—	Working capital
Total		61,921	—	—	

As of December 31, 2020, the Group's construction in progress that the ownership or right-of-use has been restricted are stated 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

1. Particulars of right-of-use assets

Items	Properties and plants
I. Original cost	
1. 31 December 2019	2,219,009
2. Increases	—
3. Decreases	2,106,353
Disposal	1,202,223
Disposal of subsidiaries	904,130
4. 31 December 2020	112,656
II. Accumulated depreciation	
1. 31 December 2019	467,308
2. Increases	295,806
Other increases	295,806
3. decreases	718,750
Increases	650,867
Increases	67,883
4. 31 December 2020	44,364
III. Provision for bad debt	
1. 31 December 2019	142,303
2. Increases	–
Accrual	–
3. Decreases	121,857
Disposal	102,710
Disposal of subsidiaries	19,147
4. 31 December 2020	20,446
IV. Carrying amount	
1. 31 December 2020	47,846
2. 31 December 2019	1,609,398

As of December 31, 2020, the closing carrying amount of right-of-use asset was RMB 1,561,552,000, representing a decrease of 97%, which was mainly due to the effect of Covid-19 and operating losses, leading to the closure of ineffective department stores.

(All amounts in RMB'000 unless otherwise stated)

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

(XV) Intangible assets

1. Particulars of intangible assets

Items	Trademarks	Purchased software	Land use right	Brands	Favorable contracts	Total
1. Original cost						
1.31 December 2019	8,082	124,644	162,818	136,385	1,550	433,479
2. Increases	—	2,161	4,490	—	—	6,651
(1) Purchase	—	1,901	4,490	—	—	6,391
(2) Transfer in construction in progress	—	260	—	—	—	260
3. Decreases	3,918	30,324	—	136,385	1,550	172,177
(1) Disposal of subsidiaries	3,918	30,324	—	136,385	1,550	172,177
4. 31 December 2020	4,164	96,481	167,308	—	—	267,953
II. Accumulated amortization						
1. 31 December 2019	2,360	72,689	16,635	15,866	1,550	109,100
2. Increases	347	9,314	3,358	48	—	13,067
(1) Accrual	347	9,314	3,358	48	—	13,067
3. Decreases	—	3,606	—	15,914	1,550	21,070
(1) Disposal of subsidiaries	—	3,606	—	15,914	1,550	21,070
4. 31 December 2020	2,707	78,397	19,993	—	—	101,097
III. Provision for impairment						
1. 31 December 2019	3,918	26,431	—	110,476	—	140,825
2. Increases	—	—	—	—	—	—
(1) Accrual	—	—	—	—	—	—
3. Decreases	3,918	26,431	—	110,476	—	140,825
(2) Disposal of subsidiaries	3,918	26,431	—	110,476	—	140,825
4. 31 December 2020	—	—	—	—	—	—
IV. Carrying amount						
1. 31 December 2020	1,457	18,084	147,315	—	—	166,856
2. 31 December 2019	1,804	25,524	146,183	10,043	—	183,554

As of December 31, 2020, the Group has no intangible asset with uncompleted property certificate.

As of December 31, 2020, the Group's intangible assets that the ownership or right-of-use has been restricted are stated 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	December 31 2019	Increases: Formed from business combination	Increases: Others	Decreases: Disposal	Decreases: Others	December 31 2020
Acquire NAF NAF SAS	73,466	–	–	–	73,466	–
Acquire Hangzhou Anshe E-Commerce	78,231	–	–	–	–	78,231
Acquire Jack Walk Fashion Co., Ltd.	13,383	–	–	–	13,383	–
Acquire Pincheng	7,992	–	–	7,992	–	–
Total	173,072	–	–	7,992	86,849	78,231

2. Impairment provision

Name of investee or item resulting in goodwill	December 31 2019	Increases: Accrual	Increases: Others	Decreases: Disposal	Decreases: Others	December 31 2020
Acquire NAF NAF SAS	73,466	–	–	–	73,466	–
Acquire Hangzhou Anshe E-Commerce	–	–	–	–	–	–
Acquire Jack Walk Fashion Co., Ltd.	13,383	–	–	–	13,383	–
Acquire Pincheng	7,992	–	–	7,992	–	–
Total	94,841	–	–	7,992	86,849	–

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

(XVI) Goodwill (continued)

3. Relevant information about the group or portfolio of groups goodwill belongs

Naf Naf SAS Asset Group: derecognize its goodwill due to the taken over of FASHION I, which is parent company of Naf Naf SAS, and the Company lost control of it.

La Chapelle original brand Group: The Group recognized the goodwill of Hangzhou Anshe of RMB 92,339,000 when acquired on April 1, 2015. Considering that it can be beneficial to the enterprise combination synergy effect of the asset group or portfolio of the asset group, the Group allocated RMB 1,411,000 of the goodwill in the Qigege brand group and RMB 78,231,000 in La Chapelle original brand Group, of which, goodwill of Qigege brand group was derecognized with the disposal of Hangzhou Anshe.

Jack Walk Asset Group: due to the bankruptcy liquidation of Jack Walk, administrator took over the company, therefore the Company lost control of it and derecognized the goodwill of the asset group.

Pincheng Asset Group: The Company completed equity transfer in 2020, so as to derecognize its goodwill.

As of December 31, 2020, the carrying amount of goodwill in which the goodwill located is La Chapelle original brand group.

4. Process of goodwill impairment test, significant indicators and recognition method of impairment loss

Impairment test on goodwill of La Chapelle original brand Group:

The recoverable amount of the asset group where the goodwill is located is determined according to the present value of the expected future cash flow of the asset group, and its future cash flow is determined based on the financial budget of the forecast period (2021-2025) approved by the management. The pretax discount rate used in the cash flow forecast of the asset group during the forecast period is 16.51% (2019: 15%), and the cash flow growth rate during the forecast period is 4% (2019: 15%). Used to infer that the growth rate of cash flow after the forecast period is 3% (2019: 3%). It is estimated that the present value of the expected future cash flow of the original brand group of La Chapelle is higher than the book value of the portfolio of the asset group, and the Group believes that there was no impairment of the goodwill arising from the acquisition.

Targeted gross margin test used is based on the average gross profit margin realized in the year before the budget year, the average gross profit margin is appropriately increased according to the expected efficiency improvement.

Discount rate test used is the pre-tax discount rate reflecting the specific risks of the relevant asset group or portfolio of asset group.

(All amounts in RMB'000 unless otherwise stated)

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

(XVII) Long-term prepaid expenses

Items	31 December, 2019	Additions	Amortization	Other decreases	31 December, 2020
Leasehold improvement	274,241	36,810	286,294	1,773	**22,984**
Total	274,241	36,810	286,294	1,773	**22,984**

The Closing balance of long-term prepaid expenses decreased RMB 251,257,000 comparing to the same period last year, representing a decrease of 92%. the decrease was mainly due to the closure of boutiques in a large scale.

(XVIII) Deferred tax asset and deferred tax liabilities

1. Deferred tax assets before offsetting

	December 31 2020		December 31 2019	
Items	**Deductible temporary difference**	**Deferred income tax assets**	Deductible temporary difference	Deferred income tax assets
Difference between tax and accounting	**69,228**	**17,307**	928,276	232,069
Disposal difference of Hanzhou Anshe	–	–	9,224	2,306
Intra-group unrealized profit	–	–	52,396	13,099
Tax losses carried forward	–	–	770,200	192,550
Provision for inventories impairments	–	–	183,744	45,936
Provision for bad debts	**12,996**	**3,249**	176,068	44,017
Differences in amortization of long-term prepaid expense between tax and accounting	–	–	92,264	23,066
Employee benefits payable	–	–	7,632	1,908
Integral income contract liability	–	–	4,252	1,063
Total	**82,224**	**20,556**	2,224,056	556,014

In which, the total closing balance of deferred tax asset recognized by the subsidiaries of the Group that are profitable this year amounted to RMB 50,000, and total closing balance of deferred tax asset recognized by the loss-making subsidiaries amounted to RMB 469,085,000,

(All amounts in RMB'000 unless otherwise stated)

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

(XVIII) Deferred tax asset and deferred tax liabilities (continued)

2. Deferred tax liabilities before offsetting

Items	December 31 2020 Taxable temporary difference	December 31 2020 Deferred income tax liabilities	December 31 2019 Taxable temporary difference	December 31 2019 Deferred income tax liabilities
Asset gains from business combinations involving entities not under common control	–	–	41,097	10,728
Right-of-use assets	**47,844**	**11,961**	789,144	197,286
Capitalized borrowing costs	**82,224**	**20,556**	86,676	21,669
Differences between long-term equity investment tax laws and accounting	–	–	7,664	1,916
Fair value changes on financial instruments	**7,800**	**1,950**	4,576	1,144
Other	–	–	80,238	24,874
Total	**137,868**	**34,467**	1,009,395	257,617

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

Items	December 31 2020 Offsetting amount	December 31 2020 Net amount	December 31 2019 Offsetting amount	December 31 2019 Net amount
Deferred tax assets	**(20,556)**	–	(220,100)	335,914
Deferred tax liabilities	**20,556**	**13,911**	220,100	37,517

4. Tax losses carried forward not recognized as deferred tax assets

Items	December 31 2020	December 31 2019
Deductible temporary differences	**1,677,021**	677,730
Tax losses	**3,154,920**	1,782,189
Total	**4,831,941**	2,459,919

(All amounts in RMB'000 unless otherwise stated)

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

(XVIII) Deferred tax asset and deferred tax liabilities (continued)

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

Year	December 31 2020	December 31 2019	Note
2020	–	8,284	
2021	8,604	84,622	
2022	107,516	196,361	
2023	143,244	273,918	
2024	801,984	920,953	
2025	2,093,572	—	
No due date	–	298,051	
Total	3,154,920	1,782,189	

(XIX) Other non-current asset

Items	December 31 2020	December 31 2019
Prepaid decoration expenses of department stores	8,591	17,879
Advances to suppliers for props (Note)	5,570	—
Less: provision for bad debts	5,570	—
Total	8,591	17,879

Note: This account was advances to suppliers for clothes hangers. The original supplier was Yuyao Junfu Industrial Co., Ltd, this account have been transferred to Shanghai Lanshuo Electronic Engineering Co., Ltd. The Group has made full provision for the impairment.

As of December 31, 2020, the closing balance of non-current asset decreased RMB9,288,000, representing a decrease of 52%, which was mainly due to significant closure of boutiques in the reporting period.

(All amounts in RMB'000 unless otherwise stated)

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

(XX) Provision for asset impairment

2020

Items	31 December 2019	Accrual	Decrease in the current year Reversal	Write-off	Disposal of subsidiaries	Exchange realignment	31 December 2020
Provision for bad debts of accounts receivable	79,002	13,622	1,307	–	440	–	**90,877**
Other Provision for bad debts of other receivables	57,179	133,670	4,191	–	10,181	(58)	**176,477**
Provision for bad debts for interest receivable	3,314	2,308	–	–	–	–	**5,622**
Provision for bad debts for prepayments	–	2,628	–	–	–	–	**2,628**
Inventory provision	342,606	341,184	–	178,944	26,226	–	**478,620**
Impairment provision for non-current assets due within one year	7,287	260	–	–	–	–	**7,547**
Provision for bad debts of other current assets	95,366	500	–	–	13,466	–	**82,400**
Provision for bad debts of other non-current assets	–	5,570	–	–	–	–	**5,570**
Provision for long-term receivables	3,781	–	3,593	–	–	–	**188**
Impairment provision for long-term equity investment	39,250	–	–	–	–	–	**39,250**
Fixed assets depreciation reserves	8,815	–	–	–	8,815	–	**–**
Impairment of construction in progress	12,034	–	–	–	12,034	–	**–**
Provision for impairment of the right of use assets	123,103	–	–	–	123,103	–	**–**
Impairment of intangible assets	140,825	–	–	–	140,825	–	**–**
Goodwill impairment provision	94,841	–	–	–	–	–	**94,841**
Total	1,007,403	499,742	9,091	178,944	335,090	-58	**984,020**

(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	December 31 2020	December 31 2019
Mortgaged loan	–	292,289
Secured borrowing	54,000	427,400
Unsecured loan	–	51,418
Mortgages and guaranteed loans	563,400	310,000
Mortgage, pledge and guarantee loan	550,000	400,000
Total	1,167,400	1,481,107

The secured borrowing of RMB 54,000,000 was a short-term borrowing from Bank of Communications Co., Ltd. Shanghai Zhabei Branch. The guarantors are Xing Jiaxing, Shanghai Weile, Chengdu Lewei, Tianjin LaCha and Taicang LaCha respectively.

Mortgages and guaranteed loan were RMB 563,400,000, RMB 87,000,000 of which was short-term borrowing from China CITIC Bank Co., Ltd. Taifu Plaza Sub-branch borrowed by the parent company, which was guaranteed by Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd., La Chapelle Fashion (Tianjin) Co., Ltd. and La Chapelle Fashion (Taicang) Co., Ltd. and Xing Jiaxing. The collateral was the land under the name of Chengdu Lewei Fashion Co., Ltd., located in the second and third groups of Guangming Community, Jinma Town, Wenjiang District, Chengdu (the land use certificate number is Wen State-owned (2015) No. 66859) and the above-ground logistics base. RMB 198,000,000 of mortgages and guaranteed loan was short-term borrowing from China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch, which was guaranteed by Xing Jiaxing, Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd., and the collateral was the land use right and real property ownership (Jin(2018) Xiqing District Real Property No. 1016982) under the name of La Chapelle Fashion (Tianjin) Co., Ltd., located at No. 24, Xinghua 4th Road, Dasi Town, Xiqing District, Tianjin. RMB 278,400,000 of mortgages and guaranteed loan was short-term borrowing from Bank of Communications Co., Ltd. Shanghai Zhabei and Jing'an Bub-branch, which was guaranteed by Xing Jiaxing, Shanghai Weile Fashion Co., Ltd., Chengdu Lewei Fashion Co., Ltd. La Chapelle Fashion (Tianjin) Co., Ltd. and La Chapelle Fashion (Taicang) Co., Ltd., and the collateral is real property ownership (Min(2020) Minzi Real Property No. 023353-No. 58, Tanzhu Road) under the name of Shanghai Weile Fashion Co., Ltd..

(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)

Mortgage, pledge and guarantee loan of RMB 550,000,000 was an entrusted loan from Urumqi Bank Co., Ltd. Urumqi Siping Road Keji Branch borrowed by Xinjiang Tongrong, the principle was Urumuqi High-tech Investment Development Group, and was guaranteed by Xing Jiaxing, and the collaterals are real property ownership under the name of La Chapelle Fashion (Taicang) Co., Ltd. and 100% owned by Taicang Jiachang Storage Co., Ltd. The numbers of real property certificate are Su (2019) Taicang Real Estate Property No. 0006322 and Su (2018) Taicang Real Estate Property No. 0029259. And the pledge is the Company's 100% equity interest in Taicang Jiachang Storage Co., Ltd.

The total amount of short-term borrowing between the Company and Shanghai Zhabei Sub-branch and Jing'an Sub-branch of Bank of Communications Co., Ltd. was RMB 332,400,000 (including mortgages and guaranteed loans of RMB 278,400,000 and secured borrowing of RMB 54,000,000), all of which have been transferred to China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office by Shanghai Subbranch of Bank of Communications Co., Ltd.

As at December 31, 2020, the annual interest rate range of the above borrowings is 4.55% to 7.00% (December 31, 2019: 4.35% to 8.00%).

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

The due short-term borrowings outstanding at the end of the current period was RMB 679,000,000, the important of which are presented below:

Borrowing company	December 31 2020	Borrowing interest rate (%)	Due time	Overdue interest rate (%)
Urumqi Bank Co., Ltd. Urumqi Siping Road Keji Branch	550,000	6.8	November 27, 2020	6.5
China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office	75,000	5.22	November 28, 2020	10.5
China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office	54,000	5.22	November 21, 2020	10.5
Total	679,000			

(All amounts in RMB'000 unless otherwise stated)

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

(XXI) Short-term borrowings (continued)

3. Descriptions of short-term borrowings

Short-term borrowings of the Group from Bank of Communications Shanghai Zhabei Jing'an Branch amounted to RMB 332,400,000 and was expired in 2020. The Group renewed the loan contracts of RMB203,400,000 to 2021 after negotiating with Bank of Communications, the original interest rate is 4.9% and the loan interest rate during the extended period changed to 7% from September 2020; a loan of RMB129,000,000 was expired and the overdue interest rate was 10.5%. In December 2020, this short-term borrowing with a total amount of RMB332,400 has been transferred to China Huarong Asset Management Co., Ltd., China (Shanghai) Pilot Free Trade Zone Branch Office by Shanghai Subbranch of Bank of Communications Co., Ltd.

Short-term borrowings of the Group from China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch was RMB 198,400,000and was expired in 2020, after negotiation with China Everbright Bank, the contract extended to 2021, the original interest rate was 5.655%, and the interest rate during the extended period was 5.22%.

Short-term borrowings of the Group from CITIC Bank Co., Ltd. Taifu Square Sub-branch was RMB8,700,000 and was expired in 2020, after negotiation with CITIC Bank, the contract extended to 2021, the original interest rate was 5%, and the interest rate during the extended period was 4.55%.

(XXII) Notes payable

Categories	**December 31 2020**	December 31 2019
Trade acceptance notes	–	248,288
Bank acceptance notes	–	7,188
Total	–	255,476

As at December 31, 2020, the total amount notes payable expired but unpaid was RMB 321,556,000, all of which were trade acceptance notes, and has been reclassified to current account.

(All amounts in RMB'000 unless otherwise stated)

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

(XXIII) Accounts payable

Items	December 31 2020	December 31 2019
Payable for purchase	**1,164,154**	1,721,205
Total	**1,164,154**	1,721,205

As of December 31, 2020, the account payable decreased RMB 557,051,000 comparing to the same period last year, representing a decrease of 32%, which was mainly due to a significant business reduction in scale and procurement requirements.

1. Major accounts payable aged over one year

Name of company	December 31 2020	Reason
Nantong Minglong Fashion Co., Ltd.	**70,067**	Difficulties in capital turnover
Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	**38,904**	Difficulties in capital turnover
Dongguan Xingjian Clothing Co., Ltd	**32,452**	Difficulties in capital turnover
Zhejiang Huarui Fur Co., Ltd.	**29,914**	Difficulties in capital turnover
Hunan Suoyat Clothing Co., Ltd.	**25,384**	Difficulties in capital turnover
Guangzhou Chuangxing Garment Group Co., Ltd.	**24,289**	Difficulties in capital turnover
Nantong Sanrun Garment Co., Ltd.	**21,198**	Difficulties in capital turnover
Shanghai Hongwei Apparel Factory	**20,466**	Difficulties in capital turnover
Nantong Chengye Clothing Co., Ltd.	**19,323**	Difficulties in capital turnover
Jiaxing Chengxin Garment Co., Ltd.	**19,261**	Difficulties in capital turnover
Other summaries of amount more than 10 million	**313,166**	Difficulties in capital turnover
Total	**614,424**	

(XXIV) Advance from customers

1. Particulars of advance from customers

Items	December 31 2020	December 31 2019
Rent in advance	**1,428**	2,489
Total	**1,428**	2,489

(All amounts in RMB'000 unless otherwise stated)

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

(XXV) Contract liabilities

1. Particulars of contract liabilities

Items	December 31 2020	December 31 2019
Advance from customers	**7,330**	52,268
Total	**7,330**	52,268

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

Items	Amount change	Reason
Changes resulting from disposal of subsidiaries	**(29,849)**	A decrease in disposal of subsidiaries
Franchise sales performance obligations	**(15,834)**	The decrease resulted from the implementation of the new franchise sales
Brand authorization performance obligations	**3,023**	The increase resulted from the increase of new brand authorization model
Member points performance obligations	**(2,278)**	The introduction of the membership points system led to an increase in sales
Total	**(44,938)**	

(All amounts in RMB'000 unless otherwise stated)

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

(XXVI) Payroll payable

1. Particulars of payroll payables

Items	December 31 2019	Increase during the period	Disposal of subsidiaries	Decrease during the period	December 31 2020
Short-term compensation	108,658	473,726	–	538,436	**43,948**
Retirement benefits (defined contribution) plans	12,949	26,931	–	36,809	**3,071**
Termination benefits	–	18,617	–	–	**18,617**
Salary overseas and social insurance	69,384	–	69,384	–	**–**
Total	190,991	519,274	69,384	575,245	**65,636**

2. Particulars of short-term compensation

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Wages or salaries, bonuses, allowances and subsidies	97,819	427,595	486,653	**38,761**
Staff welfare	462	115	539	**38**
Social insurance	6,396	21,686	25,654	**2,428**
Including: Medical insurance	5,483	19,227	22,593	**2,117**
Others	913	2,459	3,061	**311**
Housing fund	3,937	21,544	23,069	**2,412**
Labor union and staff education fund	44	2,786	2,521	**309**
Total	108,658	473,726	538,436	**43,948**

3. Particulars of defined contribution plan

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance premium	12,327	26,540	35,856	**3,011**
Unemployment Insurance premium	622	391	953	**60**
Total	12,949	26,931	36,809	**3,071**

(All amounts in RMB'000 unless otherwise stated)

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

(XXVI) Payroll payable (continued)

4. Other particulars of payroll payable

1). Salary overseas and social insurance are generated by Naf Naf SAS.

2). As of December 31, 2020, the carrying amount of payroll payable decreased RMB125,355,000, representing a decrease of 66%, which was mainly due to the employee reduction caused by closure of stores and corporate layoff.

(XXVII) Taxes Payable

Item of taxes	December 31 2020	December 31 2019
Unpaid VAT	64,985	115,356
Corporate income tax payable	67,867	65,678
Individual income tax	519	4,455
City maintenance and construction tax payable	12,722	13,820
Educational surcharge payable	9,220	8,002
Others	8,601	19,897
Total	163,914	227,208

(XXVIII) Other payables

Items	December 31 2020	December 31 2019
Interests payable	58,830	6,774
Other payables	863,513	747,902
Total	922,343	754,676

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

(All amounts in RMB'000 unless otherwise stated)

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

(XXVIII) Other payables (continued)

1. Interest payable

Items	**December 31 2020**	December 31 2019
Interest of long-term borrowings with installment of interest and repayment of principal upon maturity	**11,961**	604
Interest payable of short-term borrowings	**46,869**	6,170
Total	**58,830**	6,774

Particulars of significant interest expired but unpaid：

Names of borrowing company	**Overdue amount**	Reason
China Huarong Asset Management Co., Ltd Shanghai Pilot Free Trade Zone Branch	11,412	Difficulties in capital turnover
China Huarong Asset Management Co., Ltd Shanghai Pilot Free Trade Zone Branch	11,961	Difficulties in capital turnover
Bank of Urumqi Co., Ltd. Siping Road Keji Sub-branch	35,039	Difficulties in capital turnover
Total	58,412	Difficulties in capital turnover

The interest payable of the current period increased RMB52,056,000 compared to the same period last year, representing an increase of 768%, which was mainly due to difficulties in capital turnover, and the borrowing interest expired but unpaid was RMB58,412,000.

(All amounts in RMB'000 unless otherwise stated)

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

(XXVIII) Other payables (continued)

2. Other payables

(1) Other receivables presented by nature

Nature	2020	2019
Payables for construction and decoration of department stores	**423,665**	431,687
Suppliers' deposits	**75,600**	82,666
Vendors' deposit	**75,744**	77,012
Outsourcing staff service fee	**9,346**	35,709
Payables for logistic expense	**15,271**	31,505
Trustee fees	**26,697**	16,868
Payable for posts props and store promotion	**336**	8,751
Payables for rental fees	**200,123**	8,308
Litigation compensation	**686**	8,058
Loan from the 3rd party	**6,053**	6,000
Payable for e-commercial	**6,574**	5,568
consulting fees	**3,265**	3,066
Payables for software purchase	**2,018**	2,930
Audit fees	**1,336**	1,628
Estimated costs	**3,152**	—
Other	**13,647**	12,964
Other-Naf Naf SAS	**—**	15,182
Total	**863,513**	747,902

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

Name of company	Closing balance	Reasons for not-payment or carryover
Shanghai Construction Engineering Second Construction Group Co., Ltd.	**22,842**	Difficulties in capital turnover
Shanghai Feiliang Information Technology Co., Ltd.	**18,190**	Difficulties in capital turnover
Shanxi Miaozhuo Clothing Co., Ltd	**13,463**	Difficulties in capital turnover
Henan Jiangyou Trading Company	**8,271**	Difficulties in capital turnover
Shenyang Juxingyu Trading Company	**5,143**	Difficulties in capital turnover
Total	**67,909**	

(All amounts in RMB'000 unless otherwise stated)

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

(XXIX) Non-current liabilities due within 1 year

Items	2020	2019
Long-term borrowing due within one year	**347,777**	361,614
Lease liabilities due within one year	**20,893**	438,053
Total	**380,670**	799,667

As of December 31, 2020, the closing balance of non-current liabilities due within one year decreased RMB430,997,000, representing a decrease of 54%, which was mainly due to the largely closure of boutiques in the current period.

(XXX) Long-term borrowings

Category	Closing balance	Opening balance
Secured borrowing	**347,777**	361,614
Less: current portion of long-term borrowing	**347,777**	361,614
Total	**–**	–

As at 31 December 2020, the interest rate of the long-term borrowings is 7% (31 December 2018: 5.46%).

(XXXI) Lease liabilities

Items	31 December 2020	31 December 2019
Lease liabilities	**57,156**	1,738,505
Less: lease liabilities due within one year	**20,893**	438,053
Total	**36,263**	1,300,452

As of December 31, 2020, the carrying amount of lease liability at the end of the period decreased RMB1,264,189,000 compared to the same period last year, representing a decrease of 97%, which was due to the closure of lots of outlets resulted from the epidemic and operating losses.

(All amounts in RMB'000 unless otherwise stated)

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

(XXXII) Accrued liability

Item	31 December 2020	31 December 2019	Reason
Domestic entity — Estimated return	**24**	8,350	Goods return
Domestic entity —Pending litigation	**4,955**	—	Litigation
Foreign entity — Naf Naf SAS	**—**	26,949	Liquidation
Foreign entity — HTI	**345,606**	—	FASHION I's loan to HIT
Total	**350,585**	35,299	

As of December 31, 2020, the closing balance of accrued liability increased RMB315,286,000, representing a year-on-year increase of 893%, which was mainly due to the accrual of loans of HTI Advisory Company Limited.

(XXXIII) Other non-current liabilities

Items	Opening balance	Addition in the current period	Decrease in the current period	Closing balance	Reason of formation
Asset related government grants	6,246	—	330	**5,916**	Detailed in Form 1
Others	20,726	45	18,537	**2,234**	Detailed in Form 2
Total	26,972	45	18,867	**8,150**	

1. Liabilities related to government grants

Items	31 December 2019	Amount of subsidy increased	Recognized in other profit or loss in the current period	Other changes	31 December 2020	Asset/revenue related
Subsidy of Tianjin logistic program	5,700	–	300	–	**5,400**	Asset related
Subsidy of Taicang logistic program	546	–	30	–	**516**	Asset related
Total	6,246	–	330	–	**5,916**	

(All amounts in RMB'000 unless otherwise stated)

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

(XXXIII) Other non-current liabilities

2. Other liability items

Items	31 December 2019	Amount of subsidy increased	Amount of offsetting costs in the current period	Other changes	31 December 2020	Asset/revenue related
Decoration subsidy (Note)	20,726	45	18,537	–	**2,234**	–
Total	20,726	45	18,537	–	**2,234**	–

3. Particulars of other non-current liabilities

As of December 31, 2020, Non-current liabilities in the current period decreased RMB18,822,000 compared with the same time last year, representing a decrease of 70%, which was mainly due to the closure of boutiques.

Note: decoration subsidy is the subsidy for outlets decoration, which amortized against sale cost of RMB 18,537,000 in the current period.

(XXXIV) Share capital

Item	As at 31 December 2020	Movement in the current period					As at 31 December 2019
		Issuance of new shares	Bonus share	Transfer from reserve	Others	Sub-total	
Total share capital	547,672	–	–	–	–	–	547,672

Item	2020	2019
A shares	**332,882**	332,882
H shares	**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	December 31 2019	Increase in the current year	Decrease in the current year	31 December 2020
Share premium	1,864,243	–	–	**1,864,243**
Other capital surplus(a)	46,557	6	–	**46,563**
Total	1,910,800	6	–	**1,910,806**

1. Other capital surplus

1). Contribution from Shanghai He Xia by awarding its equity instruments to the employees

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

On 30 December 2009, Shanghai Hexia was established in the PRC by Mr. Xing Jiaxing and certain selected employees (the "1st Batch Employees"). The registered capital of Shanghai Hexia at that time was RMB500,000, which was paid up by Mr. Xing Jiaxing and the 1st Batch Employees at the ratio of 32.79% and 67.21%.

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

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

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

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

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

(XXXV) Capital surplus (continued)

1. Other capital surplus (continued)

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

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

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

Items	**December 31 2020**	December 31 2019
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	**6.21%**	6.21%

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

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

(XXXV) Capital surplus (continued)

1. Other capital surplus (continued)

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

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

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

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

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

The information of share payment amortization included in the consolidated income statement of the Group in 2020 and 2019 is summarized as follows:：

Items	**December 31 2020**	December 31 2019
Administration expense	**6**	1,680
Selling expense	**–**	243
Total	**6**	1,923

(All amounts in RMB'000 unless otherwise stated)

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

(XXXVI) Treasury share

Items	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Treasury share	10,165	9,845	–	**20,010**
Total	10,165	9,845	–	**20,010**

As of December 31, 2020, the Company has repurchased total A-shares of 3,573,200 through centralized bidding transactions, accounting for 0.65% of the Company's total share capital and 1.07% of the Company's A shares. The highest transaction price was 6.15 RMB per share, the lowest transaction price was 4.14 RMB per share, and the amount used for repurchasing was RMB 20,009,946 (excluding transaction costs).

(XXXVII) Other comprehensive income

		Changes in the current period					
Items	1 January 2020	The pre-tax amount in the current period	Less: transferred to profit or loss from which was recognized in OCI in the previous period	Less: transferred to retained earnings from which was recognized in OCI in the previous period	Less: income tax expense	Attributable to shareholders of the Company, net of tax	31 December 2020
1. Other comprehensive losses that cannot be reclassified into profit and loss	(58,048)	19,182	–	–	–	19,182	**(38,866)**
(1). Fair value change gains of other equity instrument investments	(58,048)	19,182	–	–	–	19,182	**(38,866)**
2. Other comprehensive income reclassified to profit or loss	18,090	(18,090)	–	–	–	(18,090)	**–**
(1). Exchange realignment	18,090	(18,090)	–	–	–	(18,090)	**–**
Total	(39,958)	1,092	–	–	–	1,092	**(38,866)**

(All amounts in RMB'000 unless otherwise stated)

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

(XXXVIII) Surplus reserve

Items	1 January 2020	Increase in the current year	Decrease in the current year	31 December 2020
Statutory surplus reserve	246,788	–	–	**246,788**
Total	246,788	–	–	**246,788**

(XXXIX) Undistributed profit

Items	2020	2019
Undistributed profits at the beginning of year (before adjustments)	**(1,414,703)**	770,706
Total increase/(decrease) in opening balance of undistributed profits	**–**	(19,103)
Undistributed profits at the beginning of year (after adjustments)	**(1,414,703)**	751,603
Add: Net loss attributable to shareholders of the Company	**(1,840,964)**	(2,166,306)
Less: appropriation to statutory surplus reserve	**–**	–
Add: Losses recovery from surplus reserve	**–**	–
Undistributed profits at the end of the period	**(3,255,667)**	(1,414,703)

(XL) Revenue and cost of sales

1. Revenue and cost of sale

	2020		2019	
Items	Revenue	Cost	Revenue	Cost
Principal business	**1,787,061**	**933,721**	7,648,352	3,242,779
Other business	**32,256**	**–**	17,877	–
Total	**1,819,317**	**933,721**	7,666,229	3,242,779

Revenue from major business is mainly made of the revenue from offline retail outlets and online e-commerce platform sales. Offline retail outlets operate in the form of counters and boutiques, which are located in department stores. The Group's business revenue in 2020 has decreased by RMB 5,846,912,000, representing a year-on-year decrease of 76%. The reduction was mainly due to a large amount of closing stores and significant reduction in business.

The Group has introduced new business model of brand authorization in 2020, which recognized the revenue of brand authorization of RMB 19,179,000 in this financial period.

(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	2020	2019
1. Category of products		
Apparel	**1,767,882**	7,648,352
Brand authorization	**19,179**	—
Lease	**15,796**	1,037
Others	**16,460**	16,840
2. Classified by business areas		
Domestic	**1,538,641**	6,670,297
Overseas	**280,676**	995,932
3. Classified by the timing of commodity transfer		
Transferred at a point in time	**1,767,882**	7,648,352
Transferred at a point over time	**51,435**	17,877
Total	**1,819,317**	7,666,229

(XLI)Taxes and surcharge

Categories	2020	2019
City maintenance and construction tax	**6,255**	24,356
Educational surcharge	**4,875**	9,869
Others	**14,762**	13,713
Total	**25,892**	47,938

(All amounts in RMB'000 unless otherwise stated)

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

(XLII) Selling and distribution expenses

Categories	2020	2019
Employee benefits expenses	437,026	1,735,848
Concessionaire fees	192,064	980,259
Depreciation of right of use assets	294,123	631,697
Amortization of long-term prepaid expenses	285,898	552,822
Rental fees	28,771	366,712
Department store expenses	99,961	244,387
Online platform expenses	37,522	150,800
Utilities and electricity fees	32,899	150,415
Logistic expenses	29,153	134,716
Depreciation of fixed assets	49,801	58,967
Marketing expense	140	38,015
Low value consumables	2,788	32,931
Repair and maintenance expenses	7,944	22,226
Traveling and communication expenses	1,597	16,312
Amortization of intangible assets	346	15,678
Quality inspection fee	2	13,452
Office supplies	1,885	12,530
Consulting expenses	9,793	10,516
Sample purchase fee	—	359
Others	42	5,994
Foreign entity-Fashion I	134,507	—
Total	1,646,262	5,174,636

Selling and distribution expenses have reduced by RMB3,528,374,000 in 2020, representing a year-on-year decrease of 68%. The main reasons are the adoption of contraction strategy, disposal of poorly performed stores, reduced personnel and marketing activities, and control of cost of sales.

(All amounts in RMB'000 unless otherwise stated)

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

(XLIII) Administrative expense

Categories	2020	2019
Employee benefits expenses	**82,253**	282,164
Depreciation of fixed assets	**69,246**	36,481
Consulting expenses	**37,132**	58,269
Amortization of intangible assets	**12,721**	10,604
Rental fees	**8,675**	17,181
Utilities and electricity fees	**5,237**	10,071
Office supplies	**4,853**	14,402
Audit service fees	**3,480**	3,750
Traveling and communication expenses	**3,051**	10,478
Depreciation of right of use assets	**1,682**	5,422
Sample purchase fee	**1,654**	6,298
Logistic expenses	**1063**	2,894
Repair and maintenance expenses	**976**	1,984
Costs of low value consumables	**475**	3961
Amortization of long-term prepaid expenses	**396**	5,153
Others	**205**	289
Foreign entity-Fashion I	**31,481**	13,782
Total	**264,580**	483,183

Administrative expenses have reduced by RMB218,603,000 in 2020, representing a year-on-year decrease of 45%, which is mainly due to a large number of closing stores, reduced personnel and operating activities.

(XLIV) Financial expenses

1. Particulars of financial expenses

Categories	2020	2019
Interest expenses	**138,859**	246,251
Less: Fiscal interest subsidy	**695**	—
Less: Interest income	**8,645**	8,915
Less: Amounts to interest capitalization	**—**	11,939
Exchange gains and losses	**284**	1,836
Bank charges	**2,603**	14,480
Foreign entity-Fashion I	**20,333**	—
Total	**152,739**	241,713

(All amounts in RMB'000 unless otherwise stated)

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

(XLIV) Financial expenses (continued)

1. Particulars of financial expenses (continued)

(1). Exchange gains and losses include credit impairment loss of RMB58,000 from receivable and payable in foreign currency.

(2). Fiscal interest subsidy has been recognized in non-recurring profit.

(XLV) Other income

1. Particulars of other income

Source of other income	**2020**	2019
Governmental grants relating to daily operational activities	**14,573**	102,159
Gains from debt restructuring	**9,027**	—
others	**6**	1,098
Total	**23,606**	103,257

2. Governmental grants recognized in other income

Categories	**2020**	2019	Related to assets/profit
Transferred from amortization of deferred income in asset class	**330**	—	Related to assets
Enterprise support policy	**14,243**	102,159	Related to profit
Total	**14,573**	102,159	

3. Notes of other income

Other income has decreased by RMB79,651,000 in 2020, representing a year-on-year decrease of 77%, which is mainly due to the reduction in government grants received from enterprise support policy.

(All amounts in RMB'000 unless otherwise stated)

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

(XLVI) Investment income

Categories	2020	2019
Share of net profit of associates and a joint venture accounted for using the equity method	**(7,095)**	99,618
Investment loss of disposal of long-term equity investment	**(56,531)**	(63,651)
Gains on step acquisition of long-term equity investment re-assessed at fair value	**–**	21,592
Gain or loss on debt restructuring	**24,425**	–
Others	**–**	2,708
Total	**(39,201)**	60,267

Investment income has reduced by RMB99,468,000 in 2020, representing a year-on-year decrease of 165%, which is mainly due to the loss on long-term equity investment using equity method.

(XLVII) Gain on fair value changes

Source of gain on fair value changes	2020	2019
Other non-current financial assets	**(3,727)**	4,577
Total	**(3,727)**	4,577

(XLVIII) Credit impairment losses

Categories	2020	2019
Impairment losses of accounts receivables	**(12,315)**	(28,997)
Impairment losses of other receivables	**(129,421)**	(31,646)
Impairment losses of long-term receivables	**3,593**	(3,781)
Impairment losses of prepayments	**(2,628)**	–
Impairment losses of other current assets	**(500)**	(76,900)
Impairment losses of other non-current assets due within one year	**(260)**	(7,287)
Impairment losses of other non-current assets	**(5,570)**	–
Impairment losses of interest receivable	**(2,308)**	(3,314)
Total	**(149,409)**	(151,925)

(All amounts in RMB'000 unless otherwise stated)

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

(XLIX) Asset impairment loss

Categories	2020	2019
Impairment loss of Inventory provision	(341,184)	(348,842)
Loss of Impairment of long-term equity investment	–	(39,250)
Impairment loss of fixed assets	–	(8,718)
Impairment loss of construction in progress	–	(11,902)
Impairment loss of intangible assets	–	(139,370)
Impairment of goodwill	–	(94,039)
Impairment loss of other current assets	–	(13,466)
Impairment of right of use assets	–	(122,892)
Total	(341,184)	(778,479)

The amount has reduced by RMB437,295,000 in 2020, representing a year-on-year decrease of 56%, which is mainly due to the decrease of the impairment loss of the right to use assets and impairment loss of intangible assets.

(L) Gain on disposals of assets

Categories	2020	2019
Losses on disposal of fixed assets	(4,421)	(24,399)
Gains on disposal of right of use assets	218,755	44,275
Total	214,334	19,876

The gain on disposals of assets has increased by RMB194,458,000 in 2020, representing a year-on-year increase of 978%, which is mainly due to the increase of gains on disposal of right of use assets resulting from large number of closing stores.

(All amounts in RMB'000 unless otherwise stated)

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

(LI) Non-operating income

Categories	2020	2019	Non-recurring profit or loss in 2020
Compensation income	**2,034**	6,639	2,034
Government subsidies not relating to daily operational activities	**–**	1,397	–
Others	**–**	617	–
Foreign entity-Naf Naf SAS	**–**	13,145	–
Total	**2,034**	21,798	2,034

The non-operating income has reduced by RMB19,764,000 in 2020, representing a year-on-year decrease of 91%. The main reason is that there is no non-operating income generated from the foreign entity.

(LII) Non-operating expenses

Categories	2020	2019	Non-recurring profit or loss in 2020
Compensation for closing stores	**6,339**	7,281	6,339
Compensation for litigation	**5,476**	9,544	5,476
Donations	**1,488**	125	1,488
Loss on obsolescence of non-current assets	**2,390**	–	2,390
Loss on disposal of current assets	**152**	–	152
Penalties	**631**	–	631
Others	**524**	3,407	524
Total	**17,000**	20,357	17,000

(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	2020	2019
Current income tax expense	**16,037**	8,981
Deferred income tax expense	**347,896**	(21,708)
Total	**363,933**	(12,727)

2. Reconciliation between total profit and income tax expenses

Items	2020	2019
Total profit	**(1,514,424)**	(2,265,006)
Income tax expenses calculated at applicable tax rates	**(378,606)**	(566,252)
Impact of different tax rates applicable to subsidiaries	**4,662**	(12,804)
Non-taxable income	**1,462**	(23,073)
Profit or loss attributable to joint ventures	**1,774**	1,365
Impact of non-deductible costs, expenses and losses	**874**	17,540
Impact of deductible loss of the deferred income tax assets unrecognized in the previous period	**(1,399)**	—
Impact of deductible temporary differences or deductible loss for which deferred income tax assets are not recognized in the current period	**735,166**	570,497
Income tax expenses	**363,933**	(12,727)

(LIV) Loss per share

Basic losses per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding. There were no dilutive potential ordinary shares.

The basic loss per share and the diluted loss per share are calculated as follows:

Categories	2020	2019
Losses		
Losses attributable to shareholders of the Company	**1,840,964**	(2,166,306)
Shares		
Weighted average number of ordinary shares outstanding (note)	**544,098**	547,632
Basic losses per share and diluted losses per share	**(2.57)**	(3.96)

(All amounts in RMB'000 unless otherwise stated)

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

(LIV) Loss per share (continued)

Note: Till December 31, 2020, the company had purchased 3,573,200 A shares through centralized bidding, accounting for 0.65% of the company's total share capital and 1.07% of the company's A-share capital. The highest transaction price was 6.15 yuan per share, the lowest transaction price was 4.14 yuan per share, and the amount used for the buyback was RMB20,009,946 (excluding transaction costs).

(LV) Expenses by nature

The cost of sales, selling and distribution expenses and general and administrative expenses are listed as follows by nature:

Item	2020	2019
Costs of inventories	**931,990**	3,242,779
Employee benefits expenses	**519,279**	2,018,012
Concessionaire fees	**192,064**	980,259
Depreciation of right of use assets	**295,805**	637,119
Amortization of long-term prepaid expenses	**286,294**	557,975
Rental fees	**37,446**	383,893
Department Store expenses	**99,961**	244,387
Utilities and electricity expenses	**38,136**	160,486
Online platform expenses	**37,522**	150,800
Logistic expenses	**30,216**	137,610
Depreciation of fixed assets	**120,778**	95,448
Consulting expenses	**46,925**	68,785
Marketing expenses	**140**	38,015
Costs of low value consumables	**3,263**	36,892
Office supplies	**6,738**	26,932
Traveling and communication expenses	**4,648**	26,790
Amortization of intangible assets	**13,067**	26,282
Repair and maintenance expenses	**8,920**	24,210
Quality inspection fee	**2**	13,452
Sample expenses	**1,654**	6,657
Auditor charge-Audit service	**3,480**	3,750
Others	**247**	6,283
Others-Fashion I	**165,988**	13,782
Total	**2,844,563**	8,900,598

(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	2020	2019
Customers' deposits and suppliers' deposits	**227,466**	152,733
Interest income	**8,645**	4,518
Non-operating income	**2,034**	21,798
Government grants	**15,268**	102,159
Net decrease in staff advances	**3,112**	6,881
Total	**256,525**	288,089

2. Cash paid relating to other operating activities

Categories	2020	2019
Utilities, electricity and department store expenses	**333,745**	404,873
Online platform expenses	**37,728**	150,800
Increase in deposit	**7,256**	75,660
Consulting expense	**62,069**	68,785
Marketing and promotion expenses	**140**	38,015
Compensation expenses	**5,245**	12,299
Bank charges	**2,603**	14,480
Repayment of customers' deposits	**7,066**	—
Others	**191,192**	—
Total	**647,044**	764,912

(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 (continued)

3. Cash received relating to other investing activities

Categories	2020	2019
Receipt of payments paid on behalf of related parties	–	1,228
Interest income generated from other cash balances	–	541
Total	–	1,769

4. Cash paid relating to other investing activities

Categories	2020	2019
Cash paid on behalf of related parties	–	7,000
Net increase in other cash balances	**24**	26,705
Cash outflow of subsidiaries losing control	**7,199**	–
Total	**7,223**	33,705

5. Cash paid relating to other financing activities

Categories	2020	2019
Financial lease payment	**267,934**	656,963
Cash paid to repurchase shares	**986**	19,023
Total	**268,920**	675,986

(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	2020	2019
1. Reconciliation net loss to cash flows from operating activities		
Net loss	**(1,878,537)**	(2,252,279)
Add: Credit impairment losses	**149,409**	151,925
Asset impairment provision	**341,184**	778,479
Depreciation of fixed assets, oil and gas assets, biological assets	**120,778**	95,448
Depreciation of right of use assets	**295,806**	637,119
Amortization of intangible assets	**13,067**	26,282
Amortization of share-based payments	**6**	1,923
Amortization of long-term prepaid expenses	**286,294**	557,975
(Gain)/Losses on disposal of fixed assets, intangible assets and other long-term assets	**6,811**	(19,876)
(Gain)/Losses on disposal of right of use asset	**(218,754)**	—
(Gain)/Losses on fair value changes	**3,727**	(4,577)
Financial expenses	**143,140**	231,753
Investment Loss/(Gain)	**39,201**	(60,267)
Increase in deferred tax assets	**335,913**	(166,670)
Increase in deferred tax liabilities	**11,996**	144,962
Decrease in deferred income	**(337)**	(337)
Decrease/(increase) in inventories	**818,301**	655,474
Decrease/(increase) in operating receivable	**(41,712)**	724,574
Increase/(decrease) in operating payables	**(326,877)**	96,106
Others	**–**	—
Net cash flows from operating activities	**99,596**	1,598,014
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	**24,319**	175,549
Less: Opening balance of cash	**175,549**	449,863
Net increase amount of cash and cash equivalents	**(151,230)**	(274,314)

(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. Net cash received from disposal of subsidiaries in current year

Categories	2020
Cash and cash equivalents received from disposal of subsidiaries	**5,000**
Including:	
Pincheng	**–**
Xinjiang Hengding cotton textile international trading co. LTD	**5,000**
Less: Cash and cash equivalents held by subsidiaries at the date of loss of control	**1,880**
Including:	
Pincheng	**1,880**
Xinjiang Hengding cotton textile international trading co. LTD	**–**
Add: Cash and cash equivalents received in current year from disposal of subsidiaries for prior periods	**49,716**
Including：	
Anshe	**49,716**
Net cash received on disposal of subsidiaries	**52,836**

3. Cash and cash equivalents

Categories	Closing balance	Opening balance
I Cash	**24,319**	175,549
Including: Cash on had	**321**	6,763
Cash at bank that can be readily drawn on demand	**23,998**	168,786
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	**24,319**	175,549
Including: restricted cash and cash equivalents used by the company or the subsidiaries of the Group	**–**	76,030

(All amounts in RMB'000 unless otherwise stated)

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

(LVIII) Assets with restricted ownership or use right

Categories	Balance	Reason for restriction
Cash at bank and on hand	**182,158**	Judicially frozen
Inventories	**31,306**	Detained
Fixed assets	**1,484,657**	Sealed up and mortgage payment
Fixed assets	**96,868**	Mortgage payment
Construction in progress	**68,537**	Mortgage payment
Intangible assets	**129,036**	Sealed up and mortgage payment
Intangible assets	**18,279**	mortgage payment
Long term equity investment	**631,420**	Judicially frozen
Total	**2,642,261**	

(LIX) Monetary items denominated in foreign currency

Categories	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand			
Including: USD	0.17	6.5249	1
HKD	2	0.84164	2

(LX) Government grant

Categories	Increase in the current year	Profit or loss in 2020	Notes
Recognized in deferred income	330	**330**	Detailed in Note VI (XXXIII)
Recognized in other income	14,243	**14,243**	Detailed in Note VI (XLV)
Total	14,573	**14,573**	

VII CHANGES IN CONSOLIDATION SCOPE

(I) Disposal of subsidiaries

1. Single disposal of subsidiaries and loss of control

Name of subsidiary	Consideration of the equity disposal (RMB)	Equity disposal percentage (%)	Method of equity disposal	Time of losing control	Determination basis at the time of losing control	Difference between the disposal consideration and the share of the net assets corresponding to the disposal of the investment at the level of the consolidated financial statement
Pincheng	1	63	Transfer	2020.7.30	Industrial and commercial registration transferred, the assets have been handed over and the equity payment has been paid 100%	2,026

On 6 July 2020, the Company entered into an equity interest transfer agreement with shareholder of Pincheng to dispose of a 63.375% equity interest in Pincheng at a consideration of RMB1. LaCha Electronic is the wholly owned subsidiary of Pincheng, therefore the Company lost control of LaCha Electronic with the disposal of Pincheng.

(II) Changes in consolidation scope for other reasons

Name	Reason
LACHA FASHION I LIMITED ("FASHION I")	Taken over by third party, loss of control
APPAREL I	Taken over by third party, loss of control (canceled)
APPAREL II	Taken over by third party, loss of control
Naf Naf SAS	Taken over by third party, loss of control
Jack Walk (Shanghai) Fashion Co., Ltd. ("Jack Walk")	Bankruptcy liquidation, administrator took over the company, loss of control
Dongguan Dianlan Xinlong Fashion Co. Ltd. ("Dianlan Xinlong")	Bankruptcy liquidation, administrator took over the company, loss of control
Dongtai Yingxiao Fashion Co., Ltd. ("Dongtai Yingxiao")	Cancelled

(All amounts in RMB'000 unless otherwise stated)

VII CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

(II) Changes in consolidation scope for other reasons (continued)

On 25 February 2020, LACHA FASHION I LIMITED (FASHION I), which is a subsidiary of LA CHAPELLE Company, was taken over by HTI ADVISORY COMPANY LIMITED (海通國際諮詢有限公司) due to default on the loan, so LA CHAPELLE Company can no longer control or impose influence, which actually lost control of its subsidiaries, APPAREL I、APPAREL Ⅱ and Naf Naf SAS. Refer to XII (II) Events as at the balance sheet date for details.

On January 22, 2020, the Group received the bankruptcy decision of the subsidiary Jack Walk issued by the Shanghai Third Intermediate People's Court and appointed Shanghai Jinmao Kaide Law Firm as the administrator, leading to the loss of control of Jack Walk and its subsidiaries.

VIII INTERESTS IN OTHER ENTITIES

(I) Interests in other subsidiaries

1. Structure of the Group

				Registered capital		Percentage of shareholding (%)		
Name of subsidiaries	Main business site	Place of registration	Nature of business	Original currency	000'	Direct	Indirect	Means of acquirement
LaCha Xiuxian	Shanghai	Shanghai	Design and sales of apparel products	CNY	5,000	100	–	Established by investment
Shanghai Leiou	Shanghai	Shanghai	Design and sales of apparel products	CNY	16,000	65	–	Established by investment
Chongqing Lewei	Chongqing	Chongqing	Design and sales of apparel products	CNY	500	100	–	Established by investment
Beijing LaCha	Beijing	Beijing	Design and sales of apparel products	CNY	500	100	–	Established by investment
Chengdu LaCha	Chengdu	Chengdu	Sales of apparel products	CNY	500	100	–	Established by investment
Shanghai Weile	Shanghai	Shanghai	Sales of apparel products	CNY	50,000	100	–	Established by investment
Shanghai Langhe	Shanghai	Shanghai	Sales of apparel products	CNY	5,000	100	–	Established by investment
Shanghai Xiawei	Shanghai	Shanghai	Sales of apparel products	CNY	5,000	100	–	Established by investment
Taicang LaCha	Taicang	Taicang	Sales of apparel products	CNY	100,000	95	5	Established by investment
Tianjin LaCha	Tianjin	Tianjin	Sales of apparel products	CNY	10,000	100	–	Established by investment
Chengdu Lewei	Chengdu	Chengdu	Sales of apparel products	CNY	10,000	100	–	Established by investment

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB'000 unless otherwise stated)

VIII INTERESTS IN OTHER ENTITIES (CONTINUED)

(I) Interests in other subsidiaries (continued)

1. Structure of the Group (continued)

Name of subsidiaries	Main business site	Place of registration	Nature of business	Registered capital Original currency	000'	Percentage of shareholding (%) Direct	Indirect	Means of acquirement
Shanghai Chongan	Shanghai	Shanghai	Sales of apparel products	CNY	15,000	85	–	Established by investment
Shanghai Youshi	Shanghai	Shanghai	Sales of apparel products	CNY	20,000	100	–	Established by investment
Fujian Lewei	Pucheng	Pucheng	Sales of apparel products	CNY	10,000	100	–	Established by investment
Enterprise Management	Shanghai	Shanghai	Investment	CNY	800,000	100	–	Established by investment
Shanghai Nuoxin	Shanghai	Shanghai	Sales of apparel products	CNY	10,000	100	–	Established by investment
Shanghai Jiatuo	Shanghai	Shanghai	IT technology	CNY	1,000	100	–	Established by investment
LaCha Naf	Shanghai	Shanghai	Sales of apparel products	CNY	20,000	65	–	Established by investment
Guangzhou Xichen	Guangzhou	Guangzhou	Sales of apparel products	CNY	20,000	60	–	Acquired by combination
Taicang Xiawei	Taicang	Taicang	Sales of apparel products	CNY	5,000	100	–	Established by investment
Xinjiang Tongrong	Urumqi	Urumqi	Apparel technology	CNY	20,000	95	5	Established by investment
Tianjin Xiawei	Tianjin	Tianjin	Warehousing services	CNY	1,000	–	100	Established by investment
Shanghai Pinxi	Shanghai	Shanghai	Apparel technology	CNY	20,000	100	–	Established by investment
Yixin Lingshou	Beijing	Beijing	Sales of apparel products	CNY	51,000	–	100	Established by investment
Chengdu Xiawei	Chengdu	Chengdu	Warehousing services	CNY	1,000	–	100	Established by investment
Taicang Jiachang	Taicang	Taicang	Warehousing services	CNY	393,191	100	–	Established by investment
Taicang Chongan	Taicang	Taicang	Sales of apparel products	CNY	5,000	–	100	Established by investment
Taicang Xiawei Cangchu	Taicang	Taicang	Warehousing services	CNY	1,000	–	100	Established by investment

VIII INTERESTS IN OTHER ENTITIES (CONTINUED)

(II) Equity in Joint Ventures and Associates

1. Significant joint ventures and associates

Name of associates	Main business site	Place of registration	Nature of business	Percentage of shareholding (%) Direct	Indirect	Accounting treatment
Xizang Baoxin	Xizang	Xizang	Asset management	60	–	Equity method
Hongche Industrial	Shanghai	Shanghai	Design and sales of apparel products	36	–	Equity method
Beijing Aoni	Beijing	Beijing	Wholesale and retail	16	–	Equity method
Zhejiang Yuanrui	Zhejiang	Zhejiang	Information technology service	30	–	Equity method
Fuzhou Badi	Fujian	Fujian	Wholesale and retail	38	–	Equity method

(1) Description of difference in percentages of shareholding and voting rights in joint ventures and associates

The Group took only one seat in the Baoxin Investment Committee and can directly participate in the discussion and formulation of decision-making. However, because the Investment Committee has a total of four seats and the decision needs to be passed by more than two-thirds of the investment committee members, the Group cannot control the decision of the Investment Committee only has a significant impact on Baoxin, so it is recognized as an associate.

(2) Basis of holding voting rights less than 20% but can cast significant impact

The Group took only one seat in the Board of Beijing Aoni out of 3 Board members, and can directly participate in the discussion and formulation of decision-making and has a significant impact on Beijing Aoni, so it is recognized as an associate.

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

The Group faces various risks of financial instruments during daily activities, mainly including credit risks, liquidity risks and market risks (including foreign exchange risk, interest rate risk and price risk). Major financial instruments of the Group include cash at bank and on hand, equity investments, debt investments, notes receivable and accounts receivable, short-term loans and long-term loans. The following will show the risks relating to these financial instruments and the risk management strategies the Group adopted to reduce the relevant risks.

The Board is responsible for planning and establishing the risk management structure of the Group, working out the risk management policies and relevant guidelines of the Group and supervising the implementation of the risk management measures. The Group has worked out risk management policies to identify and analyze the risks it faced. These risk management policies have clearly defined specific risks, covering market risk, credit risk and liquidity risk management. The Group regularly assesses changes in the market environment and its operating activities to decide whether or not to update the risk management policies and systems. The Group's risk management is conducted by the risk management committee according to the policies approved by the Board. The risk management committee identifies, assesses and avoids relevant risks via close cooperation with other business departments of the Group. The internal audit department of the Group conducts regular review on the risk management control and procedures and reports the review results to the audit committee of the Group. The Group diversifies risks of financial instruments through appropriate diversified investments and business portfolios and works out relevant risk management policies to reduce the risks concentrated in any single industry, specific region or specific counterparty.

(I) Credit risk

Credit risk refers to the risk of financial losses to the Company as a result of the failure of performance of contractual obligations by the counterparties. The management has developed proper credit policies and continuously monitors credit risk exposures.

The Company has adopted the policy of transacting with creditworthy counterparties only.

In addition, the Company evaluates the credit qualification of customers and sets up corresponding credit term based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factors such as current market conditions. The Company monitors the balances and recovery of bills and accounts receivable, and contract assets on a continual basis. As for bad credit customers, the Company will use the written reminders, shorten the credit term or cancel the credit term to ensure that the Company is free from material credit losses. In addition, the Company reviews the recovery of financial assets on each balance sheet date to ensure adequate expected credit loss provision is made for relevant financial assets.

The Group's other financial assets include cash at bank and on hand, other receivables and debt investment. The credit risk relating to these financial assets arises from the default of counterparties, but the maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet. The Group have not provided any other guarantee that may cause credit risk for the Group.

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (continued)

The monetary funds held by the Group are mainly deposited with financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk, and the Company would not have any significant losses caused by the default by these institutions. The Company's policy is to control the amount deposited with these famous financial institutions based on their market reputation, operating size and financial background, to limit the credit risk amount of any single financial institution.

As a part of its credit risk asset management, the Company assesses the impairment loss of accounts receivable and other receivables based on aging. Accounts receivable and other receivables of the Company involves a large number of customers and the aging information can reflect the solvency and bad debt risk of these customers for accounts receivable and other receivables. The Company calculates the historical actual bad debt rate for different aging periods based on historical data, and takes into account the current and future forecast economic conditions, such as national GDP growth rate, total infrastructure investment, national monetary policy and other forward-looking information to adjust expected loss rate. For contract assets and long-term receivables, the Company conducted reasonable evaluation to the adjusted expected credit loss after comprehensive consideration of the settlement period, the contractual payment period, the financial position of debtors and the economic situation of the debtors' industry, and takes into account the above forward-looking information.

As of 31 December 2020, the carrying amount and expected credit impairment loss of related assets are as follows:

Aging	Carrying amount	Impairment provision
Accounts receivable	361,514	90,877
Prepayment	125,554	2,628
Other receivable	302,113	176,477
Long-term receivable	4,565	118
Accrued liability	350,585	—
Total	1,144,331	270,100

The major customers of the Group are malls, customers of this kinds are reliable and have good reputation. Therefore, the Group is of the view that these customers do not have material credit risk. There is no material credit concentration risk as the Company has a broad customer base.

(All amounts in RMB'000 unless otherwise stated)

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(II) Liquidity risk

Liquidity risk refers to the risk of short of funds when the Company performs its obligation of cash payment or settlement by other financial assets. The Company's subordinate financial department is responsible for their respective cash flow projections. Based on the results thereof, the Company continually monitors its short-term and long-term capital needs at the company level to ensure adequate cash reserves; in the meantime, continually monitoring the compliance with loan agreements and secures undertakings for sufficient reserve funds from major financial institutions, to address its short-term and long-term capital needs. In addition, the Company entered into a credit line banking facilities agreement with principal business banks to provide support for the Company's obligations related to commercial bills. As of December 31, 2020, the Group have had credit line of RMB1,816,000,000 provided by several domestic banks, RMB1,515,180,000 of which have been used.

As of 31 December 2020, all the financial liabilities and off balance sheet guarantees of the Group are presented at undiscounted contractual cash flows by maturity date 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	—	1,167,400	—	—	—	1,167,400
Accounts payable	—	1,164,154	—	—	—	1,164,154
Other payables	—	922,343	—	—	—	922,343
Total	—	3,253,897	—	—	—	3,253,897

(III) Market risk

1. Exchange rate risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group's head office is responsible for monitoring the amount of assets and liabilities and transactions denominated in foreign currencies to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. For the year ended 31 December 2020 and 2019, the Group did not enter into any forward exchange contracts or currency swap contracts.

IX DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk (continued)

1. Exchange rate risk (continued)

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the subsidiaries of the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2020 as follows:

Items	**31 December 2020 RMB'000**	31 December 2019 RMB'000
The USD items		
Cash at bank and on hand	**1**	1,910
The HKD items		
Cash at bank and on hand	**2**	—
The EUR items		
Cash at bank and on hand	**–**	3,150
Short-term borrowings	**–**	292,289

As of December 31, 2020, the Group recognized asset in foreign currencies of RMB3,000 (were bank deposit in foreign currencies), which accounts for 0.00009% of total assets, not involving foreign currency and shareholder's equity. For all kinds of Hong Kong dollar and US dollar financial liabilities of the Group, with all other variables remaining unchanged, the net profit of the Group will decrease of increase by RMB300 (the number was RMB191,000 in the year of 2019) if the RMB appreciates or depreciates by 10% against the Hong Kong dollar or US dollar.

2. Interest rate risk

The Group's interest rate risk mainly arises from interest-bearing debt such as bank borrowings. Borrowings obtained at floating rates expose the Group to cash flow interest rate risk and borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

There is no interest-bearing debt with floating rate in the year of 2020.

X FAIR VALUE

(I) Financial instruments measured at fair value

The Company presents the book value of the financial asset instruments measured at fair value on 31 December 2019 at three levels of fair value. When the fair value is classified into three levels as a whole, it is based on the lowest level among the three levels of the important input values used in the fair value measurement. The three levels are defined as follows:

Level 1: unadjusted quotations for identical assets or liabilities that can be obtained on the measurement date in an active market;

Level 2: input value that is directly or indirectly observable for underlying assets or liabilities other than the input value of the level 1;

Input values of Level 2 includes: 1) quotations for similar assets or liabilities in an active market; 2) quotations for identical or similar assets or liabilities in an inactive market; 3) observable inputs other than quotations, including observable interest rate and yield curves, implied volatility and credit spreads during normal quotations interval; 4) market-proven input values, etc.

Level 3: unobservable input value of underlying assets or liabilities.

(II) Fair value measurement at the end of the period

1. Persistent fair value measurement

	Closing fair value			
Items	**Level 1**	**Level 2**	**Level 3**	**Total**
Other equity instrument investment	—	—	4,741	4,741
Other non-current financial assets	—	—	94,050	94,050
Total assets	—	—	98,791	98,791

X FAIR VALUE (CONTINUED)

(III) Continuing and non-continuing level 3 fair value measurement items, the adopted valuation techniques and qualitative and quantitative information of important parameters

1. Description of fair value estimates

Except for lease liabilities and long-term receivables disclosed at fair value, the difference between the book value and fair value of other financial instruments is small. The management has assessed the monetary funds, accounts receivable, notes payable, accounts payable and so on. The fair value is similar to the book value due to the short remaining period.

The Group's finance department is led by the finance manager and is responsible for formulating policies and procedures for fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. On each date of the balance sheet, the financial department analyzes the changes in the value of financial instruments and determines the main input values applicable to the valuation. The valuation must be reviewed and approved by the chief financial officer. For the purpose of interim and annual financial statements, the valuation process and results are discussed with the audit committee twice a year.

The fair value of financial assets and financial liabilities is determined by the amount of assets exchanged or debt settlement voluntarily in the fair transaction between the parties who are familiar with the situation, rather than the amount in the case of forced sale or liquidation. The following methods and assumptions are used to the valuation of fair value.

Long-term receivables use the discounted future cash flow method to determine the fair value and use the market rate of return of other financial instruments with similar contract terms, credit risk, and remaining maturity as the discount rate.

For the fair value of unlisted equity instrument investments, the Group estimates and quantifies the potential impact of using other reasonable and possible assumptions as inputs to the valuation model: if unfavorable assumptions are adopted, the fair value would decrease by approximately RMB462,000; if favorable assumption are adopted, the fair value would increase by approximately RMB316,000.

(All amounts in RMB'000 unless otherwise stated)

X FAIR VALUE (CONTINUED)

(III) Continuing and non-continuing level 3 fair value measurement items, the adopted valuation techniques and qualitative and quantitative information of important parameters (continued)

2. Unobservable inputs

Items	Closing fair value	Valuation techniques	Unobservable inputs	Range
Equity Instrument Investments:		Listed company	Liquidity discount	10%-30%
Beijing Mingtong Siji Technology Co., Ltd.	4,313	comparison method	Control premium	10%-30%
Equity Instrument Investments:		Listed company	Liquidity discount	10%-30%
O2bra Co., Ltd.	428	comparison method	Control premium	10%-30%
Other non-current financial liabilities:				
Ningbo Langsheng Qianhui Investment Partnership (limited partnership)	27,031	Net asset method		
Other non-current financial liabilities:				
Hangzhou Smart Investment Equity Investment Partnership (limited partnership)	58,319	Net asset method		
Other non-current financial assets:				
Nantong Xunming Funds Partnership (limited partnership)	8,700	Net asset method		
Total	98,791			

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) The Company's ultimate controlling party is Mr. Xing Jiaxing

	2020/12/31		2019/12/31	
Actual controller	**Share holding**	**Voting rights**	Share holding	Voting rights
Mr. Xing Jiaxing	**26%**	**34%**	26%	34%

Since the director appointed by Shanghai Hexia agreed to take a concerted approach with Mr. Xing Jiaxing in exercising Shanghai Hexia's voting rights in the Company, the percentage of shareholding differs from that of voting rights.

(II) The general information of the subsidiaries are set out in Note VIII (I) Interests in major subsidiaries

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Joint ventures and associates of the Group

The general information of the Joint Ventures and Associates are set out in Note VIII (II) Rights in joint ventures or associates.

Other joint ventures or associates in which the Company has a related party transaction or balances caused by a related party transaction in the previous period are as follows:

Name of joint venture or associate	Relationship with the Group
Hongche Industrial	Associate of the Group
Zhejiang Yuanrui	Associate of the Group
Xinjiang Hengding	Associate of the Group

(IV) Related party transactions

1. **For the subsidiaries which are controlled by the Group and recognized into the consolidated financial statements, the intra-company transactions and parent company transactions have been eliminated.**

2. **Purchase of goods and receipt of services from related parties**

Related party	Transaction	2020	2019
Xinjiang Hengding	Purchase of goods	**54,450**	164,295
Total		**54,450**	164,295

The Group purchased apparel from Xinjiang Hengding of RMB54,450,000 in 2020, representing a decrease of RMB109,845,000 comparing to the amount of RMB164,295,000 in 2019, with a decrease rate of 67%. It was mainly due to the closing of large number of stores in 2020 and rapid business shrinkage.

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

3. Sales of goods and rendering of services to related parties

Related party	Transaction	2020	2019
Hongche Industrial	Rendering of services	–	3,723
Zhejiang Yuanrui	Brand authorization	1,000	—
Shanghai Pincheng	Sales of goods	2,630	—
Shanghai Pincheng	Brand authorization	3,333	—
Total		6,963	3,723

The Group charged Zhejiang Yuanrui Information Technology Co., Ltd.RMB1,000,000 for brand authorization in 2020.

The Group sold goods of RMB2,630,000 to Shanghai Pincheng Industrial Co., Ltd and charged RMB3,333,000 for brand authorization in 2020.

4. Asset leasing with related parties

(1) The Group as lessee

Name of leaser	Type of leased asset	Lease income recognized in this period	Lease income recognized in the previous period
Hongche Industrial	Houses and buildings	550	526
Jack Walk	Houses and buildings	392	—
Total		942	526

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

5. Related party guarantees

(1) The Group act as guaranteed party

Guarantor	Guaranteed amount	Date of commencement	Date of maturity	Whether the guarantee has been fulfilled
Xing Jiaxing	88,000	April 30, 2020	April 30, 2021	No
Xing Jiaxing	40,000	June 24, 2020	June 24, 2021	No
Xing Jiaxing	70,000	June 24, 2020	June 24, 2021	No
Xing Jiaxing	400,000	September 11, 2019	September 11, 2022	No
Xing Jiaxing	200,000	November 25, 2019	November 25, 2022	No
Xing Jiaxing	150,000	October 19, 2018	January 2, 2022	No
Xing Jiaxing	550,000	November 26, 2019	November 26, 2023	No
Total	1,498,000			

The total guaranteed amount provided for the Group by the actual controller Xing Jiaxing is RMB1,498,000,000. As of 31 December 2020, none of the guarantee has been fulfilled.

6. Funds lending with related party

(1) Lending for related parties

As of 31 December 2020, the Group has offered a loan of RMB256,570,000 to Jack Walk, an external related party, the loan has expired. And offered a loan of RMB40,000,000 to an external related party, Hongche Industrial, RMB39,500,000 of which has expired, and the expiration date of the remaining RMB500,000 was January 2021. The above borrowings to related party are presented in other current assets and made full impairment, detailed in Note VI (7).

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

7. Directors' remuneration and right

(1) Directors' and CEO's remuneration

2020	Remuneration	Wages and subsidies	Pension scheme contributions	Bonuses	Other allowances and benefits	Remuneration for other services provided for the management of the company or its subsidiaries	Share-based payment	Total
1. Executive director								
Xing Jiaxing (i)	–	352	10	–	–	–	–	362
Yu Qiang(ii)	–	294	8	–	–	–	–	302
Zhang Danling (iii)	–	825	2	–	–	–	–	827
Yin Xinzi(iv)	–	1,118	2	–	–	–	–	1,120
2. Non-executive director				–	–	–	–	
Wang Wenke(v)	–	310	12	–	–	–	–	322
Duan Xuefeng	–	–	–	–	–	–	–	–
Zhang Yujing	–	–	–	–	–	–	–	–
3. Independent director				–	–	–	–	
Rui Peng	67	–	–	–	–	–	–	67
Chen Yongyuan	67	–	–	–	–	–	–	67
Zhang Zeping	67	–	–	–	–	–	–	67
Xing Jiangze(vi)	133	–	–	–	–	–	–	133
Zhu Xiaozhe(vii)	133	–	–	–	–	–	–	133
Xiao Yanming (viii)	133	–	–	–	–	–	–	133
Total	600	2,899	34	–	–	–	–	3,533

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

7. Directors' remuneration and right (continued)

(1) Directors' and CEO's remuneration (continued)

Continued:

2019	Remuneration	Wages and subsidies	Pension scheme contributions	Bonuses	Other allowances and benefits	Remuneration for other services provided for the management of the company or its subsidiaries	Share-based payment	Total
1. Executive director								
Xing Jiaxing	–	1,042	49	30	–	–	–	1,121
Yu Qiang	–	1,717	49	30	–	–	–	1,796
Hu Lijie	–	1,515	41	3	–	–	–	1,559
2. Non-executive director								
Mao Jianong	–	663	16	–	–	–	–	679
Wang Wenke	–	100	4	–	–	–	–	104
Lu Weiming	–	–	–	–	–	–	–	–
Luo Bin	–	–	–	–	–	–	–	–
3. Independent director								
Chen Jieping	–	167	–	–	–	–	–	167
Rui Peng	–	50	–	–	–	–	–	50
Chen Yongyuan	–	200	–	–	–	–	–	200
Zhang Zeping	–	200	–	–	–	–	–	200
Total	–	5,654	159	63	–	–	–	5,876

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

7. Directors' remuneration and right (continued)

(1) Directors' and CEO's remuneration (continued)

(i) Xing Jiaxing resigned as the chairman in February 2020, and resigned as the president in April 2020.

(ii) Yu Qiang resigned as the executive director in February 2020.

(iii) Zhang Danling has served as the executive director since May 2020.

(iv) Yin Xinzai served as the president in April 2020, resigned and has been transferred to non-executive director in August 2020.

(v) Wang Wenke resigned as non-executive director in May 2020.

(vi) Xing Jiangze has served as the independent director since May 2020.

(vii) Zhu Xiaozhe has served as the independent director since May 2020.

(viii) Xiao Yanming has served as the independent director since May 2020.

(2) Director's retirement benefits

The Group has no retirement benefits for directors. The Group only pays pension plans by the national regulation for directors in China.

(3) Director's terminated benefits

The Group has no terminated benefits for directors.

(4) Consideration paid to third parties for director services

In 2020, the Company did not pay consideration to third parties for obtaining services from directors (2019: Nil).

(5) In 2019, the Company did not provide loans, loan equivalents and other transactions to directors, legal persons controlled by directors and related persons of directors (2018: Nil).

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

7. Directors' remuneration and right (continued)

(6) There are two board members (2019: 3) members) out of the top five highest remuneration of the Group in 2019. Details of their remuneration are shown in Notes X, 7, apart from Naf Naf SAS. The salary details of the remaining three (2019: 3 members) non-directors' highest remuneration employee are as follows:

	2020	2019
Wages, bonuses and subsidies	**1,715**	2,584
Pension	**32**	77
Housing fund, medical insurance and other social insurance	**93**	113
Share-based payment	**–**	–
Total	**1,839**	2,774

Salary range:

	2020	2019
HKD 1,000,000 to HKD 1,500,000 (equivalent to RMB858,000 to RMB1,287,000)	**3**	–
HKD1,500,000 to HKD2,000,000 (equivalent to RMB1,287,000 to RMB1,716,000)	**–**	2
HKD2,000,000 to HKD2,500,000 (equivalent to RMB1,716,000 to RMB2,144,000)	**–**	–
HKD2,500,000 to HKD 3,000,000 (equivalent to RMB2,144,000 to RMB2,573,000)	**–**	–
Total	**3**	2

(All amounts in RMB'000 unless otherwise stated)

XI RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Related party transactions (continued)

8. Receivables and payables of related party

(1) Receivables from related parties of the Group

Items	Related party	**Closing balance** Carrying amount	**Closing balance** Provision for bad debt	Opening balance Carrying amount	Opening balance Provision for bad debt
Accounts receivable					
	Hongche Industrial	**4,284**	**4,284**	4,284	4,284
Prepayments					
	Jack Walk	**7,000**	**7,000**	—	—
Other receivables					
	Hongche Industrial	**7,341**	**7,341**	3,932	3,932
	Jack Walk	**752**	**752**	—	—

(2) Payables to related parties of the Company

Items	Related party	Closing balance	Opening balance
Accounts payable			
	Xinjiang Hengding	**10,569**	101,362
	Zhejiang Yuanrui	**1,000**	—
Other payables			
	Shanghai Pincheng	**1,106**	—
	Shanghai Youshi Jiaju	**308**	—

(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS

(I) Significant commitments

There is no significant commitment to be disclosed.

(II) Events as at the balance sheet date

1. Contingencies and financial influences formed by pending litigation or contingencies

(1) Litigations overdue and not yet been executed

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group	Shanghai Pinzhong Clothing Co., Ltd	Processing contract dispute	60,456
2	The Group	Huangshan Dongming Clothing Co., Ltd	Sale and purchase agreement dispute	37,904
3	The Company	Shanghai Yuqiao Garment Co., Ltd.	Processing contract dispute	30,966
4	The Company	Dongtai Xinding Fashion Co., Ltd.	Contractor agreement dispute	30,637
5	The Group	Hunan Suoyat Clothing Co., Ltd.	Processing contract dispute	29,926
6	The Group	Shanghai Yafeng Clothing Co., Ltd.	Sale and purchase agreement dispute	22,963
7	The Company	Jiaxing Chengxin Garment Co., Ltd.	Processing contract dispute	21,806
8	The Group	Jiaxing Lihao Garment Co., Ltd.	Contractual agreement	20,826
9	The Company	Shanghai Wusha Garment Co., Ltd.	Processing contract dispute	20,777
10	The Company	Shanghai Yijun Clothing Co., Ltd	Sale and purchase agreement dispute	19,039
11	The Company	Shanghai Yiren Industrial Co., Ltd.	Sale and purchase agreement dispute	19,001
12	The Company	Guangzhou Chuangxing Garment Group Co., Ltd.	Processing contract dispute	18,631
13	The Company	Shanghai Yafeng Clothing Co., Ltd.	Sale and purchase agreement dispute	17,553
14	The Group	Nanjing Jinzhu Clothing Co., Ltd	Processing contract dispute	16,808
15	The Company	Guangzhou Runxing Fashion Co., Ltd.	Processing contract dispute	16,574
16	The Company	Shanghai Meige Clothing Co., Ltd	Sale and purchase agreement dispute	16,549
17	The Company	Jiangsu Huihong International Group Wanxin Clothing Co., Ltd.	Sale and purchase agreement dispute	15,634
18	The Company	Nanjing Suzhongbo Textile Co., Ltd.	Sale and purchase agreement dispute	14,231
19	The Company	Kunshan Liqin Clothing Co., Ltd	Contractual dispute	13,905
20	The Group	Shanghai Yuen Industrial Co., Ltd.	Sale and purchase agreement dispute	13,280
21	The Group	Nantong Chengye Clothing Co., Ltd.	Sale and purchase agreement dispute	13,066
22	The Company	Tai'an Xinyi Garment Co., Ltd.	Contractual dispute	12,174
23	The Company	Shanghai Jingyun Industrial Co., Ltd.	Processing contract dispute	11,623
24	The Company	Shaoxing Shangyu Sunny Clothing Co., Ltd	Contractor agreement dispute	10,655
25	The Company	Zhejiang Shuoyang Clothing Co., Ltd	Processing contract dispute	10,530
26	The Group	Object of litigation lower than RMB 10,000,000		372,897
Total				888,411

As of the date of 31 December 2020, The Group has a total of 252 cases that have not yet been executed, including 252 cases in which the Group is the defendant, and the cumulative amount involved is RMB 888,411,000.

(All amounts in RMB'000 unless otherwise stated)

XII COMMITMENTS (CONTINUED)

(II) Events as at the balance sheet date (continued)

1. Contingencies and financial influences formed by pending litigation or contingencies (continued)

(2) Litigations unjudged

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group and Xin Jiaxing	HTI ADVISORY COMPANY LIMITED	Dispute over financial loan contract	311,255
2	The Group	Shanghai Construction Engineering Second Construction Group Co., Ltd.	Contractual dispute	175,639
3	The Group and Duan Xuefeng	Nantong Minglong Fashion Co., Ltd.	Sale and purchase agreement dispute	74,310
4	The Group	Hangzhou Xuxu Technology Co., Ltd.	Processing contract dispute	29,920
5	The Group	Shanghai Pinzhong Textile Garment Co., Ltd.	Processing contract dispute	28,298
6	The Group	Shanghai Pengshun Building Decoration Co., Ltd.	Sale and purchase agreement dispute	15,714
7	The Group	Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	Processing contract dispute	15,202
8	The Group	Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	Processing contract dispute	13,843
9	The Group	Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	Processing contract dispute	10,428
10	The Group	Object of litigation lower than RMB 10,000,000		107,859
Total				782,468

As at December 31, 2020, the Group has a total of 83 cases that have not been judged, including 83 cases in which the Group is the defendant, and the cumulative amount involved is RMB 782,468,000.

(3) On January 22, 2020, the Company received the bankruptcy decision of the subsidiary Jack Walk issued by the Shanghai Third Intermediate People's Court and appointed Shanghai Jinmao Kaide Law Firm as the administrator. As at 9 June 2020, the Company submitted declaration of creditor and convened the first meeting of creditors on 12 July 2020. The liquidation matter of Jack Walk is still pending as at 31 December 2020. The Group has accrued fully provision of the loan to Jack Walk (see Note VII(I)), and the liquidation matters are not expected to have a significant impact on the Group's existing business.

XII COMMITMENTS (CONTINUED)

(II) Events as at the balance sheet date (continued)

1. Contingencies and financial influences formed by pending litigation or contingencies (continued)

(4) On 25 February 2020, FASHION I, a subsidiary of the Company, has been taken over by HTI ADVISORY COMPANY LIMITED due to the loan dispute, La Chapelle cannot exercise control or influence and, which leads to the Company losing control over FASHION I, a subsidiary of the Company, and APPAREL I, APPAREL II as well as Naf Naf SAS, which are subsidiaries of FASHION I.

As Naf Naf SAS, an original wholly-owned subsidiary of the Group, was unable to repay debts in arrears owed to suppliers and the local government, the French local court formally made a ruling on 15 May 2020 that Naf Naf SAS would initiate rehabilitation proceedings, and the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Naf Naf SAS's business operations. On June 19, 2020, the French local court ruled that Naf Naf SAS will transfer part of its assets and liabilities, including Naf Naf SAS intangible assets, fixed assets, inventory, payable employee rights, leases, franchise agreements, etc. (excluding monetary funds, accounts receivable, accounts payable, bank loans, etc.) The transfer price is about 8.232 million euros, while the judicial reorganization procedure of Naf Naf SAS was transferred to the judicial liquidation procedure. The proceeds of the transfer will be included in the judicial liquidation procedures to repay its related debts. As of 31 December 2020, the above liquidation matter of Naf Naf SAS is pending. However, since the Group is unable to obtain further information on the liquidation with Naf Naf SAS, the impact on the Group has not yet been determined, and the final liquidation result is pending.

2. Contingencies and financial influences from external debt guarantees

As at 31 December 2020, no guarantees have been provided to any of related-parties or non-related parties.

As of December 31, 2020, apart from the above contingencies, there is no other significant contingency that need to be disclosed.

(All amounts in RMB'000 unless otherwise stated)

XIII EVENTS AFTER THE BALANCE SHEET DATE

(I) Important non-adjustment events

1. Change of actual controller

On March 27, 2021, Shanghai Qijin Business Management Partnership (Limited Partnership) (herein after Shanghai Qijin) bided 45,200,000 company shares for a consideration of RMB 91,772,000. Shanghai Qijin and its concert party Shanghai Wencheng Asset Management Co., Ltd (Wensheng Asset) will hold 106,800,000 shares, which accounts for 19.50% of total capital when the transfer completed, and will become the largest shareholders of the Company.

2. Effect of newly added litigations or arbitrations

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group and Xin Jiaxing	Urumqi High-tech Investment Development Group Co., Ltd.	Financial loan contract	586,528
2	The Group and Xin Jiaxing	China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch	Financial loan contract	89,347
3	The Group and Xin Jiaxing	China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch	Financial loan contract	71,073
4	The Group and Xin Jiaxing	China Everbright Bank Co., Ltd. Shanghai Caohejing Development Zone Sub-branch	Financial loan contract	40,487
5	The Group and Xin Jiaxing	China CITIC Bank Co., Ltd. Shanghai Branch	Financial loan contract	35,662
6	The Group and Xin Jiaxing	China CITIC Bank Co., Ltd. Shanghai Branch	Financial loan contract	28,640
7	The Group	Xinjiang Hengding International Supply Chain Technology Co., Ltd.	Contractual dispute	27,467
8	The Group and Xin Jiaxing	China CITIC Bank Co., Ltd. Shanghai Branch	Financial loan contract	23,123
9	The Company	Shanghai Yige Apparel Co., Ltd	Contractor agreement dispute	14,156
10	The Company	Jinhou Group Weihai Apparel Co., Ltd.	Processing contract dispute	14,117
11	The Group	Object of litigation lower than RMB 10,000,000		75,387
Total				1,005,987

From December 31, 2020 to the reporting date, the Group has a total of 96 new cases, including 96 cases in which the Group is the defendant, and the cumulative amount involved is RMB1,005,987,000, which contains 59 judged cases (amount involved is RMB838,799,000), 28 cases that are currently in the waiting stage or have not yet been completed (amount involved is RMB164,345,000) and 9 withdrawing cases (amount involved is RMB2,843,000).

(All amounts in RMB'000 unless otherwise stated)

XIII EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(I) Important non-adjustment events (continued)

3. New litigations not yet been executed

No.	Defendant	Plaintiff	Reasons	Amount involved
1	The Group and Duan Xuefeng	Nantong Minglong Fashion Co., Ltd.	Sale and purchase agreement dispute	74,310
2	The Group	Hangzhou Xuxu Technology Co., Ltd.	Processing contract dispute	29,920
3	The Group	Shanghai Pengshun Building Decoration Co., Ltd.	Sale and purchase agreement dispute	15,714
4	The Company	Nanjing Runze Huazhen Textile Technology Development Co., Ltd.	Processing contract dispute	15,202
5	The Group	Object of litigation lower than RMB 10,000,000		101,758
Total				236,904

As of the reporting date of 2020, The Group has an increased cumulative amount of 65 cases that not yet been executed, including 65 cases in which the Group is the defendant, and the cumulative amount involved is RMB236,904,000. The above cases include 58 judged cases (amount involved is RMB214,727,000) and 7 withdrawing cases (amount involved is RMB 22,177,000).

(II) Description of other events after the balance sheet date

As of the approval date of this financial report, apart from the events above, there is no other significant post balance sheet event which needs to be disclosed.

(All amounts in RMB'000 unless otherwise stated)

XIV OTHER SIGNIFICANT EVENTS

(I) Discontinued operation

	Discontinued operation	
Items	**2020**	2019
Revue from discontinued operation	**280,676**	—
Cost from discontinued operation	**335,528**	—
Total profit from discontinued operation	**(54,852)**	—
Tax cost from discontinued operation	**–**	—
Net profit from discontinued operation	**(54,852)**	—
Including: Net profit from discontinued operation contributable to the shareholders of parent company	**(54,852)**	—
Total of disposal gains or losses from discontinued operation	**(54,852)**	—
Tax cost (revenue) from discontinued operation	**–**	—
Disposal net gains or losses from discontinued operation	**(54,852)**	—
Including: Disposal net gains or losses from discontinued operation contributable to the shareholders of parent company	**(54,852)**	—
Net cash flow from discontinued operation	**(3,653)**	—
Including: net cash flow from operating activities	**(3,653)**	—
Net cash flow from investing activities	**–**	—
Net cash flow from financing activities	**–**	—

(II) Segment information

1. Factors considered when determining reporting segments of the Company, types of products and services of reporting segments

For management purposes, the Group is organized into business units based on their internal organizational structure, management requirements and internal reporting system, and has 2 reporting segments as follows:

1) Segment of Naf Naf SAS Brand, mainly for the overseas operation and management of the Naf Naf SAS brand；

2) Segment of other Brands, mainly for the domestic operations and management of brands other than the Naf Naf SAS brand.

XIV OTHER SIGNIFICANT EVENTS (CONTINUED)

(II) Segment information (continued)

2. Financial information of reporting segments

All amounts in RMB'000

	Closing balance/current amount			
Items	NAF NAF SAS	Other brands	Offset between segments	Total
1. Operating income	280,676	1,538,641	—	1,819,317
Including: Revenue from external customers	280,676	1,538,641	—	1,819,317
2. Operating expenses	333,284	2,689,910	—	3,023,194
3. Investment income from joint ventures and associates	—	(7,095)	—	(7,095)
4. Credit impairment losses	392	(149,801)	—	(149,409)
5. Asset impairment losses	—	(341,184)	—	(341,184)
6. Total profit	(54,852)	(1,459,572)	—	(1,514,424)
7. Income tax expenses	—	(84,645)	—	(84,645)
8. Net profit	(54,852)	(1,374,927)	—	(1,429,779)
9. Total assets	—	4,030,294	—	4,030,294
10. Total liabilities	—	4,269,785	—	4,269,785

Note: accounting policies of each segments are consistent with the accounting policies described in "significant accounting policies and estimates".

(III) Lease

1. As a lesser

The group leased part of the houses and buildings as an operating lease. According to the lease contract, the rent will be adjusted according to the market rent status each year. The group's income from leasing houses and buildings was RMB15,796,000 in 2020, as shown in note VI (XL). As the houses and buildings rented out cannot be split and measured separately, they were not accounted as investment property.

(All amounts in RMB'000 unless otherwise stated)

XIV OTHER SIGNIFICANT EVENTS (CONTINUED)

(III) Lease (continued)

2. As a lessee

Items	2020
Interest charges on lease liabilities	**33,329**
Short-term lease expense with simplified treatment included in current profit and loss	**28,771**
Variable lease payments not included in the measurement of lease liabilities	**–**
Total cash outflows related to leases	**28,771**

The leasing assets leased by the Group include houses and buildings used in the operation and the lease term of the houses and buildings is usually from 2-7 years. The lease contract usually stipulates that the Group cannot sublease the leased assets, and part of the lease contract requires the financial indicators of the Group to be kept at a certain level. A few leases contain options for renewal, termination rent clauses.

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

1. Accounts receivable disclosed based on aging

Aging	Closing balance	Opening balance
Within 90 days	**2,627,699**	2,259,139
90 days to 1 year	**15,378**	12,786
1 to 2 years	**992**	1,729
2 to 3 years	**11**	5,721
3 years above	**10,419**	8,122
Sub-total	**2,654,499**	2,287,497
Less: provision for bad debt	**47,636**	44,826
Total	**2,606,863**	2,242,671

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of provision method for bad debts

	Closing balance				
	Carrying amount before provision		Provision for bad debt		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Carrying amount
Accounts receivable subjected to provision for expected credit losses on individual basis	**20,033**	**1**	**20,033**	**100**	**–**
Accounts receivable subjected to provision for expected credit losses on portfolio basis	**2,634,466**	**99**	**27,603**	**1**	**2,606,863**
Including: credit risk characteristics combined with provision for bad debts	**2,634,466**	**99**	**27,603**	**1**	**2,606,863**
Total	**2,654,499**	**100**	**47,636**	**2**	**2,606,863**

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of provision method for bad debts (continued)

Continued:

	Opening balance				
	Carrying amount before provision		Provision for bad debt		
Categories	Amount	Proportion (%)	Amount	Proportion (%)	Carrying amount
Accounts receivable subjected to provision for expected credit losses on individual basis	20,033	1	20,033	100	—
Accounts receivable subjected to provision for expected credit losses on portfolio basis	2,267,464	99	24,793	1	2,242,671
Including: credit risk characteristics combined with provision for bad debts	2,267,464	99	24,793	1	2,242,671
Total	2,287,497	100	44,826	2	2,242,671

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

	Closing balance			
Name of company	**Carrying amount before provision**	**Provision for bad debt**	**Carrying amount**	**Reason**
Honghe Industrial	4,284	4,284	100	(1)
Accounts receivables from shopping malls	15,749	15,749	100	(2)
Total	20,033	20,033	100	

(1) As at December 31, 2020, the accounts receivables from related parties out of the consolidation was RMB 4,284,000, due to the poor operating conditions of the companies, there was a capital turnover problem, the Company considered that these receivables could not be collected, so a provision for bad debts has been made.

(2) As at December 31,2019 and December 31, 2018, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions of the shopping malls, there was a capital turnover problem, and some shopping malls were closed. The group considered that the receivables could not be collected, so a provision for bad debts has been made.

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

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

(1) provision on portfolio basis

	Closing balance		
Aging	**Carrying amount**	**Provision for bad debt**	**Provision ratio (%)**
Within 90 days	36,754	734	2
90 days to 1 year	5,378	269	5
1 to 2 years	992	298	30
2 to 3 years	11	7	60
3 years above	386	386	100
Subsidiaries within 90 days	2,590,945	25,909	1
Total	2,634,466	27,603	1

5. Particulars of provision, recovery and reversal for bad debt in the current period

		Changes in the current period				
Category	Opening balance	Provision	Recovery or reversal	Write-off	Other changes	Closing balance
Accounts receivable subjected to provision for expected credit losses on individual basis	20,033	–	–	–	–	20,033
Accounts receivable subjected to provision for expected credit losses on portfolio basis	24,793	2,810	–	–	–	27,603
Including: credit risk characteristics combined with provision for bad debts	24,793	2,810	–	–	–	27,603
Toral	44,826	2,810	–	–	–	47,636

6. There was no account receivable written-off in the current period

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

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

Name of company	Closing balance	% of total accounts receivable balance (%)	Bad debt provision
La Chapelle Apparel (Taicang) Co., Ltd.	918,213	35	9,182
Shanghai La Chapelle Casual Fashion Co., Ltd.	409,246	15	4,092
Shanghai Youshi Fashion Co., Ltd.	310,920	12	3,109
Shanghai Weile Fashion Co., Ltd.	277,048	10	2,770
Chengdu Lewei Fashion Co., Ltd.	228,263	9	2,283
Total	2,143,690	81	21,436

(II) Other receivables

Aging	**Closing balance**	Opening balance
Within 1 year	**575,028**	116,941
1 to 2 years	**9,363**	218,698
2 to 3 years	**1,958**	610,668
3 years above	**9,081**	77,305
Sub-total	**595,430**	1,023,612
Less: provision for bad debt	**181,486**	438,996
Total	**413,944**	584,616

1. Classified by nature

Nature	**Closing balance**	Opening balance
Amounts due from subsidiaries	**566,571**	983,517
Deposits	**13,211**	23,857
Refund of service charges	**13,778**	14,028
Staff advances	**3**	314
Property rental fees	**1,640**	—
Others	**227**	1,896
Total	**595,430**	1,023,612

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

2. Presented by three stages of provision for financial asset

Item	Closing balance Carrying amount before provision	 Provision for bad debt	 Carrying amount	Opening balance Carrying amount before provision	 Provision for bad debt	 Carrying amount
Stage 1	**411,465**	**8,193**	**403,272**	588,506	8,964	579,542
Stage 2	**11,321**	**649**	**10,672**	8,358	3,284	5,074
Stage 3	**172,644**	**172,644**	**–**	426,748	426,748	–
Total	**595,430**	**181,486**	**413,944**	1,023,612	438,996	584,616

3. Particulars of bad debt provision for other receivables

Bad debt provision	**Stage 1** **12-month expected credit losses**	**Stage 2** **Lifetime expected credit losses (without credit loss)**	**Stage 3** **Lifetime expected credit losses (credit impairment incurred)**	**Total**
Opening balance	8,964	3,284	426,748	438,996
The balance at the beginning of the current period	8,964	3,284	426,748	438,996
–Transfer to stage 2	–	–	–	–
–Transfer to stage 3	–	–	–	–
–Reverse to stage 2	–	–	–	–
–Reverse to stage 1	–	–	–	–
Provision	–	–	–	–
Reversal	(771)	(2,635)	(254,104)	(257,510)
Write-off	–	–	–	–
Offset				
Other changes	–	–	–	–
Closing balance	8,193	649	172,644	181,486

4. There is no actual write-off of other receivables in the current period

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

5. Particulars of the top five of other receivables at the end of the period

Name of Company	Nature	Closing balance	Aging	Percentage of the closing balance of other receivables (%)	Closing balance of provision for bad debts
Shanghai Weile Fashion Co., Ltd.	Receivables from subsidiaries	188,103	Within 1 year, 1 to 2 years	32	1,881
Guangzhou Xichen Clothing Co., Ltd.	Receivables from subsidiaries	108,784	Within 1 year, 3 years above	18	108,784
Shanghai Chongan Fashion Co., Ltd.	Receivables from subsidiaries	60,270	Within 1 year, 1 to 2 years	10	60,270
Candie's Shanghai Fashion Co., Ltd.	Receivables from subsidiaries	58,281	Within 1 year, 1 to 2 years	10	583
Fujian Lewei Fashion Co., Ltd	Receivables from subsidiaries	57,725	Within 1 year	10	577
Total		473,163		80	172,095

As of December 31, 2020, the main reasons of 29% decrease in other receivables was reduction in receivables from subsidiaries.

(III) Long-term equity investments

Nature	Closing balance			Opening balance		
	Carrying amount before provision	Impairment provision	Carrying amount	Carrying amount before provision	Impairment provision	Carrying amount
Investment in subsidiaries	1,123,650	481,230	642,420	1,163,279	497,235	666,044
Investment in associates and joint ventures	3,119	–	3,119	14,034	–	14,034
Total	1,126,769	481,230	645,539	1,177,313	497,235	680,078

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments (continued)

1. Investment in subsidiaries

Investee	Opening balance	Addition in the current period	Decrease in the current period	Closing balance	Impairment provision in the current period	Balance of provision for impairment
LaCha Xiuxian	5,000	—	—	5,000	—	—
Shanghai Leou	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
Pincheng	39,629	—	39,629	—	—	—
Jack Walk	75,000	—	—	75,000	—	75,000
Total	1,163,279	—	39,629	1,123,650	—	481,230

As at December 31, 2020, the equity interest of the Company's 17 subsidiaries has been frozen by the court decision due to litigations, the carrying value of the frozen equity amounts to RMB 1,037,650,000, which has been impaired by RMB 406,230,000 and the net value is RMB 631,420,000.

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments (continued)

2. Investment in joint ventures

Investee	Opening balance	Changes in the current period Additional investment	Disinvestment	Return on investment under equity method	Adjustment in other comprehensive profit or loss
Joint venture					
Zhejiang Yuanrui	2,462	–	–	(2,462)	–
Xinjiang Hengding	4,701	–	5,296	595	–
Fuzhou Badi	6,871	–	–	(3,752)	–
Total	14,034	–	5,296	(5,619)	–

Continued:

Investee	Changes in the current period Changes in other equity	Declare payment of cash dividends or profits	Provision for impairment	Other	Closing balance	Balance of provision for impairment
Joint venture						
Zhejiang Yuanrui	–	–	–	–	–	–
Xinjiang Hengding	–	–	–	–	–	–
Fuzhou Badi	–	–	–	–	3,119	–
Total	–	–	–	–	3,119	–

(All amounts in RMB'000 unless otherwise stated)

XV NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(IV) Revenue and cost of sales

1. Revenue, cost of sales

	2020		2019	
Item	Revenue	Cost	Revenue	Cost
Main business	771,940	686,078	3,468,892	2,456,493
Other business	3,518	61	1,242	2,283
Total	775,458	686,139	3,470,134	2,458,776

2. Income derived from contracts:

Contract classifications	Parent company
1. Category of products	
Apparel	765,317
Brand authorization	6,623
Lease	3,518
2. Classified by business areas	
Domestic	775,458
Overseas	—
3. Classified by the timing of commodity transfer	
Transferred at a point in time	765,317
Transferred at a point over time	10,141
Total	775,458

(V) Investment income

Items	2020	2019
Long-term equity interest investment income calculated by equity method	(5,619)	(55)
Disposal of long-term equity investments resulting in investment losses	(32,922)	(19,742)
Investment gains/losses from debt restructuring	17,375	(25,124)
Total	(21,166)	(44,921)

Note: The debt restructuring resulted in an investment loss due to the exemption of part of payable for purchase of goods by suppliers.

(All amounts in RMB'000 unless otherwise stated)

XVI SUPPLEMENTARY INFORMATION

(I) Summary of non-current profit or loss

Items	**2020**	2019
Gains and Loss from disposal of non-current assets	**211,944**	19,876
Government grants (It is closely related to the normal business operations, except for the government subsidies that are in line with the provisions of the national policies and in accordance with certain standard quota or quantitative continuous enjoyment)	**15,268**	102,159
Gains and losses on debt restructuring	**33,452**	1,098
Investment income from acquisition of subsidiaries	**–**	21,592
Investment income from disposal of subsidiaries	**(56,531)**	23,958
Investment income from disposal of associates	**–**	(87,609)
Gains from changes in fair value of financial assets held for trading	**–**	4,577
Gains and losses from changes in fair value	**(3,727)**	–
Other non-operating income and expenses except the above items	**(12,576)**	1,441
Less: impact of income tax expense	**46,959**	17,061
Less: impact on the minority interests, net of tax	**622**	(30)
Total	**140,249**	70,061

(II) Return on net assets and earnings per share

Profit during the reporting period	**Weighted average return rate on net assets (%)**	**Earnings per share**	
		Basic earnings per share	**Diluted earnings per share**
Net profit attributable to ordinary shareholders of the Company	(583.36)	(3.38)	(3.38)
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	(627.81)	(3.64)	(3.64)

The Group has no potentially dilutive ordinary shares.