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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Director(s)**") of Xinjiang La Chapelle Fashion Co., Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021 (the "**Reporting Period**") with comparative figures for the year ended 31 December 2020 as follows:

	Year ended 31 December		Increase/
	2021	2020	(decrease)
	RMB'000	*RMB'000*	*%*
Financial highlights			
Revenue	**430,128**	1,819,317	(76.4)
Gross profit	**210,762**	885,596	(76.2)
Operating loss	**(724,598)**	(1,498,037)	(51.6)
Loss before income tax	**(835,686)**	(1,513,003)	(44.8)
Income tax expenses	**(12,924)**	363,933	(103.6)
Net loss	**(822,762)**	(1,876,936)	(56.2)
Basic and diluted losses per share *(RMB)*	**(1.51)**	(3.38)	(55.3)

	31 December	31 December	Increase/
	2021	2020	(decrease)
	RMB'000	*RMB'000*	*%*
Total assets	**2,406,863**	3,485,780	(31.0)
Total equity attributable to shareholders of the Company	**(1,431,296)**	(607,856)	(135.5)

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Financial Ratios		
Gross profit margin	**49.00%**	48.68%
Operating loss margin	**(168.46)%**	(82.34)%
Loss margin for the period	**(191.28)%**	(103.17)%

CONSOLIDATED INCOME STATEMENTS

For the year ended 31 December 2021

	Notes	Year ended 31 December 2021 RMB'000	Year ended 31 December 2020 RMB'000
Revenue	4	**430,128**	1,819,317
Less: Cost of sales	4	**219,366**	933,721
Taxes and surcharges		**20,116**	25,892
Selling and distribution expenses	5	**215,376**	1,637,841
General and administrative expenses	6	**158,473**	264,580
Financial expenses	7	**199,731**	152,739
Including: interest expenses		**209,670**	138,859
Interest income		**5,080**	8,645
Add: Other income	11	**108,431**	23,606
Investment income	10	**31,792**	(46,201)
Including: investment income of joint ventures and associates		**(11,265)**	(7,095)
Changes in fair value		**7,591**	(3,727)
Credit impairment losses	8	**(186,505)**	(149,409)
Asset impairment losses	9	**(310,182)**	(341,184)
Gains/(loss) on disposals of assets		**7,209**	214,334
Operating loss		**(724,598)**	(1,498,037)
Add: Non-operating income	12	**7,813**	2,034
Less: Non-operating expenses		**118,901**	17,000
Loss before income taxes		**(835,686)**	(1,513,003)
Less: Income tax expenses	13	**(12,924)**	363,933
Net loss		**(822,762)**	(1,876,936)

	Notes	Year ended 31 December **2021** ***RMB'000***	2020 *RMB'000*
Classified by continuity of operations			
– Net loss from continuing operations		**(822,762)**	(1,822,084)
– Net loss from discontinued operations		**–**	(54,852)
Classified by ownership of the equity			
– Attributable to shareholders of the Company		**(821,280)**	(1,839,543)
– Attributable to minority interests		**(1,482)**	(37,393)
Other comprehensive income, net of tax		**(2,160)**	1,092
Attributable to shareholders of the Company, net of tax		**(2,160)**	1,092
– Other comprehensive losses that cannot be reclassified into profit or loss		**(2,160)**	19,182
– Changes in fair value of other equity instrument investments		**(2,160)**	19,182
– Other comprehensive income that can be reclassified into profit or loss		**–**	(18,090)
– Translation differences on translation of foreign currency financial statements		**–**	(18,090)
Total comprehensive (loss)/income		**(824,922)**	(1,875,844)
– Attributable to shareholders of the Company		**(823,440)**	(1,838,451)
– Attributable to minority interests		**(1,482)**	(37,393)
(Losses)/earnings per share			
– Basic losses per share *(RMB)*	*14*	**(1.51)**	(3.38)
– Diluted losses per share *(RMB)*		**(1.51)**	(3.38)

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

ASSETS		As at 31 December	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
Current assets			
Cash at bank and on hand	*16*	**167,456**	206,477
Financial assets held for trading		**–**	–
Notes receivable		**–**	–
Accounts receivable	*17*	**88,718**	270,637
Advances to suppliers		**11,050**	35,582
Other receivables	*18*	**53,453**	125,636
Inventories	*19*	**60,865**	438,716
Non-current assets due within one year		**–**	25,844
Other current assets		**26,544**	88,952
Total current assets		**408,086**	1,191,844
Non-current assets			
Long-term receivables		**–**	4,447
Long-term equity investments		**144,603**	180,825
Other equity instruments		**2,580**	4,741
Other non-current financial assets		**101,641**	94,050
Fixed assets	*15*	**1,516,195**	1,624,902
Construction in progress		**75,000**	69,054
Right-of-use assets		**3,837**	47,846
Intangible assets		**152,674**	166,856
Goodwill		**–**	78,231
Long-term prepaid expenses		**2,247**	22,984
Deferred tax assets		**–**	–
Equity investment		**–**	–
Other non-current assets		**–**	–
Total non-current assets		**1,998,777**	2,293,936
TOTAL ASSETS		**2,406,863**	3,485,780

LIABILITIES AND EQUITY		As at 31 December	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
Current liabilities			
Short-term borrowings	*21*	**1,149,220**	1,167,400
Notes payable		**–**	–
Accounts payable	*22*	**826,501**	1,134,586
Advance from customers		**10,851**	1,428
Contract liabilities		**20,395**	7,330
Employee benefits payable		**9,833**	65,636
Taxes payable		**203,777**	163,914
Other payables	*23*	**914,134**	854,555
Current portion of non-current liabilities		**349,910**	368,670
Other current liabilities		**1,874**	–
Total current liabilities		**3,486,495**	3,763,519
Non-current liabilities			
Long-term borrowings		**–**	–
Lease obligations		**1,897**	36,263
Accrued liabilities		**420,032**	350,585
Deferred tax liabilities		**2,110**	13,911
Other non-current liabilities		**5,899**	8,150
Total non-current liabilities		**429,938**	408,909
Total liabilities		**3,916,433**	4,172,428
Equity			
Share capital	*20*	**547,672**	547,672
Capital surplus		**1,910,806**	1,910,806
Less: treasury share		**20,010**	20,010
Other comprehensive income		**(41,026)**	(38,866)
Surplus reserve		**246,788**	246,788
Undistributed profits		**(4,075,526)**	(3,254,246)
Total equity attributable to shareholders of the Company		**(1,431,296)**	(607,856)
Minority interests		**(78,274)**	(78,792)
Total equity		**(1,509,570)**	(686,648)
TOTAL LIABILITIES AND EQUITY		**2,406,863**	3,485,780

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**429,678**	2,285,276
Cash received relating to other operating activities	**38,149**	256,525
Sub-total of cash inflows	**467,827**	2,541,801
Cash paid for goods and services	**64,416**	1,140,348
Cash paid to and on behalf of employees	**124,622**	596,440
Payments of taxes and surcharges	**9,997**	58,373
Cash paid relating to other operating activities	**230,895**	647,044
Sub-total of cash outflows	**429,930**	2,442,205
Net cash flows from operating activities	**37,897**	99,596
Cash flows from investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**1,093**	2,676
Net cash received from disposal of subsidiaries and other business units	**17,124**	52,836
Cash received relating to other investing activities	**–**	–
Sub-total of cash inflows	**18,217**	55,512
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**4,899**	45,035
Net cash paid to acquire subsidiaries and other business units	**–**	8,449
Net cash paid to dispose of subsidiaries and other business units	**–**	–
Cash paid relating to other investing activities	**–**	7,223
Sub-total of cash outflows	**4,899**	60,707
Net cash flows from investing activities	**13,318**	(5,195)

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Cash flows from financing activities		
Cash received from investments by others	**2,000**	–
Cash received from borrowings	**–**	358,000
Cash received relating to other financing activities	**–**	–
Sub-total of cash inflows	**2,000**	358,000
Cash repayments of borrowings	**4,980**	283,038
Cash payments for distribution of dividends, profits or interest expenses	**3,377**	51,389
Cash payments relating to other financing activities	**7,821**	268,920
Sub-total of cash outflows	**16,178**	603,347
Net cash flows from financing activities	**(14,178)**	(245,347)
Effect of foreign exchange rate changes on cash and cash equivalents	**–**	(284)
Net decrease in cash and cash equivalents	**37,037**	(151,230)
Add: Cash and cash equivalents at beginning of period	**24,319**	175,549
Cash and cash equivalents at end of period	**61,356**	24,319

1. GENERAL INFORMATION

Xinjiang La Chapelle Fashion Co., Ltd. (hereinafter referred to as "**Company**") is a joint stock company, shareholding reformed by Shanghai Xuhui La Chapelle Fashion Limited (上海徐匯拉夏貝爾服飾有限公司) (hereinafter referred to as "**Shanghai Xuhui La Chapelle**"). Shanghai Xuhui La Chapelle is a limited liability company incorporated in Xuhui District, Shanghai on 14 March 2001. On 26 February 2004, the Company changed its name to Shanghai La Chapelle Fashion Limited (hereinafter referred to as "**Shanghai La Chapelle**"). On 23 May 2011, the Company was converted into a joint stock company with limited liabilities according to the plan approved by the original board of directors and the terms in the agreement made by the Company's sponsors. The A-shares of CNY-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.".

The registered address of the Company: Room 2008, 20/F, Tower D, Chuangxin Square, Si Ping Road, Xin Shi District, Urumqi, Xinjiang, PRC. The office address: 12/F, Building 4, No. 50, Lane 2700, Lianhua South Road, Minhang District, Shanghai, PRC.

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

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

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

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

2. BASIS OF PREPARATION

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Right-of-use assets

The Company initially measures right-of-use assets at cost, which consists of:

1. the amount of the initial measurement of the lease liability;

2. the amount of lease payments made on or before the commencement date of the lease term, less amounts related to lease incentives taken, if any;

3. the initial direct costs incurred by the Company;

4. costs expected to be incurred by the Company to dismantle and remove the leased asset, restore the site where the leased asset is located, or restore the leased asset to the condition agreed upon under the terms of the lease (excluding costs incurred to produce inventory).

Subsequent to the commencement date of the lease term, the Company uses the cost model for subsequent measurement of right-of-use assets.

The Company depreciates over the remaining useful life of the leased asset where it is reasonably certain that ownership of the leased asset will be obtained at the end of the lease term. If it is not reasonably certain that ownership of the leased asset can be obtained at the end of the lease term, the Company depreciates the asset over the shorter of the lease term and the remaining useful life of the leased asset. Right-of-use assets for which accrual for impairment has been made are depreciated in future periods at their carrying amounts net of accrual for impairment, with reference to the above principles

(II) Lease liabilities

The Company initially measures the lease liability at the present value of the lease payments outstanding at the commencement date of the lease term. In calculating the present value of the lease payments, the Company uses the interest rate embedded in the lease as the discount rate; if the interest rate embedded in the lease cannot be determined, the Company's incremental borrowing rate is used as the discount rate. The lease payment amount includes:

1. fixed payments after deducting amounts related to lease incentives and in-substance fixed payments;

2. variable lease payments that depend on an index or rate;

3. lease payments that include the exercise price of the purchase option if the Company is reasonably certain that the option will be exercised;

4. where the lease term reflects that the Company will exercise the option to terminate the lease, the lease payment amount includes the amount required to be paid to exercise the option to terminate the lease;

5. the amount expected to be paid based on the residual value of the guarantee provided by the Company.

The Company calculates the interest expense on the lease liability for each period of the lease term at a fixed discount rate and includes it in the current profit or loss or cost of the related assets.

Variable lease payments that are not included in the measurement of the lease liability should be charged to current profit or loss or the cost of the related assets when they are actually incurred.

(III) Lease

At the inception date of the contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease if one party to the contract cedes the right to control the use of one or more identified assets for a specified period of time in exchange for consideration.

1. Splitting of leased and non-leased portions

If the contract contains both lease and non-lease parts, the Company, as the lessor, will split the lease and non-lease parts for accounting purposes; when the Company is the lessee, the leased assets will not be split, and each lease part and its related non-lease parts will be separately combined as a lease for accounting purposes.

2. Consolidation of lease contracts

Two or more contracts containing leases signed by the Company and the same counterparty or its related parties at the same or similar times are combined into one contract for accounting purposes when one of the following conditions is met:

(1) The two or more contracts are signed based on an overall business purpose and constitute a package transaction, the overall business purpose of which cannot be understood if not considered as a whole.

(2) The amount of consideration for one of the two or more contracts depends on the pricing or performance of the other contracts.

(3) The rights to use the assets transferred by the two or more contracts, taken together, constitute a single lease.

3. Accounting treatment of the Company as a lessee

At the commencement date of the lease term, the Company recognizes right-of-use assets and lease liabilities for leases, except for short-term leases and low-value asset leases to which simplified treatment is applied.

(1) Short-term leases and leases of low-value assets

Short-term leases are leases that do not contain purchase options and have a lease term less than 12 months. Low-value asset leases are leases with a lower value when the individual leased asset is a brand-new asset.

The Company recognizes right-of-use assets and lease liabilities for leases other than short-term leases and leases of low-value assets.

(2) The accounting policies for right-of-use assets and lease liabilities are detailed in the annual report.

4. *Accounting treatment of the Company as a lessor*

(1) Classification of leases

The Company classifies leases as finance leases and operating leases at the commencement date of the lease. A finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of the leased asset, and the ownership of which may or may not be transferred eventually. Operating leases refer to leases other than finance leases.

A lease is usually classified as a finance lease by the Company if one or more of the following circumstances exist:

1) At the expiration of the lease term, ownership of the leased asset is transferred to the lessee.

2) The lessee has an option to purchase the leased asset and the purchase price agreed is sufficiently low compared with the fair value of the leased asset at the time the option is expected to be exercised so that it is reasonably certain that the lessee will exercise the option at the inception date of the lease.

3) Although ownership of the asset does not pass, the lease term represents most of the useful life of the leased asset.

4) At the lease commencement date, the present value of the lease receipt amount is almost equal to the fair value of the leased asset.

5) The leased asset is special in nature and can only be used by the lessee if no major alterations are made.

A lease may also be classified as a finance lease by the Company if one or more of the following indications exist:

1) If the lessee revokes the lease, the loss to the lessor caused by the revocation is borne by the lessee.

2) Gains or losses arising from fluctuations in the fair value of the residual value of the asset are attributed to the lessee.

3) The lessee has the ability to continue the lease to the next period at a rent much lower than the market level.

(2) Accounting for finance leases

At the commencement date of the lease term, the Company recognizes finance lease receivables for finance leases and derecognizes assets that will be leased.

When the finance lease receivable is initially measured, the sum of the unguaranteed residual value and the present value of the outstanding amount of lease receipts at the commencement date, discounted at the interest rate embedded in the lease as the recorded value of the finance lease receivable. The amount of lease receipts includes:

1) fixed payments deduct amounts related to lease incentives and in-substance fixed payments;

2) variable lease payments that depend on an index or rate;

3) the amount of lease receipts including the exercise price of the purchase option if it is reasonably certain that the lessee will exercise the purchase option;

4) where the lease term reflects that the lessee will exercise the option to terminate the lease, the lease receipt amount includes the amount to be paid by the lessee to exercise the option to terminate the lease; and

5) the residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee, and an independent third party with the financial ability to meet the guaranteed obligation.

The Company calculates and recognizes interest income for each period of the lease term at a fixed interest rate embedded in the lease. Variable lease payments received that are not included in the amount of net lease investment are recognized in profit or loss when they are actually incurred.

(3) Accounting for operating leases

The Company recognizes lease receipts from operating leases as rental income using the straight-line method or other systematic and reasonable method in each period of the lease term; the initial direct costs incurred in connection with operating leases are capitalized and amortized over the lease term on the same basis as rental income is recognized, recognized in profit or loss in the current period; variable lease payments received in connection with operating leases that are not included in the lease receipts are recognized in profit or loss in the current period when they are actually incurred.

(IV) The basis for determining the net realizable value of inventories and the impairment for inventory

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

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

If the factors affecting previous impairment of inventory value have disappeared, the amount of the impairment is restored and reversed no more than the original impairment of inventories, and the amounts reversed are charged to current period profit or loss.

(V) Subsequent measurement of fixed assets, intangible assets and long-term prepaid expenses

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

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

Intangible assets with finite useful lives are amortized on a straight-line basis over the period that they provide economic benefits to the Company. The estimated useful lives of intangible assets with finite useful lives and the bases are as follows:

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

Long-term amortization refers to all expenses that have been incurred but should be borne by the Company in the current and future periods and are apportioned over a period of more than one year. Long-term amortization is amortized on a straight-line basis over the benefit period.

Categories	Amortization periods	Notes
Improvement of fixed assets under operating lease	2 to 5 years	Benefit period

(VI) Impairment of long-term assets

The Company determines at the balance sheet date whether there is an indication that a long-term asset may be impaired. If there is an indication that a long-term asset is impaired, the recoverable amount of the asset is estimated on an individual asset basis; if it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group is determined based on the asset group to which the asset belongs:

The recoverable amount of an asset is estimated based on the higher of its fair value less costs of disposal and the present value of the asset's estimated future cash flows.

If the recoverable amount measurement indicates that the recoverable amount of a long-term asset is less than the carrying amount, the carrying amount of the long-term asset is written down to its recoverable amount, and the amount written down is recognized as an asset impairment loss and recognized in profit or loss, with a corresponding accrual for asset impairment. Once an asset impairment loss is recognized, it cannot be reversed in subsequent accounting periods.

After an asset impairment loss is recognized, the depreciation or amortization expense of the impaired asset is adjusted accordingly in future periods so that the adjusted carrying amount of the asset (net of estimated net salvage value) is apportioned systematically over the remaining useful life of the asset.

Goodwill and intangible assets with indefinite useful lives resulting from business combinations are tested annually for impairment, regardless of whether there is any indication of impairment.

When goodwill is tested for impairment, the carrying amount of goodwill is apportioned to the asset group or combination of asset groups that are expected to benefit from the synergies of the business combination. When testing for impairment of the relevant asset group or combination of asset groups containing goodwill, if there is an indication of impairment of the asset group or combination of asset groups related to goodwill, the asset group or combination of asset groups not containing goodwill is first tested for impairment, and the recoverable amount is calculated and compared with the relevant carrying amount, and a corresponding impairment loss is recognized. The impairment test is then performed on the asset group or combination of asset groups containing goodwill, and the carrying amount of these related asset groups or combination of asset groups (including the portion of the carrying amount of goodwill apportioned) is compared with their recoverable amounts, and if the recoverable amount of the related asset group or combination of asset groups is lower than their carrying amounts, an impairment loss on goodwill is recognized.

(VII) Significant accounting judgments and estimates

Assets and liabilities that are measured or disclosed at fair value in the financial statements are identified within the fair value hierarchy based on the lowest level of inputs that are significant to the fair value measurement as a whole: Level 1 inputs, unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date; Level 2 inputs, inputs other than Level 1 inputs that are directly or indirectly observable for the related assets or liabilities; and Level 3 inputs, unobservable inputs for the related assets or liabilities.

At each balance sheet date, the Company reassesses the assets and liabilities recognized in the financial statements that are measured at fair value on an ongoing basis to determine whether a transition between levels of the fair value measurement hierarchy has occurred.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their disclosures, as well as the disclosure of contingent liabilities at the balance sheet date. Uncertainties in these assumptions and estimates in the process of applying the Company's accounting policies, management has made the following that have a significant effect on the amounts recognized in the financial statements.

1. Judgments

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

(1) Business model

The classification of financial assets at initial recognition depends on the Company's business model for managing financial assets. In making judgments about the business model, the Company considers, among other things, the way the enterprise evaluates and reports the performance of financial assets to key management personnel, the risks affecting the performance of financial assets and the way they are managed, and the manner in which the relevant business management personnel are compensated. In evaluating whether the objective is to collect contractual cash flows, the Company is required to analyze and judge the reasons, timing, frequency, and value of sales of financial assets before their maturity dates.

(2) Contractual cash flow characteristics

The classification of a financial asset at initial recognition depends on the contractual cash flow characteristics of the financial asset, and the Company is required to determine whether the contractual cash flows are only payments of principal and interest based on the principal outstanding, and whether they are significantly different from the benchmark cash flows, etc., when evaluating revisions to the time value of money.

(3) Lease term – Lease contracts that include renewal options

The lease term is the period that the Company has the right to use the leased assets and is irrevocable. If there is an option to renew the lease and it is reasonably certain that the option will be exercised, the lease term also includes the period covered by the option to renew the lease. Some of the Company's leases have renewal options. In assessing whether it is reasonably certain that the renewal option will be exercised, the Company considers all relevant facts and circumstances relating to the economic benefits resulting from the renewal option, including anticipated changes in facts and circumstances between the commencement of the lease term and the date of exercise of the option. The Company believes that the lease term includes the period covered by the renewal option because it is reasonably certain that the Company will exercise the renewal option due to the conditions associated with the exercise of the option and the probability of satisfying the relevant conditions.

(4) Deferred income tax assets

Deferred tax assets should be recognized for all unused deductible losses to the extent that it is probable that sufficient taxable income will be available to offset the deductible losses. This requires management to use significant judgment to estimate the timing and amount of future taxable income, combined with tax planning strategies, to determine the amount of deferred tax assets to be recognized.

2. *Estimation uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that could result in significant adjustments to the carrying amounts of assets and liabilities in future accounting periods.

(1) Impairment of financial instruments

The Company uses the expected credit loss model to assess the impairment of financial instruments. The application of the expected credit loss model requires significant judgments and estimates, considering all reasonable and substantiated information, including forward-looking information. In making these judgments and estimates, the Company inferred expected changes in debtors' credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the accrual for impairment, and the accrual for impairment made may not equal the actual amount of future impairment losses.

(2) Impairment of goodwill

The Company tests goodwill for impairment at least annually. This requires an estimate of the present value of future cash flows of the asset group or combination of asset groups to which goodwill has been allocated. When estimating the present value of future cash flows, the Company is required to anticipate the future cash flows generated by the asset group or combination of asset groups, and at the same time select an appropriate discount rate to determine the present value of future cash flow.

(3) The fair value of an unlisted equity investment

The valuation of unlisted equity investments is based on the expected future cash flows discounted at the current discount rate for other financial instruments with similar contractual terms and risk characteristics. This requires the Company to estimate the expected future cash flows, credit risk, volatility, and discount rate, and therefore subject to uncertainty.

(4) Sales return

The Company uses a sales return policy for sales customers and estimates the amount of sales returns at the balance sheet date based on agreements related to sales agreements, historical experience, etc.

(5) Accrual of impairment for inventories

In accordance with the Company's inventory accounting policy, inventories are measured at the lower of cost or net realizable value, and an accrual of impairment for inventory is made for which cost is higher than net realizable value and for obsolete and slow-moving inventories. The impairment of inventories to net realizable value is based on an assessment of the marketability of inventories and their net realizable value. The identification of inventory impairment requires management to make judgments and estimates based on obtaining conclusive evidence and considering factors such as the purpose for which the inventory is held and the impact of post-balance sheet events. Differences between actual results and original estimates will affect the carrying value of inventories and the accrual for impairment or reversal of inventories in the period in which the estimates are changed.

(6) Estimated useful lives and estimated net residual values of property, plant and equipment, intangible assets and long-term amortization (improvements to property, plant and equipment leased from operations)

The estimated useful lives and estimated net salvage values of the Company's property, plant and equipment, intangible assets, and long-term amortization (operating leasehold improvements) are based on the actual useful lives of property, plant and equipment, intangible assets and long-term amortization (operating leasehold improvements) of similar nature and function in the past and are estimated based on historical experience. If the useful lives of such assets are shortened or the estimated net salvage value is reduced, the Company will increase the depreciation and amortization rate, obsolete or technically renew such assets.

(7) Interest rate on lessee's incremental borrowings

For leases where the interest rate embedded in the lease cannot be determined, the Company uses the lessee's incremental borrowing rate as the discount rate to calculate the present value of the lease payments. In determining the incremental borrowing rate, the Company uses the observable interest rate as the reference basis for determining the incremental borrowing rate in accordance with the economic environment in which it operates. On this basis, the reference rate is adjusted to arrive at the applicable incremental borrowing rate in accordance with its own circumstances, the condition of the subject asset, the lease term and the amount of the lease liability and other specific circumstances of the leasing business.

(8) Impairment losses on long-term assets

The Company performs impairment tests on each asset for which there is an indication of impairment at the balance sheet date. The recoverable amounts of assets and asset groups are determined based on value-in-use calculations, which require the use of certain assumptions and estimates.

The assessment of whether an asset is impaired requires management's estimates of: (i) whether there is an indication that the value of the asset may not be recoverable; (ii) whether the recoverable amount (i.e., the higher of fair value less costs of disposal and the net present value of future cash flows estimated to result from the continued use of the asset in operations) is greater than the carrying amount of the asset; and (iii) the key assumptions used in the cash flow projections, including whether such cash flows are discounted at an appropriate interest rate. Changes in the assumptions used by management to assess impairment, including discount rates or growth rate assumptions used in cash flow projections, could have a material impact on the net present value calculated from the impairment test, which could affect the Company's results of operations and financial condition. If there is a significant adverse change in the interest rate applied to discounted cash flows or in the projected future cash flows, an impairment loss on assets may be required.

(VIII) Changes in significant accounting policies and accounting estimates

1. Change in accounting policy

Content and reasons for changes in accounting policies	Approval Process	*Note*
With effect from 2 February 2021, the Company implemented Interpretation No. 14 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2021	–	*(1)*
With effect from 31 December 2021, the Company implemented Interpretation No. 15 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2021	–	*(2)*

(1) Impact of the implementation of ASBE No. 14 on the Company

On 2 February 2021, the Ministry of Finance issued Interpretation No. 14 of Accounting Standards for Business Enterprises (Caikuai [2021] No. 1, hereinafter referred to as "**Interpretation No. 14**"), which became effective on 2 February 2021 (hereinafter referred to as the "**Effective Date**").

The Company implemented Interpretation No. 14 as of the Effective Date, and the implementation of Interpretation No. 14 had no significant impact on the financial statements for the current reporting period.

(2) Impact of the implementation of ASBE No. 15 on the Company

On 31 December 2021, the Ministry of Finance (MOF) issued Interpretation No. 15 of Accounting Standards for Business Enterprises (Caikuai [2021] No. 35, hereinafter referred to as "**Interpretation No. 15**"), which was implemented on the date of issuance. Interpretation No. 15 regulates the presentation of the funds of the parent company and its member units that are centrally managed through internal clearing houses and finance companies.

The Company will implement Interpretation No. 15 from 31 December 2021. The implementation of Interpretation No. 15 will have no material impact on the financial statements for the comparable period.

2. Changes in accounting estimates

No change in critical accounting estimates for the current reporting period.

4. REVENUE AND COST OF SALES

	For the year ended 31 December			
	2021		2020	
	Revenue	**Cost**	Revenue	Cost
Principal business	**363,136**	**183,877**	1,787,061	933,721
Other business	**66,992**	**35,489**	32,256	–
Total	**430,128**	**219,366**	1,819,317	933,721

Income derived from contracts:

	For the year ended 31 December	
Contract classifications	**2021**	2020
1. Category of products		
Apparel	**302,688**	1,767,882
Brand authorization	**60,448**	19,179
Lease	**51,922**	15,796
Others	**15,070**	16,460
2. Classified by business areas		
Domestic	**430,128**	1,538,641
Overseas	**–**	280,676
3. Classified by the timing of commodity transfer		
Transferred at a point in time	**317,758**	1,767,882
Transferred at a point over time	**112,370**	51,435
Total	**430,128**	1,819,317

5. SELLING AND DISTRIBUTION EXPENSES

	For the year ended 31 December	
	2021	2020
Employee expenses	**45,805**	437,026
Sales rebate expenses	**41,322**	183,643
Depreciation of right of use assets	**10,936**	294,123
Amortization of long-term prepaid expenses	**16,190**	285,898
Rental fees	**32,858**	128,732
Online platform expenses	**–**	37,522
Utilities and electricity fees	**13,143**	32,899
Logistic expenses	**1,421**	29,153
Depreciation of fixed assets	**34,437**	49,801
Marketing expense	**1,059**	140
Low value consumables	**465**	2,788
Repair and maintenance expenses	**9,667**	7,944
Traveling and communication expenses	**350**	1,597
Amortization of intangible assets	**260**	346
Quality inspection fee	**–**	2
Office supplies	**292**	1,885
Design and consulting expenses	**7,147**	9,793
Sample purchase fee	**24**	–
Others	**–**	42
Foreign entity-Fashion I	**–**	134,507
Total	**215,376**	1,637,841

6. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2021	2020
Employee expenses	**50,635**	82,253
Depreciation of fixed assets	**46,925**	69,246
Consulting expenses	**29,852**	37,132
Amortization of intangible assets	**10,133**	12,721
Rental fees	**3,481**	8,675
Utilities and electricity fees	**7,333**	5,237
Office supplies	**3,979**	4,853
Audit service	**3,480**	3,480
Traveling and communication expenses	**890**	3,051
Depreciation of right of use assets	**–**	1,682
Sample purchase fee	**133**	1,654
Logistic expenses	**436**	1063
Repair and maintenance expenses	**938**	976
Low value consumables	**174**	475
Amortization of long-term prepaid expenses	**84**	396
Other	**–**	205
Foreign entity-Fashion I	**–**	31,481
Total	**158,473**	264,580

7. FINANCIAL EXPENSES

	For the year ended 31 December	
	2021	2020
Interest expenses	**209,670**	105,426
Less: Financial subsidies for interest	**–**	695
Less: Interest income	**5,080**	4,600
Foreign exchange gain or loss	**–**	284
Bank charges	**196**	2,603
Financing costs	**(5,055)**	29,388
Foreign entity-Fashion I	**–**	20,333
Total	**199,731**	152,739

8. CREDIT IMPAIRMENT LOSSES

	For the year ended 31 December	
	2021	2020
Bad debt loss of accounts receivable	**(104,312)**	(12,315)
Bad debt loss of other receivable	**(80,133)**	(129,421)
Bad debt loss of long-term receivable	**188**	3,593
Bad debt loss on prepaid accounts	**–**	(2,628)
Bad debt loss of other current assets	**(2,248)**	(500)
Bad debt loss of other non-current assets due within one year	**–**	(260)
Bad debt loss on other non-current assets	**–**	(5,570)
Bad debt loss of interest receivable	**–**	(2,308)
Total	**(186,505)**	(149,409)

9. ASSET IMPAIRMENT LOSSES

	For the year ended 31 December	
	2021	2020
Loss on accrual of impairment for inventories	**(151,704)**	(341,184)
Impairment loss on long-term equity investments	**(21,880)**	–
Impairment loss on construction in progress	**(14,804)**	–
Impairment loss on intangible assets	**(3,902)**	–
Goodwill impairment loss	**(78,231)**	–
Others	**(39,661)**	–
Total	**(310,182)**	(341,184)

10. INVESTMENT INCOME

	For the year ended 31 December	
	2021	2020
Income from long-term equity investments accounted by the equity method	**(11,265)**	(7,095)
Income of disposal of long-term equity investment	**(776)**	(56,531)
Gain or loss on debt restructuring *(Note 1)*	**43,833**	24,425
Others	**–**	(7,000)
Total	**31,792**	(46,201)

Note 1: As of 31 December 2021, the Company had investment income of RMB43,833 thousand from negotiations with some suppliers by way of debt forgiveness during the period.

11. OTHER INCOME

	For the year ended 31 December	
	2021	2020
Governmental grants relating to daily operational activities	**3,478**	14,573
Gains from debt restructuring *(Note 1)*	**103,210**	9,027
Others	**1,743**	6
Total	**108,431**	23,606

Note 1: As of 31 December 2021, the Company recognized a gain of RMB103,210 thousand on debt restructuring, mainly by offsetting debt with inventories.

12. NON-OPERATING INCOME

	For the year ended 31 December		The amount included in non-recurring profit or loss
	2021	2020	**for 2021**
Compensation income	**2,219**	2,034	**2,219**
Others	**5,594**	–	**5,594**
Total	**7,813**	2,034	**7,813**

13. INCOME TAX EXPENSES

	For the year ended 31 December	
	2021	2020
Current income tax expense	**(1,123)**	16,037
Deferred income tax expense	**(11,801)**	347,896
Total	**(12,924)**	363,933

The reconciliation from income tax calculated based on the applicable tax rates and total (loss)/profit presented in the consolidated financial statements to the income tax expenses is listed below:

	For the year ended 31 December 2021
Total profit	(835,686)
Income tax expense at statutory/applicable tax rates	(208,921)
Effect of different tax rates applied to subsidiaries	–
Effect of non-taxable income	(908)
Effect of adjusting income tax of prior periods	(1,123)
Effect of non-deductible costs, expenses, and losses	4,579
Effect of deductible losses from the use of prior period's unrecognized deferred tax assets	(14,004)
Effect of deductible temporary differences or deductible losses on deferred tax assets not recognized in the current period	207,453
Income tax expense	(12,924)

14. (LOSSES)/EARNINGS PER SHARE

Basic loss per share is calculated by dividing the net loss for the period attributable to the Company's common stockholders by the weighted-average number of common shares outstanding. The Company has no dilutive potential common shares.

Basic loss per share and diluted loss per share are calculated as follow:

	For the year ended 31 December	
	2021	2020
Losses:		
Net loss for the period attributable to the Company's common stockholders	**(821,280)**	(1,840,964)
Shares:		
Weighted average number of shares of the Company's common stock issued and outstanding	**544,098**	544,098
Basic loss per share and diluted loss per share	**(1.51)**	(3.38)

Note: As of 31 December 2021, the Company has repurchased an aggregate of 3,573,200 A shares through centralized competitive trading, which is deducted from the calculation of the weighted average number of the Company's outstanding common shares.

15. FIXED ASSETS

	Properties and plants	Machinery and equipments	Motor vehicles	Office and electric equipments	Total
Original costs					
As at 31 December 2020	1,783,291	60,660	2,219	92,433	1,938,603
Increases in the current period	7,827	–	121	899	8,847
Purchase	7,827	–	121	899	8,847
Transferred from construction in progress	–	–	–	–	–
Acquired from business combination	–	–	–	–	–
Currency translation differences	–	–	–	–	–
Decrease in the current period	654	3,634	344	27,145	31,777
Disposal of subsidiaries	–	–	–	–	–
Disposal and retirement	654	3,634	344	27,145	31,777
As at 31 December 2021	1,790,464	57,026	1,996	66,187	1,915,673
Accumulated depreciation					
As at 31 December 2020	201,766	34,063	1,297	76,575	313,701
Increases in the current period	95,183	8,595	696	10,220	114,694
Accrual	95,183	8,595	696	10,220	114,694
Acquired from business combination	–	–	–	–	–
Currency translation differences	–	–	–	–	–
Decrease in the current period	19	2,003	471	26,424	28,917
Disposal of subsidiaries	–	–	–	–	–
Disposal and retirement	19	2,003	471	26,424	28,917
As at 31 December 2021	296,930	40,655	1,522	60,371	399,478
Carrying amounts					
As at 31 December 2021	1,493,534	16,371	474	5,816	1,516,195
As at 31 December 2020	1,581,525	26,597	922	15,858	1,624,902

16. CASH AT BANK AND ON HAND

	31 December 2021	31 December 2020
Cash on hand	**33**	321
Bank deposits	**61,323**	23,998
Other monetary funds	**106,100**	182,158
Total	**167,456**	206,477
Including: total amount of funds abroad	**2**	2

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

	31 December 2021	31 December 2020
Bank deposits temporarily blocked or frozen due to the judicial system	**106,100**	182,158
Total	**106,100**	182,158

17. ACCOUNTS RECEIVABLE

	31 December 2021	31 December 2020
Accounts receivable	**281,057**	361,514
Less: Provision for bad debts	**192,339**	90,877
	88,718	270,637

(i) As at 31 December 2021, the top five accounts receivable are analysed as follows:

	Amount	Provision of bad debts	% of total accounts receivable balance
Total amount of the top five accounts receivable	57,301	44,407	20.39

(ii) As at 31 December 2021, the provision for bad debts made for the accounts receivable are as follows:

	Book balance	Bad debt provision	Proportion (%)	Reason
Hongche Industrial (Shanghai) Co., Ltd.	4,284	4,284	100	Note 1
Accounts receivables from shopping malls	180,830	180,830	100	Note 2
Total	185,114	185,114	100	

Note 1: As of 31 December 2021, the receivables from Hongche Industrial, a related party outside the scope of consolidation, amounted to RMB4,284 thousand. As Hongche Industrial was in poor operating condition and had liquidity problems, the Company considered that the receivables were difficult to collect and therefore prepared for bad debts in full.

Note 2: As of 31 December 2021, the amounts due from shopping malls for which accrual for bad debts was made were all due to the poor operating conditions of the shopping malls and liquidity problems, some of the shopping malls were in a state of closure and the Group considered that it was difficult to collect the receivables in full and therefore a full accrual for bad debts was made.

(iii) As at 31 December 2021, the Group reserved allowance of bad debts based on aging analysis method. The amount was RMB7,225 thousand.

	Carrying amount	As at 31 December 2021	Allowance of bad debts
	Amount	Expected credit loss	Expected credit loss of the entire life
Within credit period (90 days)	40,259	2	912
Overdue (90 days) to one year	43,333	5	2,167
One year to two years	11,276	30	3,383
Two years to three years	781	60	469
Above three years	294	100	294
	95,943	7	7,225

(iv) No bad debt provision was transferred in the current period. No accounts receivable was written off during the period.

18. OTHER RECEIVABLES

	31 December 2021	31 December 2020
Deposits and security deposits	**106,529**	158,968
Refund of service charge expenses	**9,778**	13,778
Employee reserve fund	**1,754**	1,420
Property rental fees	**12,522**	5,437
Current accounts receivable	**190,869**	120,315
Others	**1,089**	2,195
Less: Provision for bad debts	**269,088**	176,477
Total	**53,453**	125,636

(a) Movement of loss allowance and carrying amount

	Stage 1 Expected credit Losses in the next 12 months	**Stage 2 Lifetime expected credit losses**	**Stage 3 Credit-impaired financial assets (lifetime expected credit losses)**	**Total**
Opening balance	82,681	21,462	72,334	176,477
Opening balance in current year	(76,296)	(7,554)	83,850	–
– Transfer to stage 2	–	–	–	–
– Transfer to stage 3	(76,296)	(7,554)	83,850	–
– Reverse to stage 2	–	–	–	–
– Reverse to stage 1	–	–	–	–
Provision during this year	–	–	80,133	80,133
Reversal during this year	–	–	–	–
Write-off during this year	–	–	–	–
Reclassification	–	–	12,478	12,478
Closing balance	6.385	13,908	248,795	269,088

Note: In fiscal year 2021, The Company discovered through internal investigation that Shanghai Hexia Investment Co., Ltd. appropriated funds of RMB9,500 thousand from the Company. In this period, it was adjusted from accounts receivable to other receivables, and the interest was accrued from the date of appropriation.

19. INVENTORIES

(a) Classification of inventories is as follows:

	As at 31 December 2021			As at 31 December 2020		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**1,020**	**–**	**1,020**	32,716	–	32,716
Finished goods	**297,996**	**245,273**	**52,723**	760,409	427,346	333,063
Goods in transit	**21,525**	**19,420**	**2,105**	116,403	51,274	65,129
Low value consumables	**5,017**	**–**	**5,017**	7,808	–	7,808
	325,558	**264,693**	**60,865**	917,336	478,620	438,716

(b) Provision for decline in the value of inventories are analysed as follows:

	31 December 2020	**Accrual and withdrawal in the current period**	**Write off**	**Disposal of subsidiary**	**31 December 2021**
Raw materials	427,346	132,284	314,357	–	245,273
Goods in transit	51,274	19,420	51,274	–	19,420
	478,620	151,704	365,631	–	264,693

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

20. SHARE CAPITAL

	As at 31 December 2021	Movement in the current period	As at 31 December 2020
A shares	**332,882**	–	332,882
H shares	**214,790**	–	214,790
Total share capital	**547,672**	–	547,672

21. SHORT-TERM BORROWINGS

	As at 31 December 2021	As at 31 December 2020
Secured borrowing	**54,000**	54,000
Mortgages and guaranteed loans	**545,220**	563,400
Mortgage, pledge and guarantee loan	**550,000**	550,000
Total	**1,149,220**	1,167,400

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

As at 31 December 2021, the balance of overdue loans was RMB1,149,220 thousand (31 December 2020: RMB679,000 thousand).

22. ACCOUNTS PAYABLE

	31 December 2021	31 December 2020
Payable for purchase	**826,501**	1,134,586

23. OTHER PAYABLES

	31 December 2021	31 December 2020
Other payables		
Including: payables for construction and decoration of department stores	**390,986**	423,665
Suppliers' deposits	**61,313**	75,600
Vendors' deposit	**21,544**	75,744
Outsourcing staff service fee	**238**	9,346
Payables for logistic expense	**2,409**	15,271
Trustee fees	**15,594**	26,697
Payable for posts props and store promotion	**1,890**	336
Payables for rental fees	**94,963**	132,335
Litigation defaults, fees, and interests	**72,155**	686
Loans from the outside parties	**4,403**	6,053
Payable for e-commercial	**3,779**	6,574
consulting fees	**156**	3,265
Payables for software purchase	**2,620**	2,018
Audit service fees	**4,576**	1,336
Estimated expenditures	**3,371**	3,152
Tax overdue payments	**18,328**	–
Others	**9,357**	13,647
Interest payable		
Including: interest of long-term borrowings with installment of interest and repayment of principal upon maturity	**49,431**	11,961
Interest payable of short-term borrowings	**157,021**	46,869
	914,134	854,555

24. DIVIDENDS

The Board did not recommend the payment of any dividend for the year ended 31 December 2021.

No payment of cash dividends or stock dividends and no transfer from capital surplus to share capital for the year ended 31 December 2020 was approved at the 2020 annual general meeting of the Company held on 10 June 2021.

25. PRIOR PERIOD ACCOUNTING ERRORS

Contents of correction of accounting errors	Processing procedures	Statement of each comparative period affected	Name of the statement item	Cumulative number of impacts
This is due to incomplete reclassification of prepayments and failure to adjust estimated expenses accordingly	This error was considered and approved at the 22nd meeting of the 4th session of the Board of Directors of the Company, and the error was corrected using the retrospective restatement method during the period	Consolidated Balance Sheet (31 December 2020)	Prepayment	(87,344)
			Total current assets	(87,344)
			Total other non-current assets	(8,591)
			Total non-current assets	(8,591)
			Total asset	(95,935)
			Accounts payable	(29,568)
			Other accounts payable	(67,788)
			Total current debt	(97,356)
			Total debt	(97,356)
			Undistributed earnings	1,421
			Total owners' equity (or shareholders' equity) attributable to the parent company	1,421
			Total owner's equity (or shareholders' equity)	1,421
			Total liabilities and owner's equity (or shareholders' equity)	(95,935)
		Consolidated Income Statement (Year of 2020)	Selling expenses	(8,421)
			Investment income	(7,000)
			Operating profit	1,421
			Total profit	1,421
			Net profit	1,421
			Net income from continuing operations	1,421
			Net profit attributable to shareholders of the parent company	1,421
			Total comprehensive income	1,421
			Total comprehensive income attributable to owners of the parent company	1,421

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 2021.

I. Qualified Opinion

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

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

II. Basis for Qualified Opinion

A. Effect of comparative figures on financial statement as a result of losing control over foreign subsidiaries

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

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

B. Litigation

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

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

III. Material uncertainties related to going concern

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

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 2021. The bases for the qualified opinion objectively reflect the actual situation of the Company and reveal the risks faced by it. The Board and the audit committee of the Board 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 ("**HTI**") in a timely manner, HTI took over LaCha Fashion I on 25 February 2020, and the Company was unable to control or exert any influence over it, and thereby lost actual control over LaCha Fashion I, a former wholly-own subsidiary of the Company, and its subsidiaries, including Naf Naf SAS. In addition, Naf Naf SAS officially entered into judicial liquidation on 19 June 2020 (French time), and the judicial liquidation is still in progress. The failure of the former management and judicial administrator of Naf Naf SAS to cooperate with the Company in providing the audit evidence required by the auditors and to cooperate in the performance of audit procedures caused difficulties to the Company in obtaining audit evidence and the performance of the audit procedures by the auditors. The auditors were not able to audit the 2020 financial statements of LaCha Fashion I and its subsidiaries, especially Naf Naf SAS, which impacted disclosure on the comparison of financial data year-on-year. On the basis of the aforementioned, the auditor issued a qualified opinion in this regard.

The Company has proactively attempted to maintain communication with the former management of Naf Naf SAS following its liquidation. This included sending legal letters to the former management of Naf Naf SAS through the Company's solicitors, requesting Naf Naf SAS's cooperation in providing working papers of its main financial statement line items that had a material impact on the Company's 2020 consolidated financial statements, as well as working papers of accounting items on the balance sheet, such as income, costs, expenses and asset impairment losses, from 1 January 2020 to the time of loss of control over Naf Naf SAS. At the same time, the Company has engaged legal advisors in France to maintain communication with the judicial administrator of Naf Naf SAS, and has sought the judicial administrator's cooperation in providing the audit evidence required by the Company to Da Hua. However, as previously disclosed, the judicial reorganization of Naf Naf SAS was initiated on 15 May 2020 (Naf Naf SAS is still in judicial liquidation as of the date of this announcement) and a portion of its assets and liabilities were transferred to an independent third party through a public tender process in the French District Court on 20 June 2020. The above has created significant practical difficulties for the Company and Da Hua to obtain the necessary materials from the management of Naf Naf SAS and/or its judicial administrator. At the same time, the Company also actively negotiated with HTI during the reporting period, with a view to negotiate a debt settlement with HTI to facilitate the clarification of its disposal arrangements for LaCha Fashion I. In addition, the Company has also made the takeover of LaCha Fashion I by HTI a subject of litigation with a view to confirm the subsequent disposal arrangements of HTI in relation to the takeover of LaCha Fashion I through judicial proceedings. However, due to the Company's limited liquidity, it was unable to reach a settlement with HTI and the dispute between the Company and HTI in relation to the guarantee contract of LaCha Fashion I is still pending, resulting in the Company being unable to reach a disposal arrangement for LaCha Fashion I.

As LaCha Fashion I and its subsidiary Naf Naf SAS were not included in the Company's consolidated financial statements in 2020, the Company has already recorded asset impairment and estimated liabilities in 2020 in respect of the long-term equity investments and current payments in LaCha Fashion I and Naf Naf SAS, and therefore the qualified opinion issued by the accountants has no material impact on the Company's financial position and results of operations for the Reporting Period and only affects the comparability of the current period's data with that of the previous period.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS INDUSTRY REVIEW

Industry Review and Business Operations

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

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

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

Review

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

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

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

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

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

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

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

Financial Review

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

Revenue

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

The decrease in revenue was mainly due to (1) the decrease in the number of the Company's existing stores during the Reporting Period compared with the corresponding period of the previous year; the number of retails points of the Group in China decreased by 659 from 959 as at 31 December 2020 to 300 as at 31 December 2021, representing a decrease of 68.7%; (2) the Company's transfer to a licensing business model; and (3) the decrease in the quantity of goods purchased during the Reporting Period as a result of the tight cash flow of the Company and the corresponding decrease in sales revenue.

Revenue by distribution channel

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

	Year ended 31 December					
	2021			2020		
	Revenue ***(RMB'000)***	**% of total**	**Gross Profit Margin**	Revenue *(RMB'000)*	% of total	Gorss profit margin increase or decrease compared to the same period of last year *(percentage point(s))*
Concessionaire counters	**103,023**	**23.8**	**49.4**	677,446	37.1	(2.0)
Standalone retail outlets	**99,260**	**23.1**	**41.6**	625,496	34.4	(4.0)
Online platform	**16,142**	**3.8**	**79.2**	295,760	16.3	35.4
Franchise/Associates	**50,033**	**11.6**	**51.9**	169,090	9.3	9.0
Wholesale	**34,230**	**8.0**	**(35.5)**	90	0.0	4.5
Licensing	**60,448**	**14.1**	**100.0**	19,179	1.1	–
Others	**66,992**	**15.6**	**47.0**	32,256	1.8	(50.4)
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

The revenue from concessionaire counters decreased from RMB677.4 million for the year ended 31 December 2020 to RMB103.0 million for the year ended 31 December 2021, representing a decrease of 84.8%. The revenue from retail outlets decreased from RMB625.5 million for the year ended 31 December 2020 to RMB99.3 million for the year ended 31 December 2021, representing a decrease of 84.1%. Due to factors such as the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for online business, and the decrease in product purchases during the Reporting Period, the revenue from concessionaire counters, standalone retail outlets, franchise/associates and online platform decreased significantly. In the Reporting Period, the revenue from licensing business of the Compnay accounted for 14.1% of the total revenue of the Group for the year ended 31 December 2021.

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

Revenue by brand

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

	Year ended 31 December					
	2021			2020		
	Revenue *(RMB'000)*	% of total	Gross Profit Margin	Revenue *(RMB'000)*	% of total	Gross profit margin increase or decrease compared to the same period of last year *(percentage point(s))*
La Chapelle	**130,146**	**30.3**	**46.9**	388,101	21.4	(8.1)
Puella	**54,520**	**12.7**	**46.2**	287,612	15.8	(6.2)
7 Modifier	**42,246**	**9.8**	**52.7**	266,274	14.6	5.0
La Babité	**46,590**	**10.8**	**42.3**	234,720	12.9	(5.1)
Candie's	**33,544**	**7.8**	**51.9**	187,228	10.3	0.0
USHGEE	**3,430**	**0.8**	**35.2**	–	–	–
Menswear brands	**34,170**	**7.9**	**60.9**	72,586	4.0	29.7
8ém	**5,532**	**1.3**	**56.3**	37,081	2.0	11.6
Other brands	**12,958**	**3.0**	**65.9**	32,783	1.8	125.9
Others	**66,992**	**15.6**	**47.0**	32,256	1.8	(50.4)
Naf Naf	**–**	**–**	**–**	280,676	15.4	–
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

Notes:

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

2. Due to factors such as the year-on-year decrease in the number of existing stores of the Company, the adoption of the licensing business model for its online business and the decrease in product purchases during the Reporting Period, the revenue from each brand recorded a significant decrease.

3. Due to the adoption of a brand licensing business model with a higher gross profit during the Reporting Period and the Company's increased efforts to sell aged inventories at a value higher than the net value and the increase in the sale of aged inventories at a value higher than the net value, the gross profit of certain brands of the Company recorded an increase.

As affected by the decrease in the number of retail outlets and the decrease in same store revenue, the revenue of the Group for the year ended 31 December 2021 had an overall decrease of 76.4%. The revenue from each of the major brands decreased, and in particular, the revenue from womenswear brands decreased by 77.2%, and that from menswear brands decreased by 52.9%. At the same time, due to the increase in the proportion of licensing revenue in the total revenue and the increase in the sale of aged inventories at a value higher than the net value, the overall gross profit margin of the Group recorded an increase.

Revenue by tier of cities

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

	Year ended 31 December					
	2021			2020		
	Revenue *(RMB'000)*	**% of total**	**Gross Profit Margin**	Revenue *(RMB'000)*	% of total	Gross profit margin increase or decrease compared to the same period of last year *(percentage point(s))*
First-tier cities	**61,836**	**14.3**	**18.7**	148,513	8.2	(22.7)
Second-tier cities	**161,576**	**37.6**	**37.2**	670,280	36.8	(8.3)
Third-tier cities	**98,568**	**22.9**	**50.8**	369,368	20.3	(3.4)
Other cities	**47,700**	**11.1**	**59.9**	331,301	18.2	10.1
Overseas region	**–**	**–**	**–**	280,676	15.4	–
Licensing	**60,448**	**14.1**	**100.0**	19,179	1.1	–
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

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

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

Revenue by product type

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

	Year ended 31 December					
	2021			2020		
	Revenue *(RMB'000)*	**% of tota**	**Gross Profit Margin**	Revenue *(RMB'000)*	% of total	Gross profit margin increase or decrease compared to the same period of last year *(percentage point(s))*
Tops	**209,337**	**48.7**	**35.5**	1,181,143	64.9	(9.6)
Bottoms	**29,193**	**6.8**	**48.7**	174,546	9.6	(2.4)
Dresses	**60,228**	**14.0**	**45.8**	410,737	22.6	(6.4)
Accessories	**3,930**	**0.9**	**68.3**	1,456	0.1	147.9
Others	**127,440**	**29.6**	**72.2**	51,435	2.8	(26.2)
Total	**430,128**	**100.0**	**49.0**	1,819,317	100.0	0.3

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

For the year ended 31 December 2021, revenue of the Group from sales recorded a decrease across tops, bottoms, and dresses, which was partly attributable to the year-on-year decrease in the number of existing stores of the Group, the adoption of the licensing business model for online business, and the decrease in product purchases during the Reporting Period. In respect of the revenue contribution of each product type as compared with the same period of last year, revenue contribution from sales of tops decreased by 16.2%, that from sales of bottoms decreased by 2.8% and that from sales of dresses decreased by 8.6%.

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

The overall gross profit margin of the Group increased to 49.0% for the year ended 31 December 2021 from 48.7% for the year ended 31 December 2020, mainly due to the increase in the proportion of revenue from the Company's licensing business and increased efforts to sell aged inventories at a value higher than the net value, resulting in a slight period-on-period increase in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses for the year ended 31 December 2021 amounted to RMB215.4 million (2020: RMB1,637.8 million), consisting primarily of sales staff salaries and benefits, concessionaire expenses relating to retail points and online stores, depreciation of right-of-use assets, amortisation of store decoration expenses and depreciation of fixed assets. Expressed as a percentage, selling and distribution expenses for the year ended 31 December 2021 as a percentage of total revenue for the year ended 31 December 2021 was 50.1% (2020: 90.0%), representing a significant decrease compared with the same period last year, which was mainly due to the Company's closure of loss-making and inefficient stores and cost reduction measures, resulting in a significant drop in staff costs, concessionaire expenses relating to shopping malls and online stores, depreciation of right-of-use assets and amortisation of long-term deferred expenses. However, on the whole, the ratio of selling and distribution expenses to revenue was still at a high level. General and administrative expenses for the year ended 31 December 2021 amounted to RMB158.5 million (2020: RMB264.6 million), consisting primarily of administrative employee salaries and benefit expenses, depreciation of fixed assets and consulting service fees. Expressed as a percentage, general and administrative expenses as a percentage of total revenue for the year ended 31 December 2021 were 36.8% (2020: 14.5%). The contribution of administrative staff salaries and benefits and that of depreciation of fixed assets to our revenue for the Reporting Period increased from the corresponding period of last year.

Asset Impairment Loss

The asset impairment loss for the year ended 31 December 2021 was RMB310.2 million (2020: RMB341.2 million), which was provided for impairment of inventories.

Credit Impairment Loss

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

Investment Income

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

Other Income – Net

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

Finance Expenses/Income – Net

The Group's net finance expenses were RMB199.7million for the year ended 31 December 2021 (2020: RMB152.7 million). The increase in the net financial expenses was mainly a result of the penalty interest arising from overdue debts charged by financial institutions and the accrual of overdue interest in respect of litigation cases that had been settled but not yet executed at the end of the Reporting Period.

Loss before Income Tax

Loss before income tax of the Group decreased from RMB1,513.0 million for the year ended 31 December 2020 to a loss before income tax of RMB835.7 million for the year ended 31 December 2021, representing a decrease of 44.8% from the corresponding period of last year. The decrease in loss before income tax was mainly due to the business contraction strategy implemented by the Company and the decrease in fixed costs and expenses.

Income Tax Expense/Credit

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

Net Loss for the Reporting Period

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

Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. For the year ended 31 December 2021, the capital expenditure incurred by the Group was RMB4.9 million (2020: RMB45.0 million).

Cash and Cash Flow

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

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

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

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

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

As at 31 December 2021, current liabilities of the Group amounted to RMB3,486.5 million (31 December 2020: current liabilities of the Group amounted to RMB3,763.5 million). Total assets less current liabilities amounted to RMB-1,079.6 million (31 December 2020: total assets less current liabilities amounted to RMB-277.7 million). The gearing ratio (calculated by dividing total liabilities by total assets) was 162.7% (31 December 2020: 119.7%).

Most transactions of the Group carried out in mainland China are settled in Renminbi. The Group also pays dividends to holders of H Shares in Hong Kong dollars.

Total equity attributable to shareholders of the Company

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

Bank loans and other borrowings

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

Pledge of assets

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

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

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

Litigation and Contingent liabilities

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

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

    As the Company may be jointly and severally liable for repayment of the loan, an estimated liability of RMB355.7 million was accrued.

(b) As a result of the Group's involvement in litigation and arbitration cases, some of the Group's bank accounts have been frozen. As at 28 December 2021, an aggregate of 145 bank accounts of the Group have been frozen, involving an aggregate frozen amount of approximately RMB111 million. As at 29 December 2021 as a result of factors such as the Group's involvement in litigation cases, the Company's equity interest in 17 of its subsidiaries have been frozen, involving an aggregate frozen amount of approximately RMB667 million. The freezing of the Company's equity interest mentioned above has not substantively affected the normal operation of the Company and the relevant subsidiaries. However, there is a risk that the equity interest may be judicially disposed of. The Company will proactively communicate with the relevant courts and creditors in order to properly resolve the freezing of the equity interest and maintain the stability of the Company's business. For details, please refer to the announcement of the Company dated 29 December 2021.

As at 29 December 2021, as a result of the Company's involvement in a total of 39 litigation cases arising from disputes such as disputes over loan agreements and construction agreements, 4 real properties of the Company (with an aggregate book value of approximately RMB1.646 billion as at 30 November 2021) have been seized. The seizure has caused restriction to rights and there is a risk that the real properties may be judicially auctioned for debt repayment. The Company will proactively engage with the relevant parties in order to properly resolve the seizure of the real properties, and actively negotiate and conciliate with the applicants for the freezing order to release the real properties from right restrictions and restore them to normal conditions as soon as possible. For details, please refer to the announcement dated 29 December 2021.

For the details of the update announcement after the Reporting Period, please refer to the section "SIGNIFICANT EVENT AFTER REPORTING PERIOD" below.

BUSINESS REVIEW

Retail Network

For the year ended 31 December 2021, the number of domestic retail outlets of the Group was 300, decreasing from 959 as at 31 December 2020, which were situated at approximately 205 physical locations. The number of retail points was counted on the basis used for that as at 31 December 2015.

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

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

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

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

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

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

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

Notes:

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

2. Other brands include UlifeStyle and Siastella.

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

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

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

Same store sales

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

FUTURE OUTLOOK

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

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

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

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

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

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

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

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

DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 31 December 2021 (year ended 31 December 2020: Nil).

According to the Articles of Association of the Company, before making up the losses and allocating the statutory common reserve fund, the Company shall not distribute dividends or carry out other distributions by way of bonus. Since the audited distributable profit of the Company for 2021 was negative, the Company intended not to make profit distribution in any form for 2021.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES FOR 2021 AGM

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

H Share holders whose names appear on the register of members for H Shares of the Company at the close of business on Tuesday, 24 May 2022 are entitled to attend and vote at the 2021 AGM. Please refer to A Share announcement as published by the Company on the website of the Shanghai Stock Exchange for relevant information in respect of the shareholders of A Shares attending the 2021 AGM.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the year ended 31 December 2021 and up to the date of this announcement, save as to the deviation from the Code Provision C.1.8 of Part 2.

Under Code Provision C.1.8 of Part 2, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Currently, the Company does not have insurance cover for legal action against its Directors as the Board considers that no director liability insurance on the market can provide sufficient protection for its Directors at a reasonable insurance premium. Therefore, benefits to be derived from taking out insurance may not outweigh the costs.

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules for the year ended 31 December 2021.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, supervisors (the "**Supervisor(s)**") and relevant employees on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the year ended 31 December 2021.

AUDITOR

Da Hua Certified Public Accountants (Special General Partnership) was appointed as the Company's domestic and international auditor for the year ended 31 December 2021. The consolidated financial statements of the Group for the year ended 31 December 2021, prepared in accordance with the Accounting Standards for Business Enterprises, have been audited by Da Hua Certified Public Accountants (Special General Partnership).

THE AUDIT COMMITTEE

The audit committee of the Board comprising one non-executive director, namely Mr. Zhao Jinwen, and two independent non-executive Directors, namely Mr. Xing Jiangze and Ms. Chow Yue Hwa Jade, have reviewed the results of the Group for the year ended 31 December 2021, and discussed with the management the accounting policies and practices, risk management and internal control and financial reporting matters adopted by the Group.

SIGNIFICANT EVENT AFTER REPORTING PERIOD

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

   In order to protect the Company's interests, the Company has instigated legal proceedings before the People's Court of Xuhui District of Shanghai Municipality* (上海市徐匯區人民法院) in respect of the abovementioned matter, and has received the Notice of Litigation Service* (《訴訟服務告知書》) and the information on acceptance of the case (case number: (2022) Hu 0104 Min Su Qian Tiao No.28* ((2022) 滬0104民訴前調28號)) from the People's Court of Xuhui District of Shanghai Municipality. For details, please refer to the announcement of the Company dated 5 January 2022.

2. On 22 November 2021, the Company received the documents couriered by the People's Court of Xinshi District of Urumqi* (烏魯木齊市新市區人民法院) (the "**People's Court of Xinshi District**") and learnt that the creditors of the Company, namely Jiaxing Chengxin Garment Manufacturing Company Limited* (嘉興誠欣製衣有限公司) ("**Jiaxing Chengxin**"), Haining Hongshulin Clothing and Accessories Company Limited* (海寧紅樹林服飾有限公司) ("**Hongshulin**") and Zhejiang Zhongda Xinjia Trading Company Limited* (浙江中大新佳貿易有限公司) ("**Zhejiang Zhongda**") had submitted to the court petitions for winding-up of the Company. On 30 December 2021, the Company received a petition for winding-up by a creditor* (《債權人破產申請書》) forwarded by the People's Court of Xinshi District and learnt that a new creditor, Pinghu Yurong Clothing Co., Ltd.* (平湖市宇榮服飾有限公司) ("**Pinghu Yurong**") had applied to the court for winding-up and liquidation of the Company. For details, please refer to the announcements of the Company dated 22 November 2021 and 30 December 2021.

   On 10 January 2022, the Company received the (2021) Xin 0104 Po Shen No.4* ((2021) 新0104破申4號), (2021) Xin 0104 Po Shen No.5* ((2021) 新0104破申5號), (2021) Xin 0104 Po Shen No.6* ((2021) 新0104破申6號) and (2021) Xin 0104 Po Shen No.7* ((2021) 新0104破申7號) Civil Judgments* (《民事裁定書》) (the "**Civil Judgments**") from the People's Court of Xinshi District, in which the People's Court of Xinshi District held that it does not have the relevant jurisdiction, thus the petitions of Zhejiang Zhongda, Jiaxing Chengxin, Hongshulin and Pinghu Yurong are dismissed. On 14 February 2022, the Company received the Appeal* (上訴狀) (the "**Appeal**") of Zhejiang Zhongda, one of the Company's creditors, against the (2021) Xin 0104 Po Shen No.4* ((2021) 新0104破申4號) Civil Judgment* (《民事裁定書》) as dispatched by the People's Court of Xinshi District. For details, please refer to the announcements of the Company dated 10 January 2022 and 14 February 2022.

   As of the date of this announcement, the Company has not received any judgment from the court over the Appeal and there is great uncertainty in respect of the creditor's petitions for the winding-up of the Company.

3. On 30 March 2022, the Company received the "Notice Regarding the Proposed Termination of Listing of the Shares of Xinjiang La Chapelle Fashion Co., Ltd." (Shang Zheng Gong Han [2022] No. 0210)* (《關於擬終止新疆拉夏貝爾服飾股份有限公司股票上市的通知》(上證公函[2022]0210號)), which provides that as the audited net assets of the Company as at the end of the year 2021 were negative and the financial report was issued with a qualified audit opinion, according to Rule 9.3.11 of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the A shares of the Company have triggered the conditions for delisting. The Shanghai Stock Exchange will make a decision to delist the Company's A shares in accordance with Rule 9.3.14 of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange. For details, please refer to the announcement of the Company dated 30 March 2022.

   On 30 March 2022, the Company also received the "Regulatory Work Letter Regarding the Relevant Matters of Xinjiang La Chapelle Fashion Co., Ltd.'s Termination of Listing" (Shang Zheng Gong Han [2022] No. 0211) (《關於新疆拉夏貝爾服飾股份有限公司終止上市相關事項的監管工作函》(上證公函[2022]0211號)), which required the Company to take proactive steps to implement the requests made therein. For details, please refer to the announcement of the Company dated 30 March 2022.

4. As a result of the Group's involvement in litigation and arbitration cases, some of the Group's bank accounts have been frozen. As at 28 February 2022, an aggregate of 146 bank accounts of the Group have been frozen, involving an aggregate frozen amount of approximately RMB104 million. As at 1 March 2022, as a result of factors such as the Group's involvement in litigation cases, the Company's equity interest in 17 of its subsidiaries have been frozen, involving an aggregate frozen amount of approximately RMB681 million. The freezing of the Company's equity interest mentioned above has not substantively affected the normal operation of the Company and the relevant subsidiaries. However, there is a risk that the equity interest may be judicially disposed of. The Company will proactively communicate with the relevant courts and creditors in order to properly resolve the freezing of the equity interest and maintain the stability of the Company's business. For details, please refer to the announcement of the Company dated 1 March 2022.

   As at 1 March 2022, as a result of the Company's involvement in a total of 39 litigation cases arising from disputes such as disputes over loan agreements and construction agreements, 4 real properties of the Company (with an aggregate book value of approximately RMB1.631 billion as at 31 March 2022) have been seized. The seizure has caused restriction to rights and there is a risk that the real properties may be judicially auctioned for debt repayment. The Company will proactively engage with the relevant parties in order to properly resolve the seizure of the real properties, and actively negotiate and conciliate with the applicants for the freezing order to release the real properties from right restrictions and restore them to normal conditions as soon as possible. For details, please refer to the announcement dated 1 March 2022.

FORWARD-LOOKING STATEMENT

This announcement contains, inter alia, certain forward-looking statements, such as statements of our intentions and forward-looking statements on the Chinese economy and the markets in which we operate. Such forward-looking statements are subject to some uncertainties and risks, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward looking statements. Accordingly, readers of this announcement are cautioned not to place undue reliance on any forward looking information.

PUBLICATIONS OF ANNUAL RESULTS AND ANNUAL REPORT OF THE COMPANY

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.lachapelle.cn). The annual report for the year ended 31 December 2021 will be dispatched to shareholders and published on the websites of the Hong Kong Stock Exchange and the Company in due course.

APPRECIATION

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

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

Shanghai, the People's Republic of China
30 March 2022

As of the date of this announcement, the executive directors of the Company are Mr. Zhang Xin and Ms. Zhang Ying; the non-executive directors of the Company are Mr. Zhao Jinwen and Mr. Yang Heng; the independent non-executive directors of the Company are Mr. Xing Jiangze, Ms. Chow Yue Hwa Jade and Mr. Zhu Xiaozhe.

* *For identification purposes only*