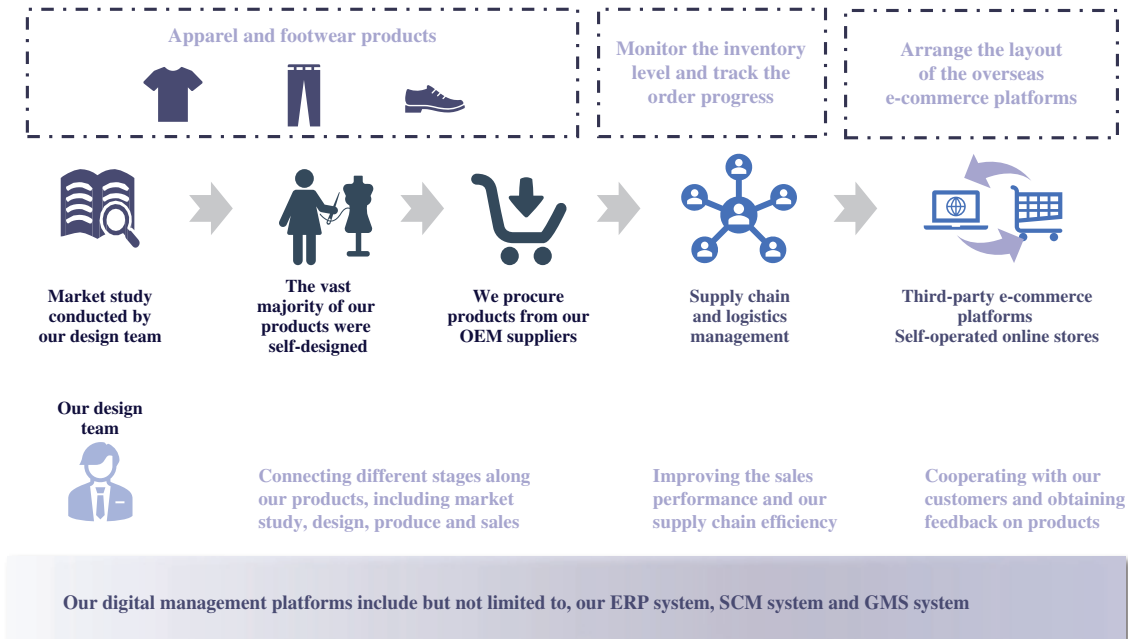


## BUSINESS

### OVERVIEW

We are one of the largest cross-border e-commerce companies in China focusing on the sale of apparel and footwear products through third-party e-commerce platforms. The following diagram illustrates our business model and features:



According to Frost & Sullivan, we ranked third amongst all platform-based sellers in China’s cross-border e-commerce export B2C apparel and footwear market in terms of GMV in 2021, holding a market share of 0.4% in the RMB596.5 billion market. We are well-positioned in sale of apparel and footwear products in North America through third-party e-commerce platforms, and we ranked first in terms of GMV generated through North America amongst all platform-based sellers in China’s cross-border e-commerce export B2C apparel and footwear market in 2021, holding a market share of 0.7% in the RMB303.0 billion market. In recognition of our outstanding performance, we were awarded the “Best Cross-border E-commerce Brand Award (最佳跨境電商品牌獎)” for six consecutive years in a row since 2016.

Since our inception in 2011, we have been primarily focusing on the sale of a wide range of self-designed apparel, footwear and other products worldwide. Leveraging our fully integrated and efficient supply chain, we are able to provide our customers with fashion apparel and footwear products at competitive prices. We have built an efficient branding model. Leveraging our industry experience accumulated in the past ten years, we have deep understanding of the apparel market in the U.S. and Europe, in particular, women’s apparel, and keen insights in the industry fashion trend, which enable us to achieve a market leading position. During the Track Record Period, we had cultivated over 300 brands, among which, 87 were our key brands, with annual sales of over RMB10.0 million each. Over the years, we have cultivated numerous hot-selling products with annual sales of more than 2,000 pieces. Our product designs are data-driven, and our hot-selling products are known for their stable sales

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volumes and income in the first three to four years since launch and long life cycles. See “– Our Products – Our Key Brands and Hot-Selling Products.” With our experience in the apparel industry and multi-brand development, we had designed and sold 6,473 hot-selling products as of June 30, 2022.

We have established a broad sales channel network covering different sales platforms. To reach online customers and efficiently promote our products, we began selling products through major third-party e-commerce platforms since 2012 and have since expanded our sales channels to include our self-operated online stores in 2018. As of the Latest Practicable Date, our sales channels consisted of (i) Amazon, (ii) Wish, (iii) other third-party e-commerce platforms such as eBay and AliExpress, and (iv) our self-operated online stores. In addition, we have a worldwide customer base. As of the Latest Practicable Date, our products have been primarily sold to customers located in over 80% of the countries and regions globally, including among others, the United States, Germany and France.

Our revenue achieved continuous growth during the Track Record Period. Our revenue increased from RMB1,428.9 million for the year ended December 31, 2019, to RMB1,898.1 million for the year ended December 31, 2020, and further to RMB2,346.5 million for the year ended December 31, 2021, representing a CAGR of 28.1%. Our revenue increased from RMB1,100.7 million for the six months ended June 30, 2021 to RMB1,277.5 million for the six months ended June 30, 2022. Our profit for the year increased from RMB81.1 million for the year ended December 31, 2019, to RMB114.0 million for the year ended December 31, 2020, and further to RMB200.5 million for the year ended December 31, 2021, representing a CAGR of 57.2%. Our profit for the period decreased from RMB114.2 million for the six months ended June 30, 2021 to RMB61.3 million for the six months ended June 30, 2022.

### OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success:

**We are one of the largest cross-border e-commerce companies in China focusing on the sale of apparel and footwear products through third-party e-commerce platforms, ranking first in terms of GMV of apparel and footwear products sold in North America through third-party e-commerce platforms.**

We are one of the first market movers to step into the e-commerce market and have accumulated years of experience in e-commerce operations. In 2014, to meet the demand for cross-border e-commerce sales, we started our cross-border e-commerce business to sell apparel and footwear products. According to Frost & Sullivan, we are one of the largest cross-border e-commerce companies in China focusing on the sale of apparel and footwear products through third-party e-commerce platforms, ranking third in terms of GMV in 2021. We ranked first in terms of GMV generated through North America amongst all platform-based sellers in China’s cross-border e-commerce export B2C apparel and footwear market in 2021.

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Since our commencement of cross-border e-commerce business in 2014, we have strategically focused on the United States and European markets where we believe to have great potential. The apparel retail market of the United States, Germany and the United Kingdom, being our three largest markets in terms of revenue contribution during the Track Record Period, increased from US\$57.6 billion, US\$14.2 billion, US\$11.8 billion in 2017 to US\$87.7 billion, US\$15.7 billion, and US\$14.6 billion in 2021, respectively, according to Frost & Sullivan. During the same period, the footwear retail market of those three countries increased from US\$13.1 billion, US\$3.3 billion, and US\$3.4 billion in 2017 to US\$21.6 billion, US\$3.6 billion and US\$4.1 billion in 2021, respectively. As of June 30, 2022, we have accumulated a broad customer base across over 80% of the countries and regions globally, such as the United States, Germany and France. Our market leadership and substantial scale enable us to benefit from the unmet market demand thereby achieving continuous growth. During the Track Record Period, our average daily orders processed reached over 50,000. As of June 30, 2022, our average monthly GMV in the past 12 months reached RMB270.9 million and our monthly average GMV reached RMB338.9 million in June 2022.

In addition, we are well-positioned in third-party e-commerce platform coverage and operations. As of June 30, 2022, we have established a broad sales channel network covering major third-party e-commerce platforms, including Amazon, Wish, eBay and AliExpress. According to Frost & Sullivan, those four major e-commerce platforms constituted 56.5% of the cross-border e-commerce export B2C market in terms of GMV generated by China-based sellers in 2021. In particular, we hold extensive advantage in the sale of apparel and footwear products on Amazon. We have expanded significantly on Amazon since 2018 and subsequently achieved scalable and sustainable growth for our sale through Amazon. In 2021, we ranked second in terms of GMV of apparel and footwear products sold through Amazon amongst all platform-based sellers in China’s cross-border e-commerce export B2C apparel and footwear market. As of the Latest Practicable Date, we had accumulated 1,089 apparel and footwear products which had been recognized as Top 100 Amazon best-seller products. In addition to third-party e-commerce platforms, we established our self-operated online stores in 2018.

We believe our market performance and market position have been well recognized by the cross-border e-commerce export B2C industry. We are one of the leading players in China’s cross-border e-commerce export B2C apparel and footwear market, according to Frost & Sullivan. We have been awarded the “Best Cross-border E-commerce Brand Award (最佳跨境電商品牌獎)” for six consecutive years in a row since 2016.

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**We have a strong design team with extensive experience in designing with the support of our extensive database and big data analysis, and the capability to quickly identify fashion trend and address customers’ evolving needs.**

Our success is attributable to our strong design capabilities. Different from other apparel merchants, our design team comprises designers with deep experience in data analysis. As of June 30, 2022, our design team consisted of 344 staff, among which, 31.1% of them had strong experience in digital operations and solid industry-related background. Leveraging their proven data analysis capabilities, we are able to accurately identify fashion trend and customers’ demand. In addition, the composition of our design team reduces our reliance on any individual designer. We have maintained a stable design team with steady growth. The number of our designers increased from 155 as of December 31, 2019, to 227 as of December 31, 2020, to 297 as of December 31, 2021, and further to 344 as of June 30, 2022. As of June 30, 2022, we had 103 designers with over three years of experience, accounting for over 29.9% of our design team. We have also greatly invested in design team to enhance our design capabilities. In 2019, 2020 and 2021 and the first half of 2022, the total employee benefit we paid to our design team amounted to RMB18.9 million, RMB26.6 million, RMB46.0 million and RMB27.4 million, respectively, representing 18%, 27%, 37% and 37% of our staff costs for the relevant period, respectively.

In addition, leveraging our years of large-scale operating expertise, we have mature capabilities to collect and analyze market data. Our chief technology officer has extensive working experience in the field of big data and internet. We collect and analyze the information of the top 100 competing products on Amazon and Wish on a real-time basis, including brand, price, variation, rating, comments and their respective ranking, to identify the growth trend of different types of products as well as the fashion elements expected to be popular in the current or the coming season. Through our vast market study and historical order information, we have accumulated a database, including pattern, design and other fashion elements, which makes us more competitive amongst industry peers. As of June 30, 2022, our database comprised approximately 62,680 apparel and footwear styles, among which over 9,000 were newly-added in the first half of 2022. Moreover, our proven capabilities in big data analysis enable us to precisely identify the seasonal fashion trend and consumer preference, and timely integrate such elements into our designs. Leveraging our extensive industrial experiences and the composition of our data-oriented design team, we are able to apply our design innovation process in the design of all types of products for the effective cultivation of hot-selling products under each product category in a short time, laying a solid foundation for our brands and the extension of lifespan of our products.

Our extensive experiences in design and advantage in research and development enable us to capture market opportunities, integrate new elements into our design and timely launch new products. To quickly respond to our customer needs, we are able to complete design and trial production in seven days, in the shortest case, and deliver to our customers in 15 days. Also, we believe our data-driven design process enables us to improve our design efficiency and reduce design failure.

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Benefiting from our strong design capability and historical fashion database, we are able to design and launch over 10,000 new fashion styles which are well received by our customers per year. In the first half of 2022, among all of our products sold, over 78.8% of them were hot-selling products in terms of sales income. In addition, in the first half of 2022, we placed additional orders to procure more from our OEM suppliers for 84.5% of our products, to satisfy the unmet customer demand.

**We have extensive experience in the digital management and integration of our supply chain, thereby holding leading position in the industry.**

It is critical for us to react rapidly, and to synchronize our products with the changing market trends and customer preference while maintaining an optimal cost control. Therefore, maintaining efficient management on our supply chain for prompt response is important to us. To this end, we have developed our proprietary IT systems, including ERP system, SCM system, GMS system, warehousing system and e-mail management system, to achieve effective control over the whole industry chain, from product design to warehousing and delivery. Leveraging our digitalized operation system, we are able to efficiently manage our supply chain. For example, we utilize our SCM system to review our supplier statistics, such as fee quote, financial record, price level, defect rate and delivery accuracy, so as to better evaluate our suppliers, reduce their order rejection rate and optimize our procurement thereby controlling our costs, securing the procurement quality and improving our procurement efficiency. In order to efficiently introduce new products while minimizing their slow-moving risk, we only place a preliminary order for a small production volume, ranging from dozens to a thousand as the first batch of the new product, with the OEM suppliers. To promptly respond to the market trends, we are able to shorten the time period from preliminary sample production to the launch of first batch of products to seven days at the shortest situation.

Further, we have established and maintained close relationships with over 200 OEM suppliers. Utilizing our ERP system connecting such OEM suppliers and us, we can effectively place orders and achieve rapid delivery. We have also built a network of quality OEM suppliers of all types of products located in major production bases such as Zhejiang, Guangdong and Anhui provinces, through which our suppliers nearby can quickly respond to our orders and request. Also benefited from our deep collaboration with OEM suppliers, we can reduce our procurement costs.

We also have deep cooperation with numerous downstream suppliers, including logistics and warehousing service providers. As of June 30, 2022, we had 62 domestic and 19 international logistics service suppliers, providing our customers with flexible delivery choices while at the same time reducing our delivery expenses. Leveraging the synergies among different stages of the supply chain, including design, procurement, logistics and warehousing, we are able to adjust and control the production of our OEM suppliers against real-time sales performance for better cultivation of new products. We believe our long-term relationships with quality suppliers and our efficient procurement arrangement under our integrated supply chain, enable us to timely launch new products, effectively compete with other industrial peers

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and reduce our operating cost. Our cost-to-income ratio, representing the portion of our cost of inventories sold in our revenue, decreased from 26.6% for the year ended December 31, 2019, to 24.0% for the year ended December 31, 2020, and further to 20.0% for the year ended December 31, 2021. Our cost-to-income ratio further decreased from 20.7% for the six months ended June 30, 2021 to 18.0% for the six months ended June 30, 2022.

In addition, we have integrated big data into our supply chain. For example, we have built our own information database of suppliers for different types of fabric and accessories from which we can select our new products efficiently. We estimate the inventory level of our products based on our daily sales report, sales statistics of competing products and our inventory report, and manage our inventories based on our estimate, to improve our inventory turnover and shipment efficiency. As of June 30, 2022, our inventories at cost aging within one year represented approximately 79.6% of our total inventories.

### **We have strong self-owned brands and extraordinary brand cultivation capability.**

We have successfully built the brand matrix comprising various self-owned brands for different types of products and an efficient branding model. Leveraging our industry experience accumulated in the past ten years, we have good understanding of the apparel market in the U.S. and Europe, in particular, women’s apparel and keen insights in the industry fashion trend, which enable us to achieve a leadership position. Our brands have been broadly recognized by the industry and well received by our customers. For example, our women sweater brand, “Imily Bela,” is popular on Amazon, evidenced in the fast growth of its sales volume since 2018. From 2018 to 2021, products under the brand of “Imily Bela” achieved growth rates of 36.1% and 41.8% in terms of sales volume and annual GMV, respectively. In the first half of 2022, the sales volume of products under the brand of “Imily Bela” reached over 211,000 pieces with semi-annual GMV of over RMB36.1 million.

Over the years, we have cultivated a number of key brands and hot-selling products. Our key brands “Imily Bela,” “Runcati” and “Dellytop” were recognized as Famous Cross-border E-commerce Export Brands of Zhejiang Province (浙江跨境電商出口知名品牌) in 2021. As of the Latest Practicable Date, we had cultivated multiple well-known brands for our apparel and footwear products, targeting different customers. In particular:

- our sports brand “Aurgelmir,” launched in 2019, focuses on yoga clothing and ski suit. Its first ski suit launched in December 2019 was recognized as Top 5 Amazon best-seller products of its category in February 2021. In addition, four hot-selling women’s yoga pants under this brand ranked Top 50 Amazon best-seller products in 2020, and ranked Top 30 Amazon best-seller products in May 2021;
- our footwear brand “Jolimall,” launched in June 2019 on our self-operated online stores, has reached accumulated sales volume of 2.3 million pieces during the Track Record Period, with an annual GMV of over RMB270 million;

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- our casual men’s apparel brand “Runcati,” a brand launched in 2017 focuses on cotton and linen shirts, men’s pajamas and sweatshirts. It launched series of self-designed cotton and linen shirts on Amazon, the accumulated sales volume of which reached 410,000 pieces as of June 30, 2022. In particular, a cotton and linen shirt launched in August 2018 recorded significant growth in the sales volume and improvement on the ranking. The monthly GMV of this shirt in April 2021 was seven times as much as that of April 2020. In addition, monthly GMV of this shirt reached over RMB2.5 million in June 2021. As of June 30, 2022, this shirt ranked Top 3 Amazon best-seller products of its category;
- our women’s apparel brand “Dellytop,” a brand focusing on women’s tops launched in 2015, introduced autumn and winter tops using our self-developed waffle fabric, the sales volume of which exceeded 110,000 pieces in 2021. Such tops ranked Top 2 Amazon best-seller products of its category in 2020; and
- our women’s apparel brand “Cicy Bell,” a brand focusing on women’s suits and women’s tops launched in 2019, reached a GMV of over RMB80 million in 2021. The first women’s suit launched under “Cicy Bell” has been well received by the market, as evidenced by an accumulated sales volume of 470,000 pieces as of June 30, 2022 and the ranking of Top 1 Amazon best-seller product of its category on both December 26, 2020 and February 13, 2022.

### **We have effective e-commerce operating capabilities.**

Leveraging our experiences and our understanding of the e-commerce ecosystem, we have gained experiences in the selection of best-seller products by e-commerce platforms, precise marketing and launching hot-selling products. We have gained strategic advantage in the marketing on Amazon and Wish. Benefiting from our multi-platform operating experiences, we have cultivated numerous hot-selling product links for different types of products and established our strong capabilities of cultivating hot-selling products in a short time. Meanwhile, we have adopted diverse internet marketing strategies and accumulated solid experience in marketing our products through social media platforms and/or by KOLs. Our marketing experts are responsible for the marketing planning, with the intention to access the consumers’ pain points and market precisely, thereby cultivating hot-selling products and improving the rating of our online stores. Our extensive experiences in optimizing keywords and descriptions of our products and strong capabilities to adjust our advertisement mix and launch highly-efficient advertisement in a cost-effective manner, enable us to cultivate hot-selling products and attract more customers.

Powered by our strong capability to analyze operating data, deep understanding in the marketing strategy for hot-selling products, and vast experience in identifying products’ sales trend and estimating sales volume per season, we are able to digitalize our marketing plan and attract the segmented traffic on each leading platforms. In addition, we have extensive experience and proven capability in data analysis to precisely identify the demands from each group of customers, providing solid and timely data support for our product development and

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satisfactory product pricing strategies. We closely monitor our product ranking, our competitors’ pricing strategies and our inventory level, through which we are able to adjust our pricing in a timely manner for better profitability.

Leveraging our comprehensive marketing experiences, we have established effective strategies for the first stocking for new products, ranking improvement, advance stocking for hot-selling products and end-of-season inventory sell-off, through which we can maintain our inventories at a reasonable level at the entire cycle while improving our sales performance.

Our marketing efforts are also supported by our sophisticated and multilingual customer service team, who aims to provide our customers with pleasant shopping experiences.

Benefited from our strong e-commerce operating capabilities, we are able to effectively promote our products and constantly improve our products in accordance with customers’ feedback, thereby extending the lifespan of our hot-selling products. As a result, our hot-selling products have a lifespan of up to four years. In addition, leveraging our strong e-commerce operating capabilities and supported by our sales efforts, we can further improve the sales volume of our hot-selling products to achieve better economies of scale and lower our inventory level, thereby further improving our profitability.

### **We are led by an experienced and dedicated management team.**

Led by Mr. Hua, we have a management team with strong operational experience, execution capability and industry expertise. Mr. Hua, being the founder of our Group, an executive Director, the chairman of the Board and the chief executive officer of our Company, has in-depth understanding of the cross-border e-commerce industry, and extensive industrial and managerial experience. In addition, members of our senior management team have rich technological and managerial experience. Over the years, we have also established our diversified corporate culture and attractive incentive scheme to maintain efficient execution, constant innovation, and strong competitive strengths. For example, our human resources management ecosystem provides our employees with flexibilities to switch their positions in order to stimulate their creativity and vitality. Further, to better motivate our employees, we have developed a comprehensive performance evaluation system taking into account a series of factors. For example, we value the employees’ loyalty by taking into account their length of employment with us and working experience on one hand, and the hot-selling products they designed and applause rate on the other. We believe our effective evaluation system helps us attract and retain skilled and qualified personnel for our sustainable growth. We value cooperation and collaboration. From new product development, product design and pattern making, OEM procurement, follow-up for each order, to after-sales services, each of our departments and sub-business departments cooperate and collaborate closely while specializing in their respective area, to prioritize efficiency and achieve economies of scale among our back-end supply chain team.



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Our management and business team mainly comprises young talents with entrepreneurial spirit, in-depth knowledge in e-commerce operations, extensive experience accumulated in apparel and footwear industry, and solid multi-channel operation practice. Over the years, we have maintained a stable key management and professional team, who have contributed to our sustainable growth. In addition to Mr. Hua, our management team has an average of six years of experiences working with us. Moreover, 18.0% of our design team has served our Group for over five years.

### OUR STRATEGIES

We endeavor to become a world renowned e-commerce fashion brand to meet our global customers’ fashion needs on a timely and seamless basis. (致力於成為一家國際知名的時尚服飾及鞋履產品運營商,讓全球用戶及時便捷地獲得滿意的服飾及鞋履產品). We intend to pursue the following strategies:

#### **Keep pace with fashion trend and technology innovation and continue to develop fashion products.**

Keeping pace with fashion trend and constantly launching hot-selling products are crucial to our success. We intend to further enhance our capabilities to develop and launch new products through constant technological innovation, to capture evolving customer needs. To this end, we plan to devote more resources to enhancing our product design capabilities, including investment in the development of digitalized information system, new pattern and fabric and accessories. In addition, we will introduce more product categories, such as sports apparel, underwear and home wear products to further diverse our product portfolio.

We intend to establish an intelligent and automatic design system and bring in AI and big data technologies. We expect to gradually deploy AI design technologies to provide our designers with a better platform to leverage, and in turn to improve design efficiency. We plan to collaborate with third parties with extensive experience in the application of AI and big data technologies, to further improve our design efficiency through collecting, processing and analyzing massive consumption data to analyze the fashion trend and fashion elements based on the historical sales statistics of our hot-selling products and other competing products. For instance, we expect our designers to utilize our intelligent algorithm to analyze fashion elements from massive sales statistics, to understand the fashion trend. Further, we intend to use the AI tools to provide our designers with suggestion on fabric and pattern, to improve their design efficiency and product hit rate.

We will further diversify our database of pattern, fabric and accessory and fashion elements. In addition, we plan to further upgrade the algorithm of our digitalized design system, which can automatically merge the latest pattern and the big data from our extensive database into the design blueprints, thereby shortening our design cycle and improving our hit rate of hot-selling products.

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We expect to use approximately HK\$[REDACTED] of the [REDACTED] of the [REDACTED] for this business strategy, while the remaining expenses for such plan is expected to be financed by our operating cash flow, borrowings from financial institutions and/or other equity or debt financing. See “Future Plans and Use of [REDACTED].”

### **Continue to integrate supply chain resources to improve operating efficiency and expand our global footprint.**

We intend to constantly optimize our digitalized supply chain and develop supplier management system to enhance our operating efficiency. To achieve this, we will provide our OEM suppliers with access to our supplier management system comprising raw material request information, procurement plan and supplier rating, through which they can review and take our orders efficiently. We can also monitor our inventories to maintain them at a reasonable level. We will establish and further improve our sales and marketing system which integrates our historical operating data, to provide suggestions for each stage of our operations from product development, order delivery to inventory management. Moreover, we intend to further shorten the time to commence product trial production and market acceptance test, to meet customers’ evolving demand more efficiently.

In addition, we plan to improve the quality of raw materials while reducing their cost from the supply end. To this end, we plan to devote more efforts in the research and development of fabric and accessories. We will constantly improve our use of fabric and accessories based on our customer feedbacks. As to commonly-used fabric and accessories, we will adopt centralized procurement strategy to further enhance their quality and reduce our cost.

We will adjust the regional distribution of our supply chain, gradually switching our focus from China to Southeast Asia and subsequently establishing our global supply chain, through which we expect to further reduce our product costs and maintain the stability of our supply chain. To improve the delivery efficiency and for our further business development, we will devote more resources in the construction of domestic warehousing and logistics bases covering raw material manufacturing sites and ports. We will establish a well-connected warehouse network gradually through a combination of establishing our own warehouses and leasing from third parties, to achieve a global coverage of our supply chain distribution, thereby improving our supply chain operating efficiency, and lowering our warehousing and logistics costs. We may also strategically form alliance with renowned cross-border logistics service providers to enhance our overseas delivery capacity.

We expect to use approximately HK\$[REDACTED] of the [REDACTED] of the [REDACTED] for this business strategy, while the remaining expenses for such plan is expected to be financed by our operating cash flow, borrowings from financial institutions and/or other equity or debt financing. See “Future Plans and Use of [REDACTED].”

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### **Build brand matrix for our overseas operations and further expand our localized operations.**

We plan to upgrade our brand matrix for our overseas operations. We will target each apparel category and/or integrated categories, with the intention to expand our brand categories and fashion styles and build our own brand matrix for customers at different age group with different consumption power. These operations enable us to target different customer groups to enhance their loyalty and our brand premium.

Further, we expect to adopt differentiated and localized branding strategies for each apparel category and fashion style for our overseas market. We will continue to pursue opportunities to collaborate with local brands in the overseas market to obtain strong capability to manage supply chain and more localized design elements. We will also pursue suitable acquisition opportunities to acquire local brand to enhance our localized operations.

We have been focused on the North America and European markets since our commencement of cross-border e-commerce business. In 2021, our market share in North America and Europe reached approximately 1.0% and 0.2% respectively in terms of GMV of apparel and footwear products generated from cross-border e-commerce export B2C platforms. We will continue to enhance our market position in the U.S and Europe and explore other overseas markets. We will continue to diversify our product portfolio and pursue opportunities to cooperate with other major overseas third-party e-commerce platforms, such as Wayfair and Lotte.

We expect to use approximately HK\$[REDACTED] of the [REDACTED] of the [REDACTED] for this business strategy, while the remaining expenses for such plan is expected to be financed by our operating cash flow, borrowings from financial institutions and/or other equity or debt financing. See “Future Plans and Use of [REDACTED].”

### **Build large-scale independent self-operated online stores to enhance brand recognition and customer loyalty.**

According to Frost & Sullivan, the market size of China’s cross-border e-commerce export B2C market attributable to self-operated online stores increased from RMB203.4 billion in 2017 to RMB698.3 billion in 2021, and is forecasted to further increase to RMB1,491.0 billion by 2026, representing a CAGR of 16.4% from 2021 to 2026. According to the same source, sellers who sell products through self-operated online stores attract and retain customers through strengthening the infrastructure of their stores, diversifying their product portfolio and gradually establishing brand awareness among customers. Leveraging our years of experience in the cross-border sale of apparel products and in-depth understanding of the e-commerce ecosystem, we will develop our own server network for our large-scale independent self-operated online stores.

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Over the years, we have accumulated extensive data in relation to sales performance of our products, and strong capabilities to develop new products and efficiently manage our supply chain, all of which have laid solid base for the establishment of our large-scale independent self-operated online store. We will devote more resources in our IT research and development and brand promotion. For example, we plan to cooperate with precise marketing service providers and social media platforms to further enhance our brand awareness, brand recognition and market position in overseas markets, thereby further enhancing customer loyalty.

We believe our customers will have access to more flexible and diversified product offering through our large-scale independent self-operated online stores, which would further enhance their loyalty with us.

We expect to use approximately HK\$[REDACTED] of the [REDACTED] of the [REDACTED] for this business strategy, while the remaining expenses for such plan is expected to be financed by our operating cash flow, borrowings from financial institutions and/or other equity or debt financing. See “Future Plans and Use of [REDACTED].”

### **Explore suitable opportunities to invest in or acquire targets along the industry chain to explore synergies.**

We will also keep pursuing opportunities to invest in or acquire suitable targets along the industry chain, horizontally and vertically, to extend our supply chain and expand the network of our brand partners, thereby enhancing our competitive strengths.

Horizontally, we intend to cooperate with selected domestic and overseas fashion brands with small-to-medium size. Leveraging their localized customer base, industry experience as well as operating capabilities, we will be able to integrate the local elements into our design technique and database, to improve the efficiency of localization-oriented design, lower the research and development costs to localize our products and increase the conversion rate and repeat customer rate. In addition, leveraging the procurement channels and supply chain of such local brands, we will be able to cooperate with more domestic OEM suppliers to further enhance our competitive strengths in the local supply chain. By catering to the customer preference of local markets, we will be able to build up a well-connected brand network regionally and globally, hence synchronizing our global product resource with localized customer demands and market trends.

Vertically, we intend to explore suitable opportunities to invest in or acquire companies along the supply chain, such as raw material suppliers and garment manufacturers, to further improve production efficiency, cost control and product supply stability, and vertically integrate our supply chain system. We expect to provide our customers with better experience in the logistics services while reducing logistics costs and improving operating efficiency. We believe that our enhanced cooperation with vertical industry players will further improve our speed of response to the market trend and in turn customer experience, strengthen our resource integration capability, as well as our operating efficiency.

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We expect to use our internal resources and external fundings to implement this strategy.

### OUR BUSINESS MODEL

We are one of the largest cross-border e-commerce companies in China focusing on the sale of apparel and footwear products through third-party e-commerce platforms. Since our inception in 2011, we have been primarily focusing on the sale of a wide range of self-designed apparel, footwear and other products worldwide. Leveraging our fully integrated and efficient supply chain, we are able to provide our customers with fashion apparel and footwear products at competitive price. Our products are sold through major third-party e-commerce platforms and our self-operated online stores to customers located in over 80% of the countries and regions globally, including among others, the United States, Germany and France.

The following table sets forth a breakdown of our revenue by type of products for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	% of total Revenue	% of total revenue	% of total Revenue	% of total revenue	% of total Revenue	% of total revenue	% of total Revenue	% of total revenue	% of total Revenue	% of total revenue
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Sale of apparel products	1,146,892	80.3	1,338,415	70.5	1,833,677	78.2	824,458	74.9	1,016,658	79.6
Sale of footwear products	256,409	17.9	401,130	21.1	453,615	19.3	229,337	20.8	258,087	20.2
Sale of other products <sup>(1)</sup>	25,553	1.8	158,564	8.4	59,251	2.5	46,891	4.3	2,782	0.2
<b>Total</b>	<b><u>1,428,854</u></b>	<b><u>100.0</u></b>	<b><u>1,898,109</u></b>	<b><u>100.0</u></b>	<b><u>2,346,543</u></b>	<b><u>100.0</u></b>	<b><u>1,100,686</u></b>	<b><u>100.0</u></b>	<b><u>1,277,527</u></b>	<b><u>100.0</u></b>

*Note:*

- (1) Primarily represent sale of electronic devices (such as earphones, home cameras and signal boosters), stationary and sporting goods, etc.

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### **Our Products**

#### *Sale of Apparel Products*

Since our inception, we have focused on the design and sale of fashion apparel products, in particular, women’s apparel products. We provide our customers with a comprehensive range of apparel products, including among others, sweaters, T-shirts, coats and jackets, dresses, trousers and sportswear. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue generated from sale of apparel products amounted to RMB1,146.9 million, RMB1,338.4 million, RMB1,833.7 million, RMB824.5 million and RMB1,016.7 million, accounting for 80.3%, 70.5%, 78.2%, 74.9% and 79.6% of our total revenue for the same periods, respectively.

#### *Sale of Footwear Products*

Starting from 2016, we have expanded our product portfolio and started to sell footwear products. In particular, we commenced the operation of our self-operated online store to focus on the sale of footwear products in 2018. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue generated from sale of footwear products was RMB256.4 million, RMB401.1 million, RMB453.6 million, RMB229.3 million and RMB258.1 million, accounting for 17.9%, 21.1%, 19.3%, 20.8% and 20.2% of our total revenue for the same periods, respectively.

#### *Sale of Other Products*

In recent years, we have also offered different types of other products, such as electronic devices, stationery and sporting goods. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue generated from sale of other products was RMB25.6 million, RMB158.6 million, RMB59.3 million, RMB46.9 million and RMB2.8 million, accounting for 1.8%, 8.4%, 2.5%, 4.3% and 0.2% of our total revenue for the same periods, respectively.

### **Our Sales Channels**

We have established a broad sales channel network covering different sales platforms. To reach online customers and efficiently promote our products, we began selling products through major third-party e-commerce platforms since 2012 and have since expanded our sales channels to include our self-operated online stores in 2018. As of the Latest Practicable Date, our sales channels consisted of (i) Amazon, (ii) Wish, (iii) other third-party e-commerce platforms such as eBay and AliExpress, and (iv) our self-operated online stores. According to Frost & Sullivan, Amazon, Wish, AliExpress and eBay are the major third-party e-commerce platforms. In 2021, the total market share of these four third-party e-commerce platforms in China’s cross-border e-commerce export B2C market as measured by GMV generated by

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China-based sellers was 56.5%. Amazon has been bearing the largest market share and accounted for approximately 71.6% of the total GMV generated by China-based sellers of these four third-party e-commerce platforms in 2021, followed by AliExpress and eBay, which accounted for approximately 15.5% and 7.8%, of the above-mentioned GMV, respectively, according to the same source. To capture the vast market opportunities on the major e-commerce platforms, we have also devoted great efforts to promoting our sales on such platforms and achieved rapid growth. In 2019, 2020 and 2021 and the six months ended June 30, 2022, our sale through Amazon and Wish constituted 86.0%, 76.7%, 84.2% and 92.3%, respectively, of our total revenue during the same periods. Our reliance on such third-party e-commerce platforms was primarily due to their dominant positions in China’s cross-border e-commerce export B2C market.

Considering (i) Amazon’s expected growth in the apparel and footwear e-commerce market in the United States in the coming years, the GMV of which is estimated to reach US\$70.9 billion in 2026, from US\$51.6 billion in 2021, representing a CAGR of 6.6% from 2021 to 2026, according to Frost & Sullivan; (ii) Amazon’s dominant market position in the apparel and footwear e-commerce market in the United States, the market share of which is estimated to reach 51.3% in 2026, from 48.7% in 2021, while another two leading market players in this market, namely, Walmart and eBay, are expected to collectively hold 23.0% of the market share in 2026, according to Frost & Sullivan; and (iii) leveraging our experience in exploring business in the United States and the established market position on third-party e-commerce platforms, such as Amazon, we intend to capture the great market potential provided by the United States market, in particular, Amazon, and further strengthen our sale of apparel and footwear products to the United States through diversification of SKUs, expansion of our design team, establishment of more self-owned brands, as well as more investment in sales and marketing activities; we expect that the concentration of our sale through Amazon will sustain in the near future. In order to gradually reduce our reliance on such platforms in the future, we will continue to devote great efforts to developing our self-operated online stores. For risks in relation to our reliance on a few third-party e-commerce platforms, in particular, Amazon, see “Risk Factors – Risks Relating to Our Business and Industry – Disruption of our relationships and unfavorable changes in terms of our arrangements with third-party e-commerce platforms, in particular, Amazon and Wish, could have a material adverse effect on our business and results of operations.”

Taking into account that (i) despite the fact that Amazon was our most important third-party e-commerce platform since 2019, we also operate and are actively expanding our sale on other third-party e-commerce platforms with growth potential and self-operated online stores, (ii) we were the second largest platform-based sellers in terms of GMV generated through Amazon amongst all platform-based sellers on Amazon in China’s cross-border e-commerce export B2C apparel and footwear market in 2021, according to Frost & Sullivan, (iii) our strong capacities in product cultivation and self-design as evidenced by the numerous hot-selling products we had cultivated during the Track Record Period, and the fact that over

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90% of our products were self-designed, which distinguished us from other market players and empowered us to continue the growth on Amazon; and (iv) we have maintained good relationships with Amazon in the past without any material dispute, our Directors are of the view and the Joint Sponsors concur that our relationship with Amazon is mutually beneficial and the likelihood that the relationship with Amazon may be materially adversely changed or terminated is low.

We established our self-operated online stores in 2018 with the intention to strengthen our operation. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our sale through our self-operated online stores amounted to RMB109.7 million, RMB362.6 million, RMB257.3 million, RMB172.6 million and RMB74.8 million, respectively.

The following table sets forth the breakdown of our revenue by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
<b>Third-party</b>										
<b>E-commerce</b>										
<b>Platforms</b>										
Amazon	450,152	31.5	615,117	32.4	1,672,349	71.2	629,382	57.2	1,157,463	90.6
Wish	778,482	54.5	841,108	44.3	304,125	13.0	224,981	20.4	21,745	1.7
Others <sup>(1)</sup>	84,019	5.9	49,663	2.6	75,805	3.2	43,292	3.9	21,095	1.7
<b>Sub-total</b>	<b>1,312,653</b>	<b>91.9</b>	<b>1,505,888</b>	<b>79.3</b>	<b>2,052,279</b>	<b>87.4</b>	<b>897,655</b>	<b>81.5</b>	<b>1,200,303</b>	<b>94.0</b>
<b>Self-operated</b>										
<b>Online Stores</b>	109,708	7.7	362,601	19.1	257,319	11.0	172,612	15.7	74,756	5.8
<b>Others<sup>(2)</sup></b>	6,493	0.4	29,620	1.6	36,945	1.6	30,419	2.8	2,468	0.2
<b>Total</b>	<b>1,428,854</b>	<b>100.0</b>	<b>1,898,109</b>	<b>100.0</b>	<b>2,346,543</b>	<b>100.0</b>	<b>1,100,686</b>	<b>100.0</b>	<b>1,277,527</b>	<b>100.0</b>

Notes:

(1) Primarily include eBay and AliExpress.



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- (2) Primarily represent our offline sale of apparel and other products to corporate customers. Corporate customers may place orders either through third-party e-commerce platforms or offline directly to us. For sale through third-party e-commerce platforms, the transaction flow is the same as that of our customers and such revenue is included in revenue generated through third-party e-commerce platforms. For procurement orders they directly placed offline, we deliver products as requested and they settle the payment subsequently. Our revenue generated from offline sale of apparel and other products to corporate customers increased significantly during the years ended December 31, 2019, 2020 and 2021, primarily due to the diversification of our product offerings which was in line with the expansion of our business and our sale to Jiahe Group and Super Summer. Our revenue generated from offline sale of apparel and other products to corporate customers decreased in the first half of 2022, primarily as we strategically focused more on our principal business, namely, sale of apparel and footwear products to overseas individual customers, and reduced sale of other products, in particular, furniture and outdoor and sporting goods to corporate customers during the same period.

For detailed discussion of our sales channels, see “– Our Business Process – Sales and Marketing – Third-party E-commerce Platforms” below.

### **Our Geographical Coverage**

In addition, we have a worldwide customer geographical coverage. As of the Latest Practicable Date, our products had been primarily sold to customers located in over 80% of countries and regions globally, including among others, the United States, Germany and France. For detailed discussion of our geographical coverage, see “– Our Business Process – Our Geographical Coverage” below.

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OUR PRODUCTS

Our Product Portfolio

Our extensive product portfolio primarily comprises apparel and footwear products. The following table sets forth a breakdown of our revenue, sales volume, average selling price and price range by our key product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,													
	2019			2020			2021			2022										
	Revenue <sup>(1)</sup> RMB'000	Sales volume <sup>(1)</sup> '000 pc	Average selling price <sup>(1)</sup> RMB	Price range RMB	Revenue <sup>(1)</sup> RMB'000	Sales volume <sup>(1)</sup> '000 pc	Average selling price <sup>(1)</sup> RMB	Price range RMB	Revenue <sup>(1)</sup> RMB'000	Sales volume <sup>(1)</sup> '000 pc	Average selling price <sup>(1)</sup> RMB	Price range RMB								
Apparel Products <sup>(2)</sup>	1,146,892	12,737	90	7-331	1,338,415	13,628	98	7-343	1,833,677	13,837	133	6-353	824,458	6,974	118	7-549	1,016,658	6,378	159	10-387
Footwear Products <sup>(2)</sup>	256,409	1,180	217	60-399	401,130	1,676	239	69-346	453,615	1,773	256	62-382	229,337	1,021	225	82-439	258,087	908	284	101-444
Other Products <sup>(3)</sup>	25,553	1,077	24	6-309	158,564	5,341	30	3-2,414	59,251	700	85	3-1,044	46,891	799	59	3-1,989	2,782	20	139	3-1,692
<b>Total</b>	<b>1,428,854</b>	<b>14,994</b>	<b>95</b>	<b>6-399</b>	<b>1,898,109</b>	<b>20,645</b>	<b>92</b>	<b>3-2,414</b>	<b>2,346,543</b>	<b>16,310</b>	<b>144</b>	<b>3-1,044</b>	<b>1,100,686</b>	<b>8,794</b>	<b>125</b>	<b>3-1,989</b>	<b>1,277,527</b>	<b>7,306</b>	<b>175</b>	<b>3-1,692</b>

Notes:

- (1) The returned products were excluded from the calculation of revenue, sales volume and average selling price.
- (2) During the Track Record Period, the prices of apparel and footwear products sold by us might be lower than the low-end of such price range when we offered discount to customers, while the prices of certain apparel and footwear products for winter season sold by us might be higher than the high-end of such price range. For illustration purpose, during the calculation of such price range, we excluded outliers from our statistical data of all products within their respective product category, representing approximately 2% of the orders of which the prices were either extremely high or extremely low, which we believe may distort statistical analysis and be less indicative. The extremely low prices were primarily the prices for promotional products, while the extremely high prices were primarily the prices for products that are sold occasionally in small quantity.
- (3) Mainly include electronic devices (such as earphones, home cameras and signal boosters), stationery and sporting goods, etc. The high-end of price range for other goods sold in 2020, 2021 and the first half of 2021 and 2022 were relatively high, primarily as we sold outdoor sporting goods during those periods. For illustration purpose, during the calculation of such price range, we excluded outliers from our statistical data of all other products, representing approximately 2% of the orders of which the prices were either extremely high or extremely low, which we believe may distort statistical analysis and be less indicative. The extremely low prices were primarily the prices for promotional products, while the extremely high prices were primarily the prices for products that are sold occasionally in small quantity.

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The following table sets forth a breakdown of our sales income, sales volume, average selling price and price range by subcategory of our apparel products for the periods indicated:

	Year ended December 31,						Six months ended June 30,													
	2019			2020			2021			2022										
	Sales volume	Average selling price <sup>(2)</sup>	Price range <sup>(3)</sup>	Sales income <sup>(1)</sup>	Sales volume	Average selling price <sup>(2)</sup>	Price range <sup>(3)</sup>	Sales income <sup>(1)</sup>	Sales volume	Average selling price <sup>(2)</sup>	Price range <sup>(3)</sup>	Sales income <sup>(1)</sup>	Sales volume	Average selling price <sup>(2)</sup>	Price range <sup>(3)</sup>					
RMB'000	'000 pc	RMB	RMB	RMB	'000 pc	RMB	RMB	RMB'000	'000 pc	RMB	RMB	RMB'000	'000 pc	RMB	RMB					
Women's apparel and related products <sup>(4)</sup>	1,139,022	13,669	83	7-289	1,309,778	16,343	80	7-278	1,868,530	14,424	130	6-281	840,292	7,631	110	7-296	1,166,951	7,272	160	11-360
Men's apparel products	192,904	1,594	121	13-331	226,815	1,683	135	14-343	306,457	1,948	157	10-353	136,253	977	139	18-367	155,659	975	160	24-387
Children's apparel products	39,232	601	65	7-211	32,279	449	72	7-207	79,731	645	124	8-214	17,714	192	92	13-222	51,312	392	131	21-229
Other apparel products	3,894	42	93	10-267	3,934	60	66	7-278	2,922	49	60	7-296	2,524	46	55	13-549	148	2	74	10-225
<b>Total apparel products</b>	<b>1,375,052</b>	<b>15,906</b>	<b>86</b>	<b>7-331</b>	<b>1,572,806</b>	<b>18,535</b>	<b>85</b>	<b>7-343</b>	<b>2,257,640</b>	<b>17,066</b>	<b>132</b>	<b>6-353</b>	<b>996,783</b>	<b>8,846</b>	<b>113</b>	<b>7-549</b>	<b>1,374,070</b>	<b>8,641</b>	<b>159</b>	<b>10-387</b>

*Notes:*

(1) The sales income included transaction amount of apparel products returned to us. As excluded from our revenue, the total transaction amount of apparel products returned to us, according to our internal record, amounted to RMB165.3 million, RMB190.9 million, RMB383.6 million, RMB144.6 million and RMB339.6 million in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively, representing approximately 12.0%, 12.1%, 17.0%, 14.5% and 24.7%, respectively, of the total transaction amount of our apparel products delivered for the same periods. The products returned to us are recorded under the general apparel product category instead of the breakdown for each subcategory.

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The increase in transaction amount of apparel products returned to us in 2021 was primarily due to the increase of our sale through Amazon under the FBA model, which provided customers with more flexible return policy as compared with those delivered through international direct mail method. As a result, we recorded increased product return rate in that year.

The significant increase in transaction amount of apparel products returned to us since March 2022 primarily because the slowing economic activity and the constantly rising inflation in the United States had negatively affected the spending power and changed the purchasing habits of our customers in the United States, resulting in more conservative consumption and more frequent product return, as confirmed by Frost & Sullivan. As a result of which, customers may purchase several products and only keep their most favorable product while returning the rest after fitting. In addition, the Federal Reserve of the United States has raised the interest rates several times since March 2022 in order to combat the high inflation in the United States, which further deteriorated the customers' purchasing power and in turn adversely affected our product return rate.






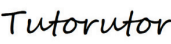

- (2) The calculation of sales volume and average selling price included apparel products returned to us. The increase of the average selling prices of the women's apparel and related products, men's apparel products and children's apparel products in 2021 was caused by the increase of our sale through Amazon, which primarily targets mid- to high-end customers with strong spending power and our selling prices on which are relatively high.
- (3) For illustration purpose, during the calculation of price range, we excluded outliers from our statistical data of all apparel products within their respective product subcategory, representing approximately 2% of the orders of which the prices were either extremely high or extremely low, which we believe may distort statistical analysis and be less indicative. The extremely low prices were primarily the prices for promotional products, while the extremely high prices were primarily the prices for products that are sold occasionally in small quantity.
- (4) Women's apparel and related products include apparel products for women and related products, such as accessories.

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**Our Key Brands and Hot-Selling Products**

We have strong self-owned brands and outstanding brand cultivation capabilities. We have successfully built the brand matrix comprising various self-owned brands for different types of products and an efficient branding model. During the Track Record Period, we had cultivated over 300 brands, among which, 87 were our key brands, with annual sales of over RMB10.0 million each.

The following table sets forth certain of our key brands during the Track Record Period:

Key brands	Logo	Type of products	Major sales platforms	Sample
<b>Women’s Apparel</b>				
Imily Bela		Women’s and children’s apparel	Amazon	 
Saodimallsu		Women’s apparel	Amazon	 
Dellytop		Women’s apparel	Amazon	 
Tutorutor		Women’s apparel and swimsuit	Amazon	 





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Key brands	Logo	Type of products	Major sales platforms	Sample
Farktop		Women's apparel	Amazon	 
Men's Apparel Runcati		Men's apparel	Amazon	 
Women suit Cicy Bell		Women's suit	Amazon	 
Footwear Jolimall		Footwear	Self-operated online store, Wish	 
Sportswear Aurgelmir		Women's sportswear	Amazon	 







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Over the years, we have cultivated numerous hot-selling products with annual sales of more than 2,000 pieces. Our product designs are data-driven, and our hot-selling products are known for their stable sales volumes and income in the first three to four years since launch and long life cycles. The high sales volume and long life cycle of our hot-selling products also enable us to lower our procurement costs leveraging our strong supply chain thereby achieving relatively higher gross margin than other products. With our experience in the apparel industry and multi-brand development, we had designed and sold 6,473 hot-selling products as of June 30, 2022.

The following table sets forth our top 10 hot-selling products on Amazon for the six months ended June 30, 2022 and their respective sales volume during the Track Record Period:

Photo	Brand	Product type	Year of Launch	Platform	Sales volume			
					Year ended December 31,			Six months ended
					2019	2020	2021	June 30, 2022
					('000 pc)			
	Cicy Bell	Women suit	2019	Amazon	0.8	21.7	208.1	242.7
	Langwyqu	Women tops	2021	Amazon	-	-	39.3	88.1
	Makkrom	Men shirt	2018	Amazon	10.6	27.7	109.7	77.6
	Yobecho	Women dress	2019	Amazon	19.7	48.7	149.6	76.4

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Photo	Brand	Product type	Year of Launch	Platform	Sales volume			
					Year ended December 31,			Six months ended
					2019	2020	2021	June 30, 2022
					('000 pc)			
	Runcati	Women shirt	2018	Amazon	24.3	36.7	122.8	76.0
	Wenrine	Women tops	2019	Amazon	13.9	20.6	78.1	67.4
	Hestenvé	Men shirt	2020	Amazon	–	3.8	52.9	51.7
	Jeanewpole	Women dress	2019	Amazon	–	11.7	86.2	49.4
	Beautife	Women tops	2020	Amazon	–	–	60.5	48.7
	Langwyqu	Women tops	2021	Amazon	–	–	0.9	46.1

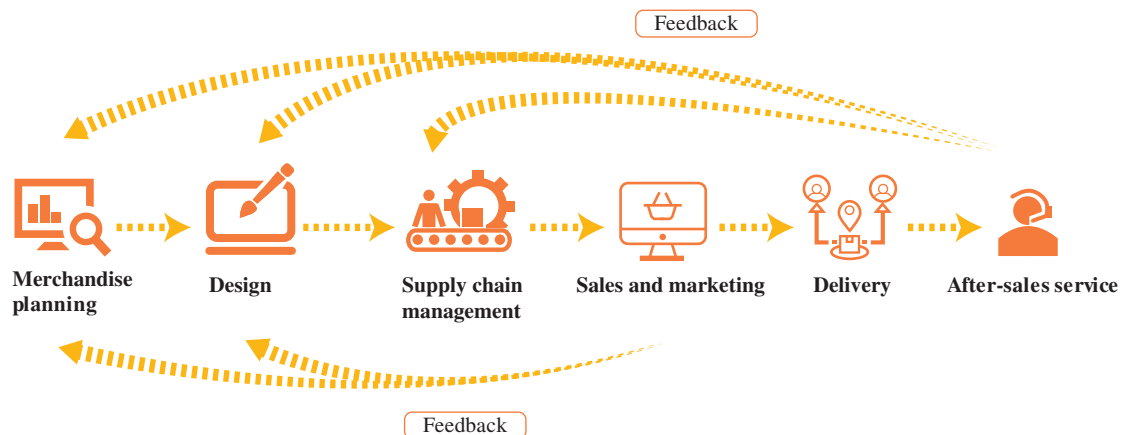


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Generally, our hot-selling products have stable sales volumes and income in the first three to four years since launch and long life cycles. For example, the hot-selling products we launched in 2019 had continuously contributed sales income in 2019, 2020 and 2021 which continued in 2022. Different from our hot-selling products, certain of our other products are also able to contribute sustainable sales income for over three years, although not as much as that of our hot-selling products. Generally, the life cycle of our hot-selling products is more than five years and the life cycle of our other products is nearly two years. Our hot-selling products launched in 2019 recorded accumulated sales income of over RMB1.7 billion from 2019 to the first half of 2022, while our remaining products launched in 2019 recorded accumulated sales income of over RMB500.0 million during the same periods. Leveraging the sustainable sales volumes and income and long life cycle of our hot-selling products and utilizing our integrated supply chain, we are able to negotiate for better procurement price when we place additional orders with our OEM suppliers, thereby reducing our procurement costs.

### OUR BUSINESS PROCESS

Our business process involves merchandise planning, design, supply chain management, sales and marketing, delivery, as well as after-sales services. The following diagram illustrates our typical business process.



### Merchandise Planning

Our ability to quickly launch fashion apparel and footwear products of the season to obtain and expand our market share depends on our capabilities to carry out merchandise planning for our product design and marketing. Our product planning department consisting of our most experienced designing director(s) (設計師總監), operating director(s) (運營總監) and supply chain director(s) (供應鏈總監), is actively involved in the market-oriented planning of our product design and marketing.

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Our merchandise planning comprises planning and development of new products and cultivation of hot-selling products. We generally schedule new product planning prior to each new season, to determine our major products of the season, the production volume of each type of products, style and specifications of our major products and the launch time. Meanwhile, we commence hot-selling product cultivation at the same time, by analyzing the historical sales performance, the competitiveness of our existing hot-selling products, and the overall fashion and retailing trends, to determine the production volume and launch time, and thus ensuring the timely and sufficient supply of our hot-selling products. With in-depth market observation and understanding of the fashion trend, our merchandise planning helps address the evolving market demand properly and timely.

### **Data-Driven Product Design**

Our success depends highly on our ability to design the products that can be well-received by the market. Our core competitiveness is our independent data-driven design capabilities. Since our inception, the vast majority of our products were self-designed, which distinguished us from other market players in the cross-border e-commerce export B2C apparel and footwear industry, and empowered us with the strong capabilities of fast product design, a good understanding of customers’ demand and quick response to the market. During the Track Record Period, over 90% of our products were self-designed. We also procure a small amount of products from OEM suppliers that were either designed by them or third parties.

### ***Product Design Database***

Our data-driven design capabilities are supported by our product design database comprising massive design data, such as customer profiles and preferences, product styles, fabric and accessories samples, digital patterns, and fashion elements that we have accumulated during our operations over the years. Benefiting from our extensive data, our designers are able to efficiently apply patterns, fabric and accessories and user reviews from our database to new garment styles, to better satisfy customer demand and improve their satisfaction.

As of June 30, 2022, we had approximately 62,680 apparel and footwear styles and approximately 59,850 fabric and accessory samples accumulated in our product design database.

### ***Product Design Team***

Our experienced in-house fashion-conscious and data-driven design team consisted of 344 members as of June 30, 2022. Our design team comprises a front-end fashion research team and a back-end product design team. Our front-end fashion research team is mainly responsible for observing and analyzing the fashion trend of a series of products targeting a specific customer group and selecting variations on the fashion elements for the current season based on the previous sales statistics and the estimated upcoming fashion trend. To grasp a sense of the market and the access to the latest fashion trend, our front-end fashion research team

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browses fashion websites, global social media platforms and online platforms, and studies the sales of new apparel products frequently. On the other hand, our back-end design team focuses on designing and styling a series of appealing products and identifying the fabric and accessories used in collaborating with our procurement team. We employ different design groups for each product category, such as sweaters, T-shirts and shoes, to maximize the utilization of specialized design skills for each category. Most of our designers have accumulated experience in data analysis, which is essential to efficiently carry out marketing research and analysis. We hold design meetings frequently to review the sales performance of our products and customer feedback, to further improve and upgrade the quality of our products. In 2021, we significantly expanded our design team to enhance our design capacity for our operations on Amazon. Our new design team has achieved satisfactory performance, including the introduction of a number of products under new categories, such as outdoor clothing, men’s yoga clothing, infant and kids clothing, and the cultivation of more products recognized as Top 100 Amazon best-seller products. We believe all these efforts would have laid a solid base for our future growth.

### *Product Design Model and Training*

Different from traditional apparel enterprises whose design team normally focuses on offline design without the support of online market data analysis and sales data feedback, we adopt a model of designer organization and training, under which our designers are distributed in dozens of teams. All design team share our database and design back-end products in a standardized process, from analyzing data, collecting popular elements from the internet, drawing digital samples, and selecting fabric and accessories to completing a garment style. A design team and a sales team are further merged into a unit to timely and efficiently obtain sales statistics of a garment style. This model not only diversifies our products but enables them to better fit the market need.

Our mature and standardized product design and training model enables our designers to utilize their own design experience and empower them to improve their design capabilities, and in turn quickly enhance our design and development capabilities.

### *Product Design Process*

Product design is crucial to our success as a cross-border e-commerce provider in exporting B2C apparel and footwear products. Our typical product design process is illustrated as follows:



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- *Market Study.* Based on the merchandise planning and complemented by the market and product positioning, our experienced and data-driven designers conduct market study, mainly through online research, to analyze customers preferences and the most recent popular elements to select the pattern, color, detailed elements, size, and fabric and accessories to be used, leveraging our comprehensive database of fashion elements, fabric and accessories and patterns. Designers then formulate detailed two-dimensional sketches or three-dimensional product images using editing software for the subsequent trial production.
- *Preliminary Sample Production.* To visualize design concepts into prototypes, our design team selects proper fabric and accessories and produces samples based on the design sketches or product images.
- *Trial Production and Market Acceptance Test.* To efficiently introduce new products while minimizing their slow-moving risk, we only place a preliminary order for a small production volume, ranging from dozens to a thousand, with the OEM suppliers as the first batch of the new product. It generally takes seven to 10 days from preliminary sample production to the launch of the first batch of products.
- *Data Feedback and Product Improvement.* We closely monitor the sales performance of our new products and consumer responses regularly. To this end, our digital system collects customer feedbacks using keywords searches such as comments on our fabric and accessories and pattern, to generate report for our design team to follow up. Based on the analysis of sales statistics and customer feedbacks of our products, we keep optimizing our product design and coordinating with relevant OEM suppliers to improve their production technology, optimize our product portfolio, and further enhance our customer satisfaction.
- *Mass Production.* Based on the sales performance and ranking of our products, we conduct internal evaluation utilizing our SCM system to predict future sales performance of such products in the following three months. For products with stable historical sales performance and positive customer feedback, we place relatively large-scale production orders with the OEM suppliers and require them to purchase designated fabric and accessories, to satisfy future orders while at the same time enhancing our bargaining power and cost advantage.
- *Continuing Diversification of SKU Design.* We focus on iterating our products by continuously adding new features (such as decoration details or color) into our existing products and launching new products to better cater to the evolving customer needs. Leveraging our evolving database such as fashion element database, our designers are able to rapidly expand our product portfolio. In addition, benefiting from our deep understanding of customer preference, we are able to cultivate hot-selling products and prolong the lifespan of our hot-selling products, strengthening the competitiveness of our products.

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Customers value self-designed products. Our strong capabilities in market study and analysis enable us to identify evolving market needs, and our experienced design team enables us to respond to the market timely.

### **Supply Chain Management**

We strategically focus on the design and marketing of our apparel and footwear products. In light of the abundant apparel production capacity in China, we procure from OEM suppliers instead of maintaining our own production facilities. Therefore, all of our products are produced by third-party manufacturers on an OEM basis. For details of our OEM suppliers, see “– Supply Chain Management – Our OEM Suppliers.” We also leverage our SCM system to manage our OEM suppliers online, through which we are able to digitally allocate the orders to our OEM suppliers based on their previous performance and monitor the progress on an ongoing basis.

### **Sales and Marketing**

As of the Latest Practicable Date, our products have been sold through either third-party e-commerce platforms or our self-operated online stores to customers located in over 80% of the countries and regions globally, including among others, the United States, Germany and France.

#### ***Third-party E-commerce Platforms***

##### *Collaboration with Third-party E-commerce Platforms*

We have been focusing on overseas third-party e-commerce platforms since 2014. Amazon, Wish and other third-party e-commerce platforms we cooperate with are all scalable, popular and reputable e-commerce B2C platforms with a global online retail network, and it is an industry norm for market participants like us to sell products through such third-party e-commerce platforms. According to Frost & Sullivan, in 2021, the total market share of Amazon and Wish in China’s cross-border e-commerce export B2C market as measured by GMV generated by China-based sellers was 43.3%. Compared to offline sales channels, the scalability of e-commerce platforms allows us to penetrate target regions at relatively low entry cost, which in turn, will facilitate our customer acquisitions. Besides, leveraging the large customer base of, and vast user traffic on major third-party e-commerce platforms, we can reach more customers who have online shopping habit, achieve more market exposures from customers and enjoy premium marketing resources on these third-party e-commerce platforms, as well as quickly ramp up the sales of new products.

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### *Sale Through Amazon*

According to Frost & Sullivan, Amazon was the largest third-party cross-border e-commerce export B2C platforms in 2021 on which China-based sellers generated GMV of US\$163.7 billion for the same year, accounting for approximately 71.6% of the total GMV generated by China-based sellers on Amazon, Wish, eBay and AliExpress in 2021. Being the largest third-party e-commerce platform, Amazon has attracted and maintained a large and diverse customer pool comprising loyal customers worldwide with strong spending powers, in particular, those in the United States and Europe. In addition, Amazon has strong local service capabilities and convenient after-sales services which enhance its capability to attract and maintain its customers. Moreover, the overall quality and customer satisfaction of products on Amazon are relatively high, as a result of which, customers on Amazon generally have stronger spending power and products sold on Amazon have a longer life cycle and a higher gross profit. Therefore, sellers on Amazon are in a better position to manage their cost and inventories. Further, leveraging our experience accumulated over our years of operations on Amazon and the relatively long life cycle of products sold through Amazon, we are able to better estimate our Amazon’s sales volume and manage our supply chain to achieve better profitability. According to Frost & Sullivan, apparel and footwear products on Amazon are growing rapidly with huge market potential, which is expected to reach approximately RMB591.7 billion, attaining a CAGR of approximately 20.7% between 2021 and 2026.

Attracted by the strong customer spending power as well as the diversified customer needs on Amazon, we commenced our sale through Amazon’s Seller Central program in the United States in 2014. In 2019 and 2020, our revenue generated from sale through Wish contributed most to our total revenue, but our sale through Amazon grew rapidly and our revenue generated from Amazon contributed most to our total revenue in 2021 and the first half of 2022. We expect this trend to continue. Our revenue generated from sale through Amazon amounted to RMB450.2 million, RMB615.1 million, RMB1,672.3 million, RMB629.4 million and RMB1,157.5 million, respectively, accounting for 31.5%, 32.4%, 71.2%, 57.2% and 90.6%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

We sell our products through Amazon’s Seller Central program, one of Amazon’s retail seller programs. Under Amazon’s Seller Central program, we sell products at retail price to customers on Amazon directly while we use certain services offered by Amazon, such as picking, packaging, distribution, return and warehouse services, and pay service fees to Amazon separately, ranging from 15% to 17% calculated on the total sales amount. In addition to retail price, our customers are also obligated to pay Amazon their consumption tax or other similar tax together with their purchase price. We primarily use Amazon’s FBA services where we ship inventories to Amazon’s warehouses and Amazon fulfills the order to our customers on our behalf. To a lesser extent, we use Amazon’s FBM services where we typically arrange shipment through third-party logistics service providers from our or our OEM suppliers’ warehouses in China to our customers directly.

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Amazon offers standardized arrangements for all sellers, which are set out on Amazon's website. We entered into such agreements with Amazon under the Seller Central program, the salient terms of which are set out as follows:

- *Term and termination.* The term of Amazon's service starts on when we register or when we first use Amazon's Seller Central services, whichever occurs first. We may unilaterally terminate the agreement at any time on notice to Amazon. Amazon may unilaterally terminate the agreement (i) upon 30 days advance notice; and (ii) if we materially breach the agreement and do not rectify our breach within seven days, or without notice upon the occurrence of a number of stipulated events, including using our account for deceptive or fraudulent purpose;
- *Logistics.* When we do not deliver under Amazon's FBA model, we can determine the shipping and handling charges. We engage third-party logistics service providers to ship products to customers and we are responsible for the shipping expenses, customs duties, taxes, and other charges which we normally charge customers for the same. We retain ownership of the products and generally bear the risk of damage or loss until the products are sold and delivered to the customers;
- *Fulfilment and warehouse services.* We usually use the FBA services, where Amazon will ship products from their warehouses to our customers on our behalf. We bear shipping expenses, custom duties, taxes, and other charges. We retain ownership of the products and generally bear the risk of damage or loss until the products are sold and delivered to the customers;
- *Product return.* Our customers are generally allowed to return the purchased products at the sole discretion of Amazon. Products shipped from Amazon under FBA model, can be returned within a period of time upon receipt of shipment. Some products have different policies or requirements associated with them. Generally, the return period is 30 days in most cases. In case product return is allowed, Amazon will make refunds to customers in the manner Amazon determines and we will reimburse Amazon for all refunds;
- *Credit control.* Amazon generally settles outstanding balance with us every 14 days;
- *Consumption tax.* The consumption tax imposed on our products is generally included in the payment by customers. Amazon collects and remits relevant tax in accordance with relevant laws and regulations, if applicable, on behalf of us; and
- *Platform service fees.* We shall pay Amazon the applicable service fees as set out in the applicable service fee schedule, ranging from 15% to 17% calculated on the total sales amount. Amazon settles the outstanding balance with us after deducting the service fees they charge us.

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During the Track Record Period, neither had our seller stores on Amazon been suspended by Amazon, nor had our sales proceeds been withheld by Amazon, resulting in any material adverse impact on our business operations or financial results.

### *Sale Through Wish*

According to Frost & Sullivan, Wish was the fourth-largest third-party cross-border e-commerce export B2C platform in 2021 on which China-based sellers generated GMV of US\$11.7 billion for the same year, accounting for approximately 5.1% of the total GMV generated by China-based sellers on Amazon, Wish, eBay and AliExpress in 2021. Wish covers a wide customer base consisting of customers from over 100 countries. As compared with other third-party e-commerce platforms, Wish has more younger customers who have great demand for fast fashion products, as a result of which, we believe Wish’s operating mechanism facilitates the fast launch of our hot-selling products. Therefore, we have historically achieved remarkable sales success on Wish.

We commenced our sale through Wish in the United States and Europe in 2015. Targeting customers at young ages with fast-changing demands and relatively weak spending power, we generally set relatively low prices for the products we sell through Wish, thus generating lower gross profit compared to that of Amazon. Our revenue generated from sale through Wish amounted to RMB778.5 million, RMB841.1 million, RMB304.1 million, RMB225.0 million and RMB21.7 million, respectively, accounting for 54.5%, 44.3%, 13.0%, 20.4% and 1.7%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

Wish offers standardized arrangements for all sellers, which are set out on Wish’s website. We entered into such agreements with Wish, the salient terms of which are set out as follows:

- *Term and termination.* The term of Wish’s service starts on when we register;
- *Logistics.* We are generally obligated to ship products to our customers directly and bear the costs;
- *Product return.* Our customers are generally allowed to return the purchased products within a period of time and are eligible for a refund. Generally, the return period is 30 days in most cases. If the confirmed fulfilment date is five calendar days or more after an order’s release date, we are responsible for 100% of the cost of a refund on that order;
- *Credit control.* Wish generally settle outstanding balance with us every half month;
- *Consumption tax.* The consumption tax imposed on our products is generally included in the payment by customers and Wish collects and remits relevant tax in accordance with relevant laws and regulations, if applicable, on behalf of us; and



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- *Platform service fee.* We shall pay Wish the applicable service fees as described in the applicable service fee schedule, which is generally 15% calculated on the total sales amount. Wish settles the outstanding balance with us after deducting the service fees they charge.

Similar as Amazon, our customers on Wish are also obligated to pay Wish their consumption tax or other similar tax together with their purchase price.

### *Sale Through Other Third-party E-commerce Platforms*

Apart from Amazon and Wish, we also sell products through various other third-party e-commerce platforms, including eBay, AliExpress, TikTok and Fanno to different countries. Our revenue generated from sale through these third-party e-commerce platforms amounted to RMB84.0 million, RMB49.7 million, RMB75.8 million, RMB43.3 million and RMB21.1 million, respectively, accounting for 5.9%, 2.6%, 3.2%, 3.9% and 1.7%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

Similar to Wish, other third-party e-commerce platforms, such as eBay, AliExpress, TikTok and Fanno also offer standardized arrangements for sellers, which are set out below:

- *Term.* The term of service starts on when we register or when we first use their service;
- *Logistics arrangement.* There is no restriction on us to choose logistics service providers for product delivery except for that to some countries as specified by AliExpress;
- *Product return.* Our customers are generally allowed to return the purchased products within a period of time and eligible for a refund. On AliExpress, customers are generally required to return the products in ten days after applying for the refund, while on eBay, sellers have the rights to set their own return policies, including but not limited to the time period and the cost bearer. On Fanno and TikTok, customers are generally required to return products within 14 days upon delivery;
- *Platform service fee.* The service fee we pay to AliExpress varies depending on the types of products we sell, ranging from 5% to 8% of the total sales amount. eBay charges us a service fee, ranging from 10.9% to 11.7% of the total sales amount, depending on the sites for different countries. Fanno and TikTok charge us based on the purchase price paid by the customers per order; and
- *Tax payments.* All applicable taxes for our sale through these third-party e-commerce platforms are required to be collected, remitted and paid by us and/or such platforms in accordance with relevant laws and regulations.

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### *Our Self-Operated Online Stores*

Apart from e-commerce platforms, we also sell products through self-operated online stores to customers across countries such as the United States and Australia. As of the Latest Practicable Date, all of our self-operated online stores were operated on proprietary websites. We commenced our sale through self-operated online stores in 2018, focusing on the sale of footwear products. We used to sell footwear products through self-operated online stores mainly under the brand “Jolimall” during the Track Record Period, which had been replaced by our new brand, “Tintree” since the second half of 2021. We also launch new brands through such platforms from time to time.

The most prominent features of our self-operated online stores are our digital advertising, considerate customer service and evolving sales potential in the market. Self-operated online stores collect complete customer profiles so we can closely interact with our customers. Our typical customer base is women aging from 25 to 40 years, and our main products are women’s shoes typically with unit prices between US\$25 to US\$40.

We typically arrange shipment through third-party logistics service providers from our warehouses to our customers directly and bear the shipping expenses, applicable taxes in connection with shipping, and other charges imposed on our products. We generally allow customers on self-operated online stores to unconditionally return our products within 14 days upon receipt, or within 30 days due to certain reasons including unfit sizes, product defects, packaging defects, and delivery delay.

Our self-operated online stores experienced rapid growth in 2019 and 2020. In 2021, to enhance profitability and concentrate our resources to cultivate our brands and streamline our self-operated online store business, we strategically cultivated selected self-operated online stores with better sales performance in the first half of 2021, while reducing selling and marketing efforts on other self-operated online stores, thus recorded decreased revenue generated from sale through self-operated online stores in the same year. Our revenue generated from sale through our self-operated online stores amounted to RMB109.7 million, RMB362.6 million, RMB257.3 million, RMB172.6 million and RMB74.8 million, respectively, accounting for 7.7%, 19.1%, 11.0%, 15.7% and 5.8%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

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### Key Operating Data of Our Business

The following table sets forth the key operating data of our online seller stores on Amazon for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<b>Key operating data</b>			
Number of orders <sup>(1)</sup> <i>(in thousands)</i>	3,127	4,115	11,103	7,876
Sales income <sup>(1)</sup> <i>(RMB in millions)</i>	574.8	758.5	2,103.2	1,574.4
Average price per order <i>(RMB)</i>	183.8	184.4	189.4	199.9
Range of order size <sup>(2)</sup> <i>(RMB)</i>	47-491	49-502	49-584	64-394
Return rate <sup>(3)</sup> (%)	18.5	17.1 <sup>(4)</sup>	19.8 <sup>(5)</sup>	25.5 <sup>(6)</sup>
Repeat customer rate <sup>(7)</sup> (%)	N/A	N/A	N/A	N/A

*Notes:*

- (1) The number of orders refers to the number of orders placed by customers and shipped by us, and the sales income refers to the total transaction amount of the orders placed by customers and shipped by us. The calculation of number of orders and the sales income included returned products, and excluded canceled orders and transactions with our corporate customers through third-party e-commerce platforms.
- (2) The range of order size is broad as the order size may vary significantly depending on the quantity and price of products purchased in one single order. For illustration purpose, the range of transaction size of Amazon, Wish and other third-party e-commerce platforms refers to the range of transactions size of our top 20 online seller stores with the largest transaction volume, under their respective category. When calculating the price range, we excluded outliers from our statistical data, representing approximately 2% of the orders of which the prices were either extremely high or extremely low, which we believe may distort statistical analysis and be less indicative. The extremely low prices were primarily the prices for promotional products, while the extremely high prices were primarily the prices for products that are sold occasionally in small quantity.
- (3) Return rate was calculated by dividing the transaction amount of products returned to us by our sales income during the relevant year/period. Given the time difference between product delivery, revenue recognition and product return, the amount of returned products may include products ordered in the previous year/period and returned in the relevant year/period and does not reflect products ordered in the relevant year/period and returned in the following year/period.
- (4) We recorded decreased product return rate for our sale through Amazon in 2020, primarily because footwear products sold represented a decreased portion of our total revenue in 2020 as compared to that in 2019, which normally have a relatively high product return rate due to the discrepancies in shoe’s size among different regions.

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- (5) We recorded increased product return rate for our sale through Amazon in 2021, as footwear products sold represented an increased portion of our total revenue in 2021 as compared to that in 2020. In addition, the increased product return rate was also attributable to more flexible product return policies adopted by Amazon since August 2021.
- (6) We recorded increased product return rate for our sale through Amazon since March 2022, primarily as the slowing economic activity and the constantly rising inflation in the United States had deteriorated the spending power and changed the purchasing habits of our customers in the United States, resulting in more conservative consumption and more frequent product return, as confirmed by Frost & Sullivan. As a result, customers may purchase several products and only keep their most favorable product while returning the rest after fitting. In addition, the Federal Reserve of the United States has raised the interest rates several times since March 2022 in order to combat the high inflation in the United States, which further deteriorated the customers’ purchasing power and in turn adversely affected our product return rate.
- (7) Due to the system restriction, we do not have full user data for customers chose FBA model. As a result, we do not have full statistics to calculate repeat customer rate of our seller stores on Amazon.

The following table sets forth the key operating data of our online seller stores on Wish for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<b>Key operating data</b>			
Number of orders <i>(in thousands)</i>	12,029	15,186	4,096 <sup>(2)</sup>	223 <sup>(2)</sup>
Sales income <i>(RMB in millions)</i>	863.3	916.0 <sup>(1)</sup>	305.2 <sup>(2)</sup>	20.4 <sup>(2)</sup>
Average price per order <i>(RMB)</i>	71.8	60.3	74.5	91.1
Range of order size <i>(RMB)</i>	14-262	13-267	14-319	20-343
Return rate (%)	8.4	8.9	5.8	4.8
Repeat customer rate <sup>(3)</sup> (%)	33.8	40.1 <sup>(4)</sup>	23.2 <sup>(5)</sup>	7.5 <sup>(5)</sup>

*Notes:*

- (1) The increase of the sales income generated from Wish in 2020 was generally in line with the fluctuation of our revenue generated from sale through Wish. Our revenue generated from Wish increased in 2020, primarily due to our increased sales through Wish to North America in 2020, as (i) Wish had adopted more flexible shipment policies; and (ii) we continued to focus more on the development of our sale to North American market through third-party e-commerce platforms, including Wish.
- (2) The number of orders and sales income of our online seller stores on Wish experienced significant decline in 2021 and the first half of 2022, as we strategically shifted our business focus to sale through Amazon. In addition, as confirmed by Frost & Sullivan, there was a decline in the growth rate of GMV generated by China-based sellers on Wish since 2019, which resulted in significant decreases in both the number of orders and sales income of our online seller stores on Wish in 2021 and the first half of 2022. According to Frost & Sullivan, the annual growth rate of Wish was approximately -5.1%, 12.7% and -30.5% for the years ended December 31, 2019, 2020 and 2021, respectively.

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- (3) Repeat customer rate is calculated by dividing the number of customers who purchased from our seller stores more than once and the products had been shipped during the relevant year/period, by the total number of customers who purchased from our online seller stores and the products had been shipped during the relevant year/period.
- (4) The increased repeat customer rate of Wish in 2020 was primarily due to higher online consumption facilitated more orders due to the outbreak of COVID-19 in 2020, especially in the first half of 2020.
- (5) The decreased repeat customer rate of Wish in 2021 and the first half of 2022 was primarily due to the reduction in the investment in the marketing and advertising activities for our sale through Wish since the second half of 2020, with the intention to concentrate our resources on Amazon.

The following table sets forth the key operating data of our online seller stores on other third-party e-commerce platforms for the periods indicated:

	Year ended December 31,			
				Six months ended June 30,
	2019	2020	2021	2022
<b>Key operating data</b>				
Number of orders <i>(in thousands)</i>	1,094	755 <sup>(1)</sup>	1,088 <sup>(2)</sup>	287 <sup>(3)</sup>
Sales income <i>(RMB in millions)</i>	107.4	55.9 <sup>(1)</sup>	79.9 <sup>(2)</sup>	24.0 <sup>(3)</sup>
Average price per order <i>(RMB)</i>	98.1	74.0	73.4	83.5
Range of order size <i>(RMB)</i>	31-461	19-631	23-616	17-348
Return rate (%)	10.0	6.9	6.1	8.8
Repeat customer rate (%)	16.2	15.1	13.4	11.4 <sup>(4)</sup>

*Notes:*

- (1) The number of orders and sales income of our online seller stores on other third-party e-commerce platforms, experienced decrease in 2020, as certain new stores on other third-party e-commerce platforms recorded unsatisfactory sales performance and we subsequently consolidated our seller stores to focus on the operations on certain third-party e-commerce platforms, such as Joom and Walmart.
- (2) The number of orders and sales income of our online seller stores on other third-party e-commerce platforms increased in 2021, primarily due to our increased sales through AliExpress. We newly established a number of online seller stores on AliExpress in the second half of 2020 and the first half of 2021. The increase was also attributable to more selling and marketing efforts on such platform.
- (3) The number of orders and sales income of our online seller stores on other third-party e-commerce platforms decreased in the first half of 2022, primarily due to (i) less revenue generated from eBay in the first half of 2022, as in accordance with our Group’s business strategies to focus on the sale of apparel and footwear products and gradually reduce our sale of other products since 2022, we reduced our sale of other products on eBay, such as furniture and sporting goods, which were our primary products sold on such platform, and (ii) less revenue generated from Joom during the same period, mainly as we ceased our sale to certain countries or regions such as Russia and Ukraine that may subject us to sanction risks thus generated less revenue from there.
- (4) The declining repeat customer rate of our online seller stores on other third-party e-commerce platforms during the Track Record Period, was primarily due to our reduction in investment in marketing and advertising activities on other third-party e-commerce platforms especially those failed to record satisfactory business performance, with the intention to concentrate our resources on Amazon.

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The following table sets forth the key operating data of our self-operated online stores for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
<b>Key operating data</b>				
Number of orders <sup>(1)</sup> <i>(in thousands)</i>	424	1,185 <sup>(2)</sup>	757 <sup>(5)</sup>	215 <sup>(5)</sup>
Sales income <sup>(1)</sup> <i>(RMB in millions)</i>	117.2	406.9	274.9 <sup>(5)</sup>	83.9 <sup>(5)</sup>
Average price per order <i>(RMB)</i>	276.1	343.5 <sup>(3)</sup>	363.0	390.1
Range of order size <i>(RMB)</i> <sup>(4)</sup>	118-833	102-1,110	180-1,158	142-455 <sup>(7)</sup>
Return rate (%)	4.8	5.5	5.3	5.4
Repeat customer rate (%)	4.7	7.4 <sup>(6)</sup>	7.0	7.5

*Notes:*

- (1) The number of orders refers to the number of orders placed by customers and shipped by us, and the sales income refers to the total transaction amount of the orders placed by customers and shipped by us. The calculation of number of orders and the sales income included returned products, and excluded canceled orders and transactions with our corporate customers through our self-operated online stores.
- (2) The number of orders increased significantly in 2020, as we expanded our operations of self-operated online stores and newly commenced operations of a large number of self-operated online stores during the same year.
- (3) The increase in the average price per order in 2020 was primarily due to the rising logistics cost caused by COVID-19, as well as more footwear products sold with relatively high unit prices.
- (4) The range of order size is broad as the order size may vary significantly depending on the quantity and price of products purchased in one single order. For illustration purpose, the above range of transaction size refers to the range of transactions size of our top 20 self-operated online stores with the largest transaction volume. When calculating the price range, we excluded outliers from our statistical data, representing approximately 2% of the orders of which the prices were either extremely high or extremely low, which we believe may distort statistical analysis and be less indicative. The extremely low prices were primarily the prices for promotional products, while the extremely high prices were primarily the prices for products that are sold occasionally in small quantity.
- (5) The number of orders and sales income of our self-operated online stores decreased in 2021 and the first half of 2022, primarily as (i) we adjusted our operating strategies in the first half of 2021 to focus on the cultivation of selected self-operated online stores with better sales performance and profitability potential, which needs ramp-up time before the realization of normal growth, and (ii) we reduced our investment in the sales and marketing for our self-operated online stores during the same period.
- (6) The increased repeat customer rate of our self-operated online stores in 2020 was primarily due to our efforts to cultivate selected self-operated online stores with better sales performance and profitability potential. The increased repeat customer rate was also in line with the increased sales through self-operated online stores in 2020.
- (7) We recorded a relatively small range of order size for sale through our self-operated online stores in the first half of 2022, primarily due to decreased sale to corporate customers through self-operated online stores, and relatively less procurement in a single order by individual customers as compared with those by corporate customers.

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### **Our Business Maturity**

#### *Life Cycles of Our Stores*

Among 391 existing seller stores we operated on Amazon as of the Latest Practicable Date, approximately 75.2% of them have been under operation for over one year, approximately 44.2% have been under operations for over two years, approximately 26.1% have been under operations for over three years, approximately 23.3% have been under operations for over four years and approximately 15.3% have been under operations for over five years. In addition, as we have registered a number of new stores on Amazon in 2021, 24.8% of our existing stores operated on Amazon have existed for less than one year.

Among 157 existing seller stores we have operated on Wish as of the Latest Practicable Date, all of them have been under operations for over four years, approximately 94.3% have been under operations for over five years, approximately 59.9% have been under operations for over six years and approximately 24.2% have been under operations for over seven years.

Among 148 existing seller stores we have operated on other third-party e-commerce platforms as of the Latest Practicable Date, approximately 87.8% of them have been under operations for over one year, approximately 58.8% have been under operations for over two years, approximately 35.1% have been under operations for over three years and approximately 8.1% have been under operations for over four years.

Among 227 existing self-operated online stores as of the Latest Practicable Date, approximately 97.8% of them have been under operations for over one year, approximately 72.2% have been under operations for over two years and approximately 11.5% have been under operations for over three years.

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### *Online Seller Stores on Amazon*

The following tables set forth indicators illustrating the maturity of our online seller stores on Amazon for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Average number of orders per store per day	67.7	55.6 <sup>(2)</sup>	119.3	121.3
Average sales value per order <sup>(1)</sup> (RMB)	184.4	185.2	189.9	198.7
<b>Average daily sales per store (RMB)</b>				
Stores established before 2019	14,661.9	17,497.4	36,496.9	49,036.9
Stores established in 2019	1,299.3	9,143.8	20,953.5	23,784.4
Stores established in 2020	–	1,716.8	16,405.9	22,361.0
Stores established in 2021	–	–	9,063.7	12,255.8
Stores established in 2022	–	–	–	2,027.8

*Notes:*

- (1) The sales value of our online seller stores on third-party e-commerce platforms included canceled orders and returned orders, and excluded the transactions with our corporate customers through third-party e-commerce platforms.
- (2) The average number of orders per store per day experienced decrease in 2020, primarily as we strategically focused more on sale through Amazon, and established a number of new online seller stores on such platform.



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The average daily sales per store on Amazon increased constantly during the Track Record Period, aligning to their operating history, which also reflected our business focus on Amazon.

	Year ended December 31,		Growth Rate <sup>(1)</sup>	Year ended December 31,		Growth Rate <sup>(1)</sup>	Six months ended June 30,		Growth Rate <sup>(1)</sup>
	2019	2020		2020	2021		2021	2022	
			(%)			(%)			(%)
Same store net sales									
income (RMB'000)	424,367	526,651	24.1	569,513	1,101,766	93.5 <sup>(2)</sup>	579,686	846,565	46.0 <sup>(3)</sup>
Same store net sales									
income per store									
(RMB'000)	4,515	5,603		5,476	10,594 <sup>(2)</sup>		3,669	5,358	
Same store gross									
profit (RMB'000)	312,504	381,728		411,930	837,949		448,467	646,357	
Same store gross									
profit margin (%)	73.6	72.5		72.3	76.1		77.4	76.4	

*Notes:*

- (1) Same store growth rate generally provides a year-to-year comparison of store performance, as it excludes the growth due to the opening of new stores by only comparing the business and financial performance of those stores that have been in operation in both years. We define our same stores as those stores operate on third-party e-commerce platforms with a duration of over 360 days for one year.
- (2) The growth of the same store net sales incomes and same store net sales income per store on Amazon increased significantly in 2021, primarily due to our efforts to enhance our business presence on Amazon.
- (3) The slowed growth of same store net sales income since March 2022 was primarily due to the negative impact brought by the constantly rising inflation in the United States on the spending power and the purchasing habits of our customers, resulting in more conservative consumption, as confirmed by Frost & Sullivan. In addition, the Federal Reserve of the United States has raised the interest rates several times since March 2022 in order to combat the high inflation in the United States, which further deteriorated the customers' purchasing power. This was also attributable to the increasingly intense competition from other sellers on Amazon.

## BUSINESS

### *Online Seller Stores on Wish*

The following tables set forth indicators illustrating the maturity of our online seller stores on Wish for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Average number of orders per store per day	57.1	73.8 <sup>(1)</sup>	15.8 <sup>(2)</sup>
Average sales value per order (RMB)	72.4	60.6 <sup>(3)</sup>	77.2 <sup>(4)</sup>	91.1 <sup>(4)</sup>
<b>Average daily sales per store (RMB)</b>				
Stores established before 2019	5,540.1	5,832.4	1,528.2 <sup>(5)</sup>	333.2 <sup>(5)</sup>
Stores established in 2019	623.0	2,874.0	796.8 <sup>(5)</sup>	174.6 <sup>(5)</sup>
Stores established in 2020	–	1,105.6	579.0 <sup>(5)</sup>	159.1 <sup>(5)</sup>
Stores established in 2021 <sup>(6)</sup>	–	–	–	–
Stores established in 2022 <sup>(6)</sup>	–	–	–	–

*Notes:*

- (1) The increase in the average number of orders per store in 2020 was generally in line with the fluctuation in our revenue generated from sale through Wish. Our revenue generated from Wish increased in 2020, primarily due to our increased sales through Wish to North America in 2020, as a result of our continued focus on our sale to North American market through third-party e-commerce platforms, including Wish.
- (2) The decrease of average number of orders per store per day in 2021 and the first half of 2022, was primarily due to the reducing promotion activities on Wish during the same year/period, as we have gradually shifted our business focus to Amazon.
- (3) The decrease of average sales value per order in 2020 was primarily due to more types of product we launched during the same year with relatively low unit prices, such as socks, underwear and pets' clothes.
- (4) The average sales value per order increased in 2021 and the first half of 2022, as we enhanced the management of existing stores on Wish, especially focusing on the launching and promoting of more profitable products.
- (5) We recorded decreased average daily sales per store in 2021 and the first half of 2022, primarily due to the adjustment of our business focus and reduction of promotion activities on Wish.
- (6) We did not establish any new seller stores on Wish in 2021 and the first half of 2022.

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	Year ended December 31,		Growth Rate	Year ended December 31,		Growth Rate	Six months ended June 30,		Growth Rate
	2019	2020		2020	2021		2021	2022	
			(%)			(%)			(%)
Same store net sales									
income (RMB'000)	751,024	668,444	(11.0)	688,199	263,814 <sup>(1)</sup>	(61.7) <sup>(1)</sup>	49,907	8,171	(83.6) <sup>(1)</sup>
Same store net sales									
income per store									
(RMB'000)	1,976	1,759		1,662	637 <sup>(1)</sup>		891	146	
Same store gross									
profit (RMB'000)	508,830	470,375		485,372	197,985		37,424	6,143	
Same store gross									
profit margin (%)	67.8 <sup>(2)</sup>	70.4 <sup>(2)</sup>		70.5 <sup>(3)</sup>	75.0 <sup>(3)</sup>		75.0	75.2	

*Notes:*

- (1) After we gradually shifted our business focus to Amazon, we gradually reduced our promotion activities for online seller stores on Wish since 2021, as a result of which, we recorded a decrease in the same store net sales income and same store net sales income per store on Wish in 2021 and the first half of 2022, and further led to the negative performance of the same store growth rate of Wish during the respective year/period.
- (2) The same store gross profit margin of our online seller stores operated on Wish increased from 67.8% in 2019 to 70.4% in 2020, primarily due to the increased sales volume of certain products with relatively high gross profit margins, such as sleepwear and housecoat.
- (3) The same store gross profit margin of our online seller stores operated on Wish increased from 70.5% in 2020 to 75.0% in 2021, primarily due to higher selling prices of our products to align with the increased logistics service fees, which was caused by the spread of COVID-19 in overseas countries during the same year. The increased logistics service fees were mainly included in freight and insurance cost in selling expenses and distribution costs and not part of our freight and insurance cost in cost of sales thus had no impact on our cost of sales for such sales. Such increase in the same store gross profit margin was also attributable to the reduced sale of products with relatively low gross profit margin through Wish.

## BUSINESS

### *Online Seller Stores on Other Third-party E-commerce Platforms*

The following tables set forth indicators illustrating the maturity of our online seller stores on other third-party e-commerce platforms for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Average number of orders per store per day	6.2	7.5	20.2 <sup>(1)</sup>
Average sales value per order (RMB)	89.3	75.4	74.3	82.3
<b>Average daily sales per store (RMB)</b>				
Stores established before 2019	636.6	638.5	1,384.5	456.0 <sup>(3)</sup>
Stores established in 2019	465.8	493.8	790.6 <sup>(2)</sup>	98.7 <sup>(3)</sup>
Stores established in 2020	–	597.7	2,301.0 <sup>(2)</sup>	1,345.9 <sup>(3)</sup>
Stores established in 2021	–	–	1,579.0 <sup>(2)</sup>	1,308.9 <sup>(3)</sup>
Stores established in 2022	–	–	–	1,082.6

*Notes:*

- (1) We recorded a significant increase in the average number of orders per store per day in 2021, as we reduced the number of online seller stores operated on other third-party e-commerce platforms to focus on certain third-party e-commerce platforms, such as Joom and Walmart.
- (2) We recorded increased average daily sales per store in 2021, primarily due to the reduction of the number of seller stores we operated on other third-party e-commerce platforms as well as the enhanced management of the sales performance of our existing seller stores.
- (3) We recorded decreased average daily sales per store in the first half of 2022, primarily attributable to (i) less revenue generated from eBay in the first half of 2022, as in accordance with our Group’s business strategies to focus on the sale of apparel and footwear products and gradually reduce our sale of other products since 2022, we reduced our sale of other products on eBay, such as furniture and sporting goods, which were our primary products sold on such platform, and (ii) less revenue generated from Joom during the same period, mainly as we ceased our sale to certain countries or regions such as Russia and Ukraine that may subject us to sanction risks thus generated less revenue from there.

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	Year ended December 31,			Year ended December 31,		Six months ended June 30,		Growth Rate (%)	
	2019	2020	Growth Rate (%)	2020	2021	Growth Rate (%)	2021		2022
	Same store net sales income (RMB'000)	8,917	8,652	(3.0)	23,208	32,237	38.9 <sup>(1)</sup>		25,127
Same store net sales income per store (RMB'000)	217	211		422	586		785	258	
Same store gross profit (RMB'000)	5,861	4,695		14,688	21,087		17,119	5,406	
Same store gross profit margin (%)	65.7 <sup>(2)</sup>	54.3 <sup>(2)</sup>		63.3 <sup>(3)</sup>	65.4 <sup>(3)</sup>		68.1	65.4	

*Notes:*

- (1) Through our attempts on certain new third-party e-commerce platforms in 2019 to 2020, we are able to focus on those platforms with more profitable potential and strategically enhanced the management of our existing stores to improve the sales performance of each store. Therefore, the same store growth rate of online seller stores on other third-party e-commerce platforms experienced a significant increase in 2021.
- (2) The same store gross profit margin of our online stores operated on other third-party e-commerce platforms, decreased from 65.7% in 2019 to 54.3% in 2020, as the same stores in 2019 and 2020 on other third-party e-commerce platforms were primarily seller stores on Joom, through which we sold products with relatively lower selling prices in 2020 as compared to 2019 in order to promote the turnover of our inventories, which resulted in lower same store gross profit margin in 2020.
- (3) The same store gross profit margin of our online stores operated on other third-party e-commerce platforms, increased from 63.3% in 2020 to 65.4% in 2021, primarily due to higher selling prices of our products to align with the rising logistics service fees during the spread of COVID-19 in overseas countries during the same period. The increased logistics service fees were mainly included in freight and insurance cost in selling expenses and distribution costs and not part of our freight and insurance cost in cost of sales thus had no impact on our cost of sales for such sales.
- (4) We recorded negative growth rate of same store net sales income of our online stores operated on other third-party e-commerce platforms in the first half of 2022 as compared with that in the same period of 2021, primarily due to less revenue generated from eBay caused by reduced sale of other products and Joom caused by the cessation of sale to certain countries or regions such as Russia and Ukraine as discussed above.

## BUSINESS

### *Self-operated Online Stores*

The following tables set forth the indicators illustrating the maturity of our self-operated online stores for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Average number of orders per store per day	18.2	10.3 <sup>(1)</sup>	16.6
Average sales value per order(RMB)	299.0	365.1	345.8	352.3
<b>Average daily sales per store (RMB)</b>				
Stores established before 2019	10,298.9	_(2)	_(2)	_(2)
Stores established in 2019	5,452.4	7,755.5	1,518.1 <sup>(3)</sup>	4,824.6
Stores established in 2020	–	2,932.3	7,015.7	3,488.2 <sup>(4)</sup>
Stores established in 2021	–	–	4,796.0	17,063.6 <sup>(4)</sup>
Stores established in 2022	–	–	–	5,171.1

*Notes:*

- (1) The decrease of average number of orders per store per day in 2020 was primarily caused by the large number of newly-established self-operated online stores during the same year, as we have gradually expanded self-operated online store operations since 2019. As we recorded limited revenue at the ramp up stage, the average number of orders per store per day has been adversely affected.
- (2) Our self-operated online stores established before 2019 did not record any sales in 2020, 2021 and the first half of 2022, as we voluntarily closed or ceased operations of such seller stores in 2019. Although our seller stores established before 2019 recorded high average daily sales per store in 2019, such sales performance was mainly due to our significant marketing and advertising investment on the limited number of seller stores we established in 2018. We voluntarily terminated those seller stores in 2019 due to their unpromising profitability potential.
- (3) In 2021, we recorded decreased average daily sales per store for the stores established in 2019, primarily because we generally devote more resources on newly-established self-operated online stores with more profitability potential to enhance profitability and concentrate our resources to cultivate brand awareness instead of evenly distributing on each store we operate. Hence, in 2021 we reduced our promotion activities on stores established in 2019 thus recorded decreased average daily sales per store.
- (4) In the second half of 2021 and the first half of 2022, we strategically devoted more resources on certain newly established self-operated online stores while reducing the investment in those established ones to concentrate our resources, streamline our store matrix and cultivate our selected self-operated online stores with better sales performance and profitability potential, thus we recorded decreased average daily sales per store in the stores established in 2020 and increased average daily sales per store in the stores established in 2021.

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	Year ended December 31,		Growth Rate <sup>(1)</sup>	Year ended December 31,		Growth Rate <sup>(1)</sup>	Six months ended June 30,		Growth Rate <sup>(1)</sup>
	2019	2020		2020	2021		2021	2022	
			(%)			(%)			(%)
Same store net sales income (RMB'000)	81,672	94,329	15.5	73,632	84,181	14.3	53,370	11,840 <sup>(2)</sup>	(77.8) <sup>(2)</sup>
Same store net sales income per store (RMB'000)	1,899	2,194		2,166	2,476 <sup>(2)</sup>		2,426	538 <sup>(2)</sup>	
Same store gross profit (RMB'000)	63,698	74,802		57,998	67,792		42,541	9,474	
Same store gross profit margin (%)	78.0	79.3		78.8	80.5		79.7	80.0	

*Notes:*

- (1) We define our same stores as those operated online stores operate in both periods with a duration of over 300 days for one year or 150 days for a half year.
- (2) We recorded decreased same store net sales income and same store net sales income per store in the first half of 2022 as compared with that in the same period of 2021, mainly as (i) we adjusted our operating strategies in the first half of 2021 to focus on the cultivation of selected self-operated online stores with better sales performance and profitability potential, which needs ramp-up time before the realization of normal growth in sales income, and (ii) we reduced our investment in the sales and marketing for our self-operated online stores during the same period.

### Our Geographical Coverage

As of the Latest Practicable Date, our products have been primarily sold to customer located in over 80% of the countries and regions globally.

During the Track Record Period, and up to the Latest Practicable Date, the United States had been our largest market. Our revenue generated from sale of products to customers in the United States accounted for 58.8%, 69.0%, 85.5%, 79.6% and 95.0%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022. The U.S. implemented several rounds of import tariffs on products of Chinese origin in hundreds of categories in the Harmonized Tariff Schedule of the United States and, the PRC government has also been imposing tariffs on certain products imported from the U.S. into the PRC responding to the U.S. tariffs. All of our products sold to the United States are subject to additional tariffs, with the vast majority of them are subject to a tax rate of 7.5% while the remaining subject to a tax rate of 25.0% since 2018. In addition, as such additional trade restrictions imposed may further escalate the tensions between the countries, it may lead to further escalation in trade tensions between China and the U.S. or even to a trade war, or the perception that such escalation or trade war could occur. Thus it may have negative impact on

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the economies of not only the two countries concerned, but the global economy as a whole. Taking into account that (i) our logistics service providers are generally responsible for the declaration and payment of all applicable customs duties and tariff, which are included in the lump-sum logistics service fees or we will reimburse them the customs duties and tariffs actually incurred based on the terms of the logistics service agreements; (ii) our logistics service providers may from time to time adjust their service fees, considering a combination of various factors, such as their freight costs, human resource costs as well as the imposition of additional tariff. Accordingly, our average unit logistics costs, which are calculated by dividing the total inbound and outbound shipping and insurance fees by the total sales volume of the period, increased by 13.9% from RMB25.9 in 2019 to RMB29.5 in 2020, and further increased by 26.1% from RMB29.5 in 2020 to RMB37.2 in 2021. Our average unit logistics costs further increased to RMB50.2 in the first half of 2022. Our total logistics service fees, including inbound and outbound shipping charges and related insurance fees, increased from RMB412.2 million in 2019 to RMB546.6 million in 2020, and further to RMB634.9 million in 2021. Our total logistics service fees increased from RMB287.5 million in the first half of 2021 to RMB366.9 million in the first half of 2022. Despite such increase in the total logistics service fees, the total logistics service fees as a percentage of our total revenue remained relatively stable during the Track Record Period, being 28.9% in 2019, 28.8% in 2020, 27.1% in 2021 and 28.7% in the first half of 2022, primarily by increasing selling prices of our products and passing the additional costs to customers to maintain our profitability; (iii) during the Track Record Period, the additional tariffs imposed had been passed to our customers through the increase of our selling prices without any material adverse impact on our competitiveness as evidenced by our continuous growth; (iv) besides, it has been noted that positive negotiations have been recently carried out between China and the U.S. in many fields to ease the bilateral tension; and (v) nevertheless, if any additional tariffs are imposed on our products, we will be able to pass the increased expenses to our customers without weakening our market competitiveness based on our past experience, as such tariff would be applicable to all similar products exported to the U.S. from China; our Directors are of the view that our ability to carry out our business with customers and/or our collaborative partners in the U.S. and other countries is unlikely to be impeded by the U.S.-China trade tensions and the development in China’s relationships with the U.S. and other countries. However, to gradually reduce our reliance on the U.S. market, we have actively explored the market in Southeast Asia and Europe through a combination of sale through third-party e-commerce platforms and our self-operated online stores.

In particular, we intend to explore business opportunities on more third-party e-commerce platforms and to other countries. Since October 2021, we have successfully established and commenced operation of our seller stores on more third-party e-commerce platforms, such as TikTok and Fanno. In addition, we plan to further expand our sale to Europe through large-scale established third-party e-commerce platforms such as Amazon and Walmart. Also, unlike Amazon dominates the e-commerce market in the United States, Europe is bustling with e-commerce platforms, resulting in a relatively fragmented e-commerce market as compared with the United States. To reduce our reliance on Amazon in the European market and capture



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more market share in Europe, we proactively explore collaboration opportunities with other third-party e-commerce platforms, including certain newly-established third-party e-commerce platforms, such as TikTok, Fanno, Allegro and Zalando. Despite the recent Russia-Ukraine conflict and energy crisis in Europe, Europe is still expected to maintain its position as the second largest overseas e-commerce market in 2022, according to Frost & Sullivan. Thus, we believe the market potential in the European market is still huge. We have accumulated extensive experience in the operation on third-party e-commerce platforms during expanding our sale to the U.S. market through Amazon. Since the European and the U.S. customers generally have similar apparel style preference and quality demand, we plan to introduce more hot-selling products in the U.S. market to European customers to expand our market shares in Europe. We will utilize our already established design team targeting European market to develop more localized products to further improve customer stickiness and enhance our market position while reducing our initial product development costs when exploring European market. In addition, we expect to allocate operating teams specifically targeting European market in line with our expansion. Moreover, we intend to invest more in the marketing activities for our sale in the European market. We plan to increase our annual marketing expenses and distribution costs for European market to RMB10.0 million in the next year, RMB20.0 million in the year after and further to RMB50.0 million in the third year, utilizing our internal resources. Although we have increased our investments in the marketing and advertising activities in European market, we still attach great importance to enhancing the cost efficiency of our marketing and advertising activities. See “– Quality Control and Cost Control.” We expect our enhanced designing, operating capabilities and marketing efforts would enable us to gain more market share in Europe. We also proactively explore potential corporate customers in Europe to diversify our customer base and further expand our sale. To mitigate our risks associated with the potential impact brought by any future political and/or energy crisis when expanding our sale to Europe, we plan to focus more on sale to countries such as Italy, Spain and the U.K., where have growth potential in online retail business as advised by Frost & Sullivan. According to Frost & Sullivan, the market size of the retail sales value of apparel products through e-commerce channels of Italy is estimated to increase from USD4.2 billion in 2021 to USD5.4 billion in 2026, representing a CAGR of 5.1% from 2021 to 2026; the market size of the retail sales value of apparel products through e-commerce channels of Spain is estimated to increase from USD2.5 billion in 2021 to USD2.7 billion in 2026, representing a CAGR of 2.0% from 2021 to 2026; and the market size of the retail sales value of apparel products through e-commerce channels of the U.K. is estimated to increase from USD14.6 billion in 2021 to USD16.2 billion in 2026, representing a CAGR of 2.1% from 2021 to 2026. We also identified the market potential of Italy, the U.K. and Spain by reviewing the penetration rates of sale of apparel products through e-commerce channels in such markets, which are calculated based on the retail sales value of apparel products sold through e-commerce platforms divided by the retail sales value of apparel products sold through both offline stores and e-commerce platforms, expressed as a percentage. According to Frost & Sullivan, such rate of Italy increased from 7.3% in 2017 to 14.5% in 2021, and is expected to increase to 19.8% in 2026; such rate of Spain increased from 8.9% in 2017 to 12.4% in 2021,

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and is expected to increase to 15.2% in 2026; such rate of the U.K. increased from 20.8% in 2017 to 26.5% in 2021, and is expected to increase to 30.1% in 2026. We also plan to actively explore Southeast Asia market where we have seen rapid growth in recent years. We believe we would be able to expand our European and Southeast Asia markets, leveraging the vast unmet local demand and our past experience in exploring other markets. Moreover, we are exploring suitable opportunities to relocate part of our supply chain to Southeast Asia through identifying quality OEM suppliers to procure apparel and footwear products, establishing our own manufacturing sites in Southeast Asia, or acquiring garment manufacturers and fabric and accessories manufacturers located in Southeast Asia, if suitable opportunities arise. See “Future Plans and Use of [REDACTED].” If the trade tensions between China and the U.S. escalate, we may utilize the manufacturing site in Southeast Asia to produce exports for the U.S., in order to avoid incurring any additional tariff imposed under the trade tensions between China and the U.S..

Based on the foregoing and having (i) reviewed the legal opinion on the potential tariff or trade related impacts associated with the Group’s sales to the U.S. in light of the regulatory development issued by and discussed with the Company’s U.S. legal advisors, (ii) reviewed the legal memo issued by the International Sanctions Legal Advisors to understand that the expansion of the U.S. sanctioned targets which might have arisen due to the U.S.-China trade tensions do not have any material and adverse impact on the Company’s operation, (iii) reviewed the Accountant’s Report and the Group’s revenue breakdown by countries and regions for the Track Record Period, which showed an increasing trend for the Track Record Period of the Group’s revenue from the U.S., notwithstanding the U.S.-China trade tensions already existed since the Trump Administration, (iv) conducted desktop searches on the U.S.-China trade tensions, and (v) discussed with Frost & Sullivan to understand that the cross-border e-commerce industry in the PRC will be benefited from the Chinese government’s favorable policies in the long run, nothing has come to the Joint Sponsors’ attention that could cause the Joint Sponsors to disagree with the Directors’ views on the impact of the U.S.-China trade tensions on the Company’s operations and financial performance as disclosed above.

## BUSINESS

The following table sets forth a breakdown of our revenue by geographical location of our customers for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue		% of total Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
<b>North America</b>										
United States	840,173	58.8	1,309,955	69.0	2,007,191	85.5	876,302	79.6	1,213,163	95.0
Others <sup>(1)</sup>	59,621	4.2	68,347	3.6	22,190	1.0	13,154	1.2	6,931	0.5
<b>Sub-total</b>	<b>899,794</b>	<b>63.0</b>	<b>1,378,302</b>	<b>72.6</b>	<b>2,029,381</b>	<b>86.5</b>	<b>889,456</b>	<b>80.8</b>	<b>1,220,094</b>	<b>95.5</b>
<b>Europe</b>										
Germany	93,751	6.6	80,744	4.3	71,021	3.0	46,562	4.2	19,459	1.5
United Kingdom	48,453	3.4	67,425	3.6	42,207	1.8	20,233	1.8	10,129	0.8
France	80,526	5.6	55,155	2.9	20,815	0.9	12,781	1.2	2,730	0.2
Italy	24,108	1.7	21,434	1.1	7,035	0.3	3,898	0.4	1,601	0.1
Others <sup>(2)</sup>	167,820	11.7	156,849	8.2	96,498	4.1	71,603	6.5	12,567	1.0
<b>Sub-total</b>	<b>414,658</b>	<b>29.0</b>	<b>381,607</b>	<b>20.1</b>	<b>237,576</b>	<b>10.1</b>	<b>155,077</b>	<b>14.1</b>	<b>46,486</b>	<b>3.6</b>
<b>Asia</b>										
Israel	4,752	0.3	4,771	0.3	4,412	0.2	2,527	0.2	1,403	0.1
Japan	16,755	1.2	39,879	2.1	19,751	0.8	17,926	1.6	478	0.0
Others	16,292	1.1	11,887	0.6	25,937	1.1	18,300	1.7	2,138	0.2
<b>Sub-total</b>	<b>37,799</b>	<b>2.6</b>	<b>56,537</b>	<b>3.0</b>	<b>50,100</b>	<b>2.1</b>	<b>38,753</b>	<b>3.5</b>	<b>4,019</b>	<b>0.3</b>
<b>Others<sup>(3)</sup></b>	<b>76,603</b>	<b>5.4</b>	<b>81,663</b>	<b>4.3</b>	<b>29,486</b>	<b>1.3</b>	<b>17,400</b>	<b>1.6</b>	<b>6,928</b>	<b>0.6</b>
<b>Total</b>	<b>1,428,854</b>	<b>100.0</b>	<b>1,898,109</b>	<b>100.0</b>	<b>2,346,543</b>	<b>100.0</b>	<b>1,100,686</b>	<b>100.0</b>	<b>1,277,527</b>	<b>100.0</b>

*Notes:*

- (1) Include countries such as Canada.
- (2) Include countries such as Spain and Netherlands.
- (3) Include countries such as Australia.

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### **Seller Store Management**

With the intention to establish our brand recognition, we have adopted differentiated branding strategies for our sale through third-party e-commerce platforms and our self-operated online stores.

We normally operate a number of seller stores on each third-party e-commerce platform to sell our products, which is in line with the industry norm as confirmed by Frost & Sullivan. As of the Latest Practicable Date, we had 378 subsidiaries operating seller stores on Amazon, 82 subsidiaries operating seller stores on Wish and 45 subsidiaries operating seller stores on other third-party e-commerce platforms, while each of our subsidiaries operates at least one seller store on third-party e-commerce platforms. For our seller stores on third-party e-commerce platforms that we strategically focusing on brand establishment and cultivation, such as Amazon, Walmart, AliExpress and JD International, we primarily implement the branding strategy of “operating a single brand in one seller store” (“單店單品牌”), which is supplemented by “operating multiple brands in one store” (“單店多品牌”), in terms of the number of seller stores. For our seller stores on other third-party e-commerce platforms, we generally sell products without brand registry, which is in line with the general practice of the majority of e-commerce enterprises on these platforms. Through expansion of our seller store network on third-party e-commerce platforms, we were able to adopt differentiated marketing strategy, including brand, types of SKU, targeted customers and SKU application scenarios for each seller store, to obtain and expand our market share efficiently, which is also the industry practice as advised by Frost & Sullivan. We mainly operate a single brand in a large number of seller stores on third-party e-commerce platforms, among which, some of these seller stores are operated under the same brand on the same third-party e-commerce platforms to target at different sales regions or customers, which is in line with the industry practice as confirmed by Frost & Sullivan. After consulting our legal advisors as to all applicable jurisdictions and obtaining confirmations from those third-party e-commerce platforms, the Directors are of the view that our seller store arrangements are permitted by and in compliance with the policies of all those platforms.

Leveraging our branding strategies and well-connected seller stores network, we are able to (i) better serve our customers with diversified needs and preferences in different regions, by providing them with a flexible mixture of differentiated SKUs in different brands, type and style in different seller store; (ii) mitigate concentration risk of a single seller store on one third-party e-commerce platform; and (iii) more efficiently operate and manage its seller stores through allocating such seller stores among different teams of the operating department.

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Through our subsidiaries, Zibuyu HK and Xingzezhi HK, we registered and operated numerous self-operated online stores with the intention to develop our brand matrix and diversify our SKU offering. In line with industry practice, we register each self-operated online store with unique domain name reflecting the name of the seller store, which are operated as parallel e-commerce platforms. Each company can register numerous domain names when needed thus we registered a large number of self-operated online stores under the names of Zibuyu HK and Xingzezhi HK for our differentiated SKU. We implement the branding strategy of operating under a single brand for all of our products sold through our self-operated online stores, in order to cultivate the unified branding image and enhance the brand awareness of our products sold through self-operated online stores.

The following table sets forth the movement of the number of our self-operated online stores during the Track Record Period and up to the Latest Practicable Date:

	Year ended December 31,			Six months ended June 30,	Subsequent to June 30, 2022 and up to the Latest Practicable Date
	2019	2020	2021	2022	
As of the beginning of the period	4	84	422	383	307
Newly opened	85	351	135	15	1
Terminated	(5)	(13)	(174) <sup>(1)</sup>	(91) <sup>(1)</sup>	(81) <sup>(1)</sup>
<b>As of the end of the period</b>	<b>84</b>	<b>422</b>	<b>383</b>	<b>307</b>	<b>227</b>

*Note:*

- (1) In 2021 and the first half of 2022, we strategically cultivated selected self-operated online stores with better sales performance and profitability potential to enhance profitability and concentrate our resources to cultivate brand awareness, hence we closed a number of self-operated online stores.

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The following table sets forth the movement of the number of our seller stores on third-party e-commerce platforms during the Track Record Period and up to the Latest Practicable Date:

	Year ended December 31,			Six months ended June 30,	Subsequent to June 30, 2022 and up to the Latest Practicable Date
	2019	2020	2021	2022	
	As of the beginning of the period	858	963	1,019	982
Newly opened	475	265	192	56	20
Terminated	(370) <sup>(1)</sup>	(209) <sup>(1)</sup>	(229) <sup>(2)</sup>	(318) <sup>(2)</sup>	(44) <sup>(2)</sup>
<b>As of the end of the period</b>	<b><u>963</u></b>	<b><u>1,019</u></b>	<b><u>982</u></b>	<b><u>720</u></b>	<b><u>696</u></b>

*Notes:*

- (1) Large number of seller stores were terminated in 2019 and 2020, primarily because we established and commenced operations of a number of seller stores in 2019 and 2020 on certain new third-party e-commerce platforms and only recorded limited revenue contribution at the ramp up stage. We subsequently terminated the operations of most of those seller stores primarily due to their unsatisfactory financial performance since their commencements.
- (2) Large number of seller stores operating on third-party e-commerce platforms were terminated in 2021 and the first half of 2022, primarily because (i) large number of seller stores operating on Wish were terminated during the same period as we gradually shifted our business focus to Amazon, and (ii) we voluntarily closed all the seller stores registered under the names of the two employees on a third-party e-commerce platform in June 2022 instead of acquiring into our Group, as they cannot be transferred to us due to the restriction of such platform.

In order to commence operations of a large number of seller stores in a shorter time to achieve rapid growth of our business during our expansion stage we sought authorization from some of our employees, and their family members and friends, to register certain seller stores under their names or the names of companies owned by them (the “**Authorizing Individuals and Companies**”) only for the operation of seller stores since 2015. We adopted this arrangement in order to achieve rapid growth during our expansion stage. Certain third-party e-commerce platforms allow companies or individuals to register seller stores, while certain third-party e-commerce platforms only allow companies to register seller stores, so we have seller stores registered under the names of Authorizing Individuals or Authorizing Companies. Generally, the operating data team under our operating department can gather requisite information from the Authorizing Individuals and Companies and register seller stores more efficiently. It generally takes (i) a total of approximately three to seven days for an Authorizing Individual to complete the registration of a seller store under his/her own names on third-party e-commerce platforms; and (ii) a total of approximately 10 to 21 days for an Authorizing

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Individual to complete the registration of an Authorizing company with local SAIC bureau first and subsequently the registration of a seller store under the name of such Authorizing company on third-party e-commerce platforms. Comparably, it generally takes longer time for us to register a subsidiary of our Group, and subsequently the seller store under the name of such subsidiary on third-party e-commerce platforms, mainly due to the additional time for internal administrative procedures, which could take up to about a month or even longer for us to register a subsidiary of our Group and subsequently the seller store.

As the expansion in stores network enabled us to better implement our differentiated sales and marketing strategies thereby attracting more new customers and sales, generating more profit, and therefore increasing the performance bonus, which is primarily calculated based on the operating profit, for our employees of the operating department, they are motivated and engaged in contributing to our daily business operation by voluntarily providing their authorizations and/or encouraging/arranging their family members and friends to provide authorization for our registration of more seller stores at our expansion stage. In addition, employees of other than those of operating department who provided their or their family members' or friends' authorizations were mainly our Directors, employee shareholders of the Company through offshore holding companies and the management members of our Group. As they have deep involvement, high commitment and strong belonging to our Group, they were also motivated and willing to voluntarily provide and encouraged their family members and friends to provide their authorizations. The remaining were our employees of other departments and/or their family members and friends who voluntarily provided their authorizations to our Group. The employees' family members and friends provided their authorizations without any monetary reward from us. To our best knowledge, they provided such authorizations for the sake of their personal relationship with our employees, and the overall risks for them to provide authorization to the Company solely for the purpose of registering Authorizing Companies and/or seller stores is low because the Group would bear all the costs and liabilities incurred from the maintenance of the Authorizing Companies and operation of the seller stores.

As of the Latest Practicable Date, we owned and operated 696 seller stores at nine third-party e-commerce platforms. As we have already built a relatively diversified stores network comprising numerous subsidiaries for differentiated sales and marketing strategies and we have achieved stable growth of business and no longer need to register numerous new subsidiaries in order to register numerous seller stores within a short period of time, we believe that our future expansion of sales network could be fulfilled by registering seller stores under the names of our existing or new subsidiaries. Moreover, the performance bonus for our employees is calculated primarily based on the operating profit of the seller stores they operate, instead of the type or number of seller stores they operate.

Given that: (i) the performance bonus is determined primarily based on the operating profit of the seller stores operated by our employees, also taking into account other business and financial indicators, instead of the type or number of seller stores they operate; (ii) considering our Group's business has gradually reached maturity compared to the beginning of the Track Record Period, evidenced in our relatively diversified stores network comprising numerous subsidiaries implementing differentiated sales and marketing strategies and we have

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achieved stable growth of business, thus no longer rely on the registration of numerous new subsidiaries to register numerous seller stores within a short period of time, we believe our future expansion of sales network could be fulfilled by registering seller stores under the names of our existing or new subsidiaries; and (iii) the large number of hot-selling products we have incubated during the Track Record Period, the life cycle of which is more than five years and will be constantly iterated by newly developed hot-selling products, are able to consistently contribute revenue to existing seller stores, we do not expect the termination of our Third-party Seller Store Arrangement would have any material adverse impact on our employees’ performance, as well as our operating and financial performance going forward.

Since March 2021, we acquired the vast majority of the Authorizing Companies and the seller stores registered under the names of Authorizing Individuals into our Group to enhance our management and control on these seller stores. In addition, all seller stores used to register under the names of Authorizing Individuals on one third-party e-commerce platform had been voluntarily closed by us in June 2022, as they cannot be transferred to us due to the restriction of such third-party e-commerce platform. As of June 30, 2022, all Authorizing Companies and other seller stores registered under the names of Authorizing Individuals had been either acquired or voluntarily closed by us. As a result, there remained no authorization arrangement with Authorizing Individuals and Companies as of the same date. Taking into account that since the cessation of Third-party Seller Store Arrangement, our revenue still increased by 13% in the second half of 2021 as compared with that of the first half year, our Directors confirm that the cessation of Third-party Seller Store Arrangement did not and will not have any adverse impact on our operations and financial performances. In addition, our revenue increased by 16.1% for the six months ended June 30, 2022 as compared with that of the same period in 2021.

As advised by Frost & Sullivan, based on their interview with experts and their review of public information, it is the industry practice for e-commerce operators to operate numerous seller stores registered under the names of third parties and this arrangement is not uncommon in China, taking into account (i) the similar arrangements adopted by several companies in the PRC in China’s cross-border e-commerce export B2C market, which also focus on sale of products to overseas through third-party e-commerce platforms, and (ii) no restrictions in the industry to prohibit this arrangement. Other than the employment relationship between such employees and us, the shareholding and/or directorship between certain of those employees and us, and the related party transactions and balances, including loans and repayment of loans from related parties and the interest thereon, purchase of inventories, trade and other payables, other receivables and payables to related parties, as disclosed “Financial Information – Related Party Transactions” and Note 34 of the Accountant’s Report in Appendix I to this document, to their best knowledge after making reasonable enquiries, our Directors confirm that they are not aware of any relationships with respect to finance and business aspects, between those Authorizing Individuals and Companies and our Company, our subsidiaries and their respective shareholders and directors during the Track Record Period and up to the Latest Practicable Date.



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### *Relevant Restrictions related to Our Seller Store Arrangements*

The following table sets forth the relevant restrictions related to our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement imposed by Amazon and Wish:

<b>Platforms</b>	<b>Relevant Restrictions related to Seller Store Arrangements:</b>
<b>Amazon</b>	<ul style="list-style-type: none"><li>• <b><i>Relevant restrictions related to Multiple Seller Store Arrangement on Amazon:</i></b><p>According to Amazon’s Selling Policies and Seller Code of Conduct, it states that:</p><p><i>“You may only maintain one Seller Central account for each region in which you sell unless you have a legitimate business need to open a second account and all of your accounts are in good standing. If any of your accounts are not in good standing, we may deactivate all of your selling accounts until all accounts are in good standing. Examples of a legitimate business justification include: (i) owning multiple brands and maintain separate businesses for each, (ii) manufacturing products for two distinct and separate companies, or (iii) being recruited for an Amazon program that requires separate accounts.”</i></p></li><li>• <b><i>Relevant restrictions related to Third-party Seller Store Arrangement on Amazon:</i></b><p>There is no provision prohibiting the adoption of Third-party Seller Store Arrangement on Amazon.</p></li></ul>
<b>Wish</b>	<ul style="list-style-type: none"><li>• <b><i>Relevant rules related to registration on Wish:</i></b><p>According to Wish’s Merchant Policies, it states:</p><p><i>“1.1 Information provided at registration must be true and correct</i></p><p><i>Information provided at registration must be accurate, true, and correct. This includes, but is not limited to, merchant identity, identification document(s), and merchant’s country of domicile.”</i></p><p>Wish may further impose suspension, funds withholding or freeze, user ban, account termination or ban, or other account use or access restriction on the merchant’s account if the aforementioned rule has been violated or deemed to be violated, unless the eligible proof has been provided.</p></li></ul>

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### Platforms

### Relevant Restrictions related to Seller Store Arrangements:

- ***Relevant restrictions related to Multiple Seller Store Arrangement on Wish:***

According to Wish’s Merchant Policies, it states: “each entity may have one account only. If any company or person has multiple accounts all accounts risk suspension.”

Although Wish’s Merchant Policies do not provide a clear definition of “entity” in above-mentioned provision, after consulting our U.S. lawyer, our Directors are of the view that, “entity” refers to a single entity which is registered with a seller account on Wish, instead of a group as a whole.

- ***Relevant restrictions related to Third-party Seller Store Arrangement on Wish:***

Wish’s Merchant Policies does not provide a clear policy on Third-Party Seller Stores Arrangement.

In addition to Amazon and Wish, during the Track Record Period, we also adopted Multiple Seller Store Arrangement and/or Third-party Seller Store Arrangement on third-party e-commerce platforms, including Walmart, eBay, Joom, TikTok, Fanno, AliExpress and JD International, through which we generated significantly less revenue than that of Amazon and Wish.

With respect to the third-party e-commerce platform with restrictions on Multiple Seller Store Arrangement and there is inconsistency between our practice and the relevant restrictions, considering (i) the confirmation from such platform acknowledging our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement and confirming our compliance with its rules and (ii) the consultation with our legal advisor to applicable jurisdiction, our Directors are of the view that, our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement on such platform are in compliance with its policies and all relevant laws and regulations of the applicable jurisdiction. With respect to the remaining third-party e-commerce platforms, taking into account the confirmations obtained from those third-party e-commerce platforms acknowledging our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement and confirming our compliance with their rules, and after consulting our legal advisors as to all applicable jurisdictions for the remaining third-party e-commerce platforms, our Directors are of the view that our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement on the remaining third-party e-commerce platforms are in compliance with their policies and all relevant laws and regulations of all applicable jurisdictions. Based on the confirmations obtained from all third-party e-commerce platforms we operate on, our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement were permitted by all those platforms.

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Based on the above and having (i) reviewed the relevant third-party platforms' policies published on their websites, the Group's agreements with such platforms, transaction records of the Third-party Seller Stores and the confirmation received in connection with such compliance matter, and (ii) discussed with the Company's management, its legal advisors as to applicable jurisdictions and its industry consultant, nothing has come to the Joint Sponsors' attention that would cause them to disagree with the Directors' views above in connection with the compliance with the relevant rules of the relevant platforms and the relevant laws and regulations of applicable jurisdictions.

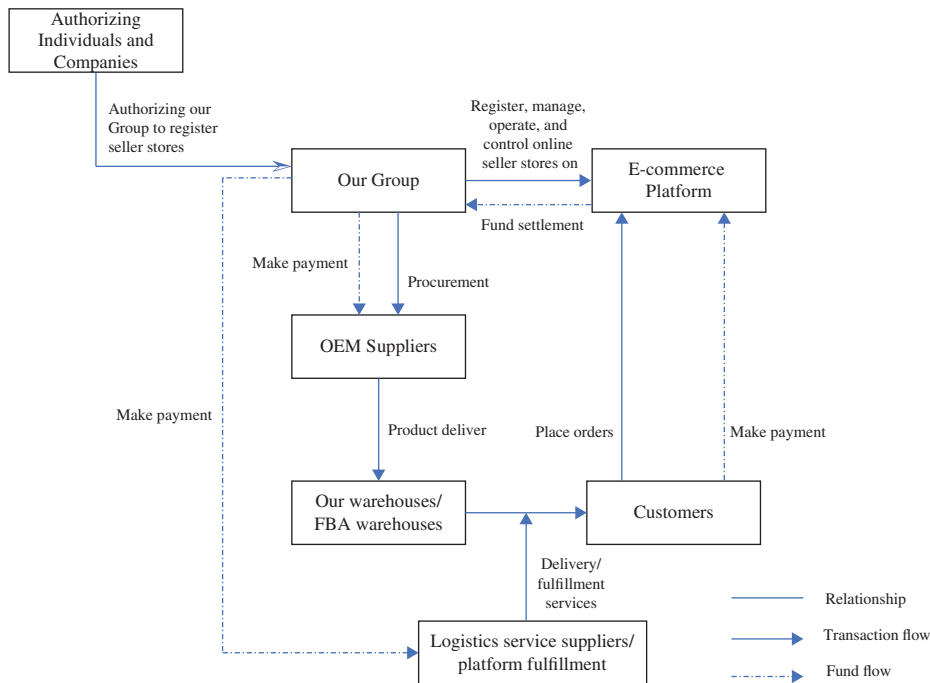
### *Operations of the Seller Stores*

Upon the completion of the registration of the seller stores, our operating department will assign seller stores to our operating teams to commence operations. We have implemented a series of measures to prevent Authorizing Individuals and shareholders of Authorizing Companies to amend the information of the seller stores, including: (i) to the extent practicable, prohibiting authorizing employees to operate the seller stores registered under the names of their own, their family members or friends or the companies owned by them; (ii) for the login email and verification mobile number used for verification when log in the seller store account or amend its relevant information, using designated login email and verification mobile number and assigning designated employees to keep such information; (iii) assigning our legal and compliance department to keep the original business licenses of the Authorizing Companies and their company seals; and (iv) designating the head of our operating teams to communicate with the client manager of third-party e-commerce platforms. Despite our efforts to avoid assigning seller stores to the authorizing employees to operate, our Directors confirm that during the Track Record Period, there were six seller stores assigned to authorizing employees for operation. To the best knowledge of our Directors, their family members and friends did not involve in the operation of the seller stores registered under their names nor had them been part of the Group's operating teams. During the Track Record Period, we were not aware of any attempt by the Authorizing Individuals and Companies to amend the information of the seller stores. Historically, in the event that any authorizing employees ceased to be employed by the Group, the authorization of them or their family and friends or the relevant Authorizing Companies would not be affected and we continued to use the relevant seller stores pursuant to the authorization agreement, as such authorization has no fixed term, unless being terminated upon a mutual agreement of both signing parties. If the former employees or their family members and friends decided not to or ceased to cooperate with our Group, as transitional arrangement, the Group would arrange change of the registered owners of the relevant seller store accounts or the shareholders of the relevant Authorizing Companies to other Authorizing Individuals who are willing to cooperate through entering into new authorization with such other Authorizing Individuals for the continuity of our Group's management under the same operation mode of authorization arrangement. As of June 30, 2022, there remained no authorization arrangement with Authorizing Individuals and Companies.

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We have over 40 parallel operating teams managed under our operating department and each operating team is responsible for the operations of a number of seller stores, widely distributing on different third-party e-commerce platforms. The purpose of this parallel operating arrangement is for better implementation of our differentiated sales and marketing strategies for our diversified brands and different types of products on each third-party e-commerce platform targeting their respective key customers. As the seller stores are operated by parallel operating teams, the widely distributed stores network on third-party e-commerce platforms enables us to reach out to customers of different age and spending power, thereby exposing our brands and products to a wider group, consistently attracting new customers and increasing our market recognition. We place our brands and products on different platforms in response to diversified customers’ preference of those online platforms. For instance, the customers at Amazon generally have stronger spending power and Wish has more younger customers who have great demand for fast fashion products. When determining the price for our products, we mainly consider the competitiveness of our products and customers’ acceptance, as well as our targeted profit on such platform. Accordingly, prices of our products on different third-party e-commerce platforms may vary, depending on, among others, our costs and expenses operating on such platforms. However, the price differences among products under the same brand sold on different seller stores on the same platform are usually insignificant under our pricing policy for seller stores operated on the same platform.

The following chart illustrates the transaction and fund flow of our seller stores registered under the names of Authorizing Individuals and Companies on the third-party e-commerce platforms:



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Similar to the seller stores registered under our subsidiaries' names, during our operation of seller stores registered under the names of Authorizing Individuals and Companies, our Group enters into OEM procurement agreements, fulfillment service agreements and delivery agreements with our service providers to procure products from OEM suppliers and arrange logistics service suppliers or third-party e-commerce platform fulfillment services for the product delivery. The Authorizing Individuals and Companies are not the contractual parties of any of such arrangement. Meanwhile, as all of the bank accounts used for payment collection by all seller stores are registered under the name of our subsidiaries, instead of the seller stores, or the Authorizing Individuals and Companies, all sales proceeds paid by the customers for our products are directly transferred from the e-commerce platforms' funds pool to our subsidiaries' bank accounts. During the Track Record Period and up to the Latest Practicable Date, there was no fund transfer between our Group and such Authorizing Individuals and Companies in relation to our sale on the third-party e-commerce platforms.

### *Centralized Management of the Seller Stores*

The key terms of the authorization agreements with the Authorizing Individuals and Companies are:

- ***Term.*** The authorization agreements have no fixed term.
- ***Store registration.*** The Authorizing Individuals and Companies shall provide us requisite information for the registration of seller stores and are prohibited from changing account information, modifying or closing the seller stores registered under their name without our prior consent.
- ***Store operation.*** We have the full rights to operate the seller stores and generate income from such operation. The Authorizing Individuals and Companies are prohibited from accessing the seller accounts and have no right to interfere with our operations.
- ***Authorization fees, costs and expenses.*** The authorization is free of charge. All costs and expenses arising from or in connection with our operations shall be borne by us.
- ***Accounts.*** All income generated from the operation of such seller stores shall be directly deposited into our designated accounts which are registered under the names of our subsidiaries. All accounting books are kept by us.
- ***Termination.*** The agreements can be terminated upon a mutual agreement of both parties.
- ***Dispute resolution.*** Any dispute arising from the authorization agreements shall be negotiated between both parties before filing with the people's court for the commencement of legal proceedings.

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After consulting our PRC Legal Advisors and engaging an internal control advisor to perform a review over selected areas of our internal control (the “**Internal Control Consultant**”), and taking into account that (i) the authorization agreements provide terms covering all material aspects in connection with the operation of the seller stores registered under the names of Authorizing Individuals and Companies, including store registration, store operation and accounts management; (ii) the authorization agreements have no fixed term and can last until being terminated upon both parties’ consensus; (iii) our PRC legal advisors are of the view that the authorization agreements are legally binding and do not violate any mandatory prohibitive provision of the PRC laws and regulations; (iv) our Internal Control Consultant carried out follow-up review on our enhanced internal control on the authorization arrangements and did not have any further recommendation; and (v) the confirmations obtained from relevant third-party e-commerce platforms acknowledging our Third-party Seller Store Arrangement and the relevant liabilities’ bearers, our Directors believe those third-party e-commerce platforms are aware that our Group bears all the rights and liabilities arising from the operation of third-party seller stores during the Track Record Period instead of the Authorizing Individuals or Authorizing Companies, and the authorization agreements were sufficient for the purpose of operating the above-mentioned seller stores and for our Company to exercise control over these seller stores. Our Directors also confirm that the third-party e-commerce platforms on which we operate were aware that all of the seller stores on their platforms were operated by our Group, despite that the majority of them were registered under the name of Authorized Individuals and Companies instead of our Group and we had not been penalized by any third-party e-commerce platform due to the above-mentioned arrangement during the Track Record Period and up to the Latest Practicable Date.

In addition, from accounting aspect, the Authorizing Individuals and Companies act as our agent while we are the principal of sale of goods to the customers through third-party e-commerce platforms. We purchase inventories, set the prices of the products, engage logistics service suppliers and provide after-sales services to the customers. When the goods are delivered to the customers and the customers obtain control of the goods, the performance obligation of transferring the promised goods are satisfied and relevant revenue should be recognized by our Group. Accordingly, the cost of inventories, related marketing expenses and distribution costs occurred are also recognized in our accounting report. Regardless of whether the seller stores are registered under our Group or under the Authorizing Individuals and Companies, we directly record the revenue, expenses, assets, liabilities and relevant cash flows in relation to the sale of our products through such seller stores in our accounting books and records. Our reporting accountants did not find the above-mentioned accounting treatment inappropriate from accounting prospective.

For the years ended December 31, 2019, 2020 and 2021, we generated net sales income of RMB1,298.4 million, RMB1,498.1 million and RMB929.3 million, respectively, from the seller stores registered under the names of Authorizing Individuals and Companies (excluding those generated after being acquired into our Group), among which, RMB1,032.0 million, RMB1,102.7 million and RMB790.5 million was generated from 911, 742 and 686 seller stores which were registered under the names of Authorizing Companies, respectively, and RMB266.3 million, RMB395.5 million and RMB138.8 million was generated from 354, 403

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and 383 seller stores which were registered under the names of Authorizing Individuals, respectively. For the six months ended June 30, 2022, the net sales income from the seller stores registered under the names of Authorizing Individuals and Companies (excluding those generated after being acquired into our Group) further declined to RMB9.1 million, all of which were from 283 seller stores registered under the names of Authorizing Individuals. During the Track Record Period, the seller stores registered under the names of Authorizing Individuals and Companies held no net assets.

The following table sets forth the number of Authorizing Individuals and Companies and the number of seller stores registered under their names which contributed net sales income (excluding those generated after being acquired into our Group) for the periods and as of the dates indicated:

	Year ended December 31,			Six months ended June 30,	As of June 30,
	2019			2022	2022
	2019	2020	2021	2022	2022
<b>Number of Authorizing Individuals and Companies<sup>(1)</sup>:</b>					
Employees	354	403	383	2 <sup>(3)</sup>	–
Companies owned by employees	142	206	256	–	–
Companies owned by employees’ family members and/or friends	140	57	62	–	–
Companies jointly owned by employees, and employees’ family members and friends <sup>(2)</sup>	4	3	4	–	–
<b>Number of seller stores registered under the names of:</b>					
Employees	354	403	383	283 <sup>(3)</sup>	–
Companies owned by employees	617	524	553	–	–
Companies owned by employees’ family members and/or friends	273	202	117	–	–
Companies jointly owned by employees, and employees’ family members and/or friends <sup>(2)</sup>	21	16	16	–	–

*Notes:*

- (1) Due to the different platforms’ policies, seller stores were registered under the names of Authorizing Individuals or Authorizing Companies on third-party e-commerce platforms that allow companies or individuals to register seller stores, and under the names of Authorizing Companies on third-party e-commerce platforms which only allow companies to register seller stores. Authorizing employees had already registered seller stores under individuals’ names for our business.

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- (2) Refer to companies of which the shareholders comprised employees and employees’ family members and/or friends.
- (3) All 283 seller stores registered under the names of two employees and contributed net sales income for the six months ended June 30, 2022 had been voluntarily closed by us in June 2022, as they cannot be transferred to us due to the restriction of the third-party e-commerce platform. As of June 30, 2022, all Authorizing Companies and other seller stores registered under the names of Authorizing Individuals had been either acquired or voluntarily closed by us.

During the Track Record Period, except for certain seller stores registered on Wish, each of the Authorizing Individual only registered one seller store. Comparably, the number of seller stores registered under the names of each Authorizing Company ranged from one to 61 with an average of approximately 3.

The following table sets forth the revenue attributable to the seller stores registered under the names of Authorizing Individuals and Companies (excluding those generated after being acquired into our Group) for the periods indicated:

	<b>Year ended December 31,</b>			<b>Six months ended June 30,</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Employees	266,324.0	395,452.1	138,797.6	9,055.9
Companies owned by employees	769,445.1	837,636.5	608,474.0	–
Companies owned by employees’ family members and friends	230,956.7	236,383.9	173,265.9	–
Companies jointly owned by employees, and employees’ family members and/or friends	31,643.7	28,655.9	8,721.8	–
<b>Total</b>	<b><u>1,298,369.5</u></b>	<b><u>1,498,128.4</u></b>	<b><u>929,259.3</u></b>	<b><u>9,055.9</u></b>



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The following table sets forth the movement of the number of seller stores registered under the names of Authorizing Individuals and Companies during the Track Record Period:

		As of December 31,			As of June 30,
		2019	2020	2021	2022
<b>Seller stores registered under the names of:</b>					
Employees	As of the beginning of the period	177	331	383	290 <sup>(2)</sup>
	Newly opened	182	72	–	–
	Terminated	(28)	(20)	(93) <sup>(1)</sup>	(290) <sup>(2)</sup>
	<b>As of the end of the period</b>	<b>331</b>	<b>383</b>	<b>290<sup>(2)</sup></b>	<b>–</b>
Companies owned by employees	As of the beginning of the period	425	411	504	–
	Newly opened	212	165	67	–
	Terminated	(226)	(72)	(571) <sup>(1)</sup>	–
	<b>As of the end of the period</b>	<b>411</b>	<b>504</b>	<b>–</b>	<b>–</b>
Companies owned by employees’ family members and friends	As of the beginning of the period	205	184	115	–
	Newly opened	75	28	3	–
	Terminated	(96)	(97)	(118) <sup>(1)</sup>	–
	<b>As of the end of the period</b>	<b>184</b>	<b>115</b>	<b>–</b>	<b>–</b>
Companies jointly owned by employees, and employees’ family members and/or friends	As of the beginning of the period	22	17	16	–
	Newly opened	1	–	–	–
	Terminated	(6)	(1)	(16) <sup>(1)</sup>	–
	<b>As of the end of the period</b>	<b>17</b>	<b>16</b>	<b>–</b>	<b>–</b>

*Notes:*

- (1) Since March 2021, we acquired the vast majority of the Authorizing Companies and seller stores registered under the names of Authorizing Individuals into our Group to enhance our management and control on these seller stores. After acquisition, we own such seller stores. Besides, we also terminated the operations of certain sell stores registered under the names of Authorizing Individuals and Companies due to their unsatisfactory historical sales performance.
- (2) All 290 seller stores registered under the names of Authorizing Individuals as of December 31, 2021 had been voluntarily closed by us in June 2022, as they cannot be transferred to us due to the restriction of the third-party e-commerce platform.

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The following table sets forth the average revenue attributable to the seller stores registered under the names of Authorizing Individuals and Companies (excluding those generated after being acquired into our Group) for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	<i>(RMB'000)</i>			
<b>Average revenue attributable to seller stores registered under the names of<sup>(1)</sup>:</b>				
Employees	752	981	362 <sup>(2)</sup>	31 <sup>(3)</sup>
Companies owned by employees	1,247	1,599	1,100	–
Companies owned by employees’ family members and/or friends	846	1,170	1,468	–
Companies jointly owned by employees, and employees’ family members and/or friends	1,507	1,791	545 <sup>(2)</sup>	–

*Notes:*

- (1) The average revenue attributable to the seller stores registered under the names of Authorizing Individuals and Companies is calculated based on the total revenue attributable to the type of seller stores during the periods indicated, divided by the number of such type of seller stores during the relevant period.
- (2) As all the seller stores registered under employees, as well as the majority of seller stores registered under companies jointly owned by employees, and employees’ family members and/or friends are operated on Wish, our business performance on Wish has a greater impact on such seller stores. After we shifted our business focus to Amazon, we gradually reduced our promotion activities for seller stores on Wish in 2021, as a result of which, we recorded decreased average revenue from the seller stores registered under the names of the aforesaid Authorizing Individuals and Companies in 2021, especially those seller stores registered under the names of our employees.
- (3) We recorded decreased average revenue from the seller stores registered under the names of the Authorizing Individuals in the first half of 2022 as we reduced our promotion activities on such seller stores in order to shift our business focus to Amazon as well as terminate the operation of seller stores registered under the names of employees for internal control purpose.

## BUSINESS

The following table sets forth the range of revenue attributable to the seller stores registered under the names of Authorizing Individuals and Companies (excluding those generated after being acquired into our Group) for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
<b>Range of revenue attributable to seller stores registered under the names of:</b>				
Employees	RMB77.0 -RMB8.8 million	RMB91.7 -RMB7.3 million	RMB232.5 -RMB2.3 million	RMB19.9 -RMB0.3 million
Companies owned by employees	RMB19.2 -RMB28.4 million	RMB24.9 -RMB42.1 million	RMB23.8 -RMB20.5 million	-
Companies owned by employees’ family members and friends	RMB0.7 -RMB14.5 million	RMB134.0 -RMB19.4 million	RMB1,513.2 -RMB17.3 million	-
Companies jointly owned by employees, and employees’ family members and/or friends	RMB3,252.6 -RMB4.2 million	RMB0.3 million -RMB3.6 million	RMB904.9 -RMB1.7 million	-

The following table sets forth the movement of the number of seller stores registered under the names of Authorizing Individuals and Companies during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
As of the beginning of the period	829	943	1,018	290 <sup>(3)</sup>
Newly opened <sup>(1)</sup>	470	265	70	-
Store closure <sup>(2)</sup>	(356)	(190)	(185)	(290) <sup>(3)</sup>
Terminated due to acquisition into our Group	-	-	(613)	-
<b>As of the end of the period</b>	<b>943</b>	<b>1,018</b>	<b>290<sup>(3)</sup></b>	<b>-</b>

Notes:

- (1) We did not register any new accounts under the names of Authorizing Individuals and Companies since June 2021 and will not register any accounts under Third-party Seller Store Arrangement thereafter.

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- (2) We generally consider to close a seller store based on a number of factors in the ordinary course of business, such as the net sales income, repeat customer rate and applause rate of such seller store. Our Directors confirm that none of such terminations was due to any material violation of rules of the third-party e-commerce platforms.
- (3) All 290 seller stores registered under the names of Authorizing Individuals as of December 31, 2021 had been voluntarily closed by us in June 2022, as they cannot be transferred to us due to the restriction of the third-party e-commerce platform.

The following table sets forth the product return rate of seller stores by type of Authorizing Individual and Companies during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	(%)			
Employees	8.8	9.3	6.0	5.2
Companies owned by employees	13.0	13.2	15.8 <sup>(1)</sup>	–
Companies owned by employees’ family members and friends	14.3	14.6	17.7 <sup>(1)</sup>	–
Companies jointly owned by employees, employees’ family members and friends	10.4	10.0	9.5	–

*Note:*

- (1) In 2021, we operated more seller stores registered under the names of companies owned by employees and companies owned by employees’ family members and friends on Amazon, as compared to Wish and other third-party e-commerce platforms. As Amazon provides customers with more flexible product return policies, the increased proportion of the seller stores on Amazon resulted in higher product return rates recorded by seller stores registered under the names of companies owned by employees and companies jointly owned by employees’ family members and friends in 2021.

In order to enhance the management and control of these seller stores, starting from March 2021, we acquired the vast majority of the Authorizing Companies and the seller stores registered under the names of Authorizing Individuals into our Group at nominal or nil consideration to our Group as these Authorizing Companies had no assets or any paid-up registered capital, thus own such seller stores. We paid a total of RMB299 for the above-mentioned acquisitions. After the completion of acquisition of Authorizing Companies, such Authorizing Companies become our wholly-owned subsidiaries. As a result, all seller stores previously registered under the names of Authorizing Individuals and Companies are owned by us. We also voluntarily closed certain seller stores registered under the names of

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Authorizing Individuals that cannot be transferred to us due to the restriction of the third-party e-commerce platform. Our operation of other seller stores remains stable. As of the Latest Practicable Date, we owned and operated 696 seller stores on nine third-party e-commerce platforms.

### *Internal Control Measures and Compliance*

During the internal control review, our Internal Control Consultant did not identify any material weakness in our internal control procedures in relation to our Third-party Seller Store Arrangement. Our Multiple Seller Store Arrangement and Third-party Seller Store Arrangement had not materially violated and will not materially violate the relevant restrictions of all third-party e-commerce platforms on which we operate as of the Latest Practicable Date. Our senior management regularly monitors the operation of such seller stores to identify any potential operating and compliance risks in a timely manner.

We have established internal management procedures in relation to the establishment of seller stores, including review of identities of the registers and other relevant information. No newly-established seller store will be permitted to operate without our internal review and approval. After consulting our Internal Control Consultant, our Directors are of the view that the enhanced internal control measures are adequate and effective to prevent the reoccurrence of Third-party Seller Store Arrangement.

During the Track Record Period and up to the Latest Practicable Date, none of the seller stores registered under the names of Authorizing Individuals and Companies were involved in any material non-compliance incidents or legal proceedings.

Based on the foregoing and having reviewed the relevant internal policies adopted by the Company and the internal control report and discussed with the Company's internal control consultant, nothing has come to the Joint Sponsors' attention that would cause any doubt on the adequacy and effectiveness of such measures.

### **Delivery and Warehousing**

#### *Warehousing*

To store a large volume of SKUs of products to meet the expected customers' demand, we leased 12 warehouses located in the PRC as of the Latest Practicable Date, occupying an aggregate GFA of 105,134.5 sq.m. During the Track Record Period and up to the Latest Practicable Date, we did not have any overseas warehouses.

To further increase our warehousing capacity in a cost-efficient manner, we also use third-party warehouses as our supplemental warehousing facilities. We expect to expand our domestic warehousing capacity and establish an intelligent warehousing and logistics network in China.

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### *Delivery*

We have multiple choices of delivery arrangement primarily based on our customers’ demand and the nature and sales channel of products. Our delivery arrangement can be primarily categorized into (i) delivery through third-party e-commerce platform fulfillment services; and (ii) delivery by logistics service providers, based on the type of logistics service providers. First, we use logistics services provided by third-party e-commerce platforms we cooperate with. For example, for product sale through Amazon, we use the FBA services where we ship inventories from our domestic warehouses to Amazon’s overseas FBA warehouses and Amazon ships the product to our customers on our behalf per the order. We have also engaged Independent Third-Party logistics service providers for delivery services. Normally we ship products through designated third-party logistics service providers from our domestic warehousing facilities to customers per the order directly, such as Amazon’s FBM services we use. During the warehousing and logistics process under FBM model, we directly deliver products from our domestic warehouses to the customers through logistics service suppliers. For more details of our logistics service suppliers, see “– Supply Chain Management – Our Logistics Service Providers.”

Our delivery arrangement can also be mainly categorized into FBA method and international direct mail method. Under international direct mail method, products are primarily delivered from domestic warehouses directly to overseas customers through international logistics arrangements provided by third-party logistics service providers engaged by us. Under the FBA model, we deliver products from our domestic warehouses to Amazon’s warehouses through logistics service providers and stored our products at Amazon’s warehouses. Subsequently, products will be delivered to the customers’ end by Amazon once orders are received.

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, the total logistics service fees, representing the aggregate amount of the inbound and outbound shipping charges and related insurance fees incurred in the relevant year, amounted to RMB412.2 million, RMB546.6 million, RMB634.9 million, RMB287.5 million and RMB366.9 million, respectively. We usually settle logistics service fees with our logistics service providers on a weekly or monthly basis. In practice, our logistics service providers are responsible for all relevant tax in connection with export and import customs clearance such as customs duties. Our warehousing fees include our warehouse rental expenses, relevant staff benefit expenses and expenses for packaging materials which are recorded under our selling expenses and distribution costs. Our warehousing fees also include the property management fees for our warehouses which are recorded under our general and administrative expenses. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our total warehousing fees amounted to RMB18.1 million, RMB24.4 million, RMB32.3 million, RMB15.1 million and RMB17.2 million, respectively.

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From time to time, we may be unable to deliver products to our customers on third-party e-commerce platforms on a timely basis due to temporary shortage of inventories. We are responsible for losses arising from any delay in shipment caused by the shortage of our products, while our logistics service providers are generally liable to compensate for our losses arising from failing to deliver on-time. However, we may have difficulties to initiate the refund process at certain third-party e-commerce platforms without the purchasers’ application through the relevant third-party e-commerce platforms, nor can we directly reach the customer. In addition, certain of our overseas logistics services had been adversely affected as a result of the spread of COVID-19 in some counties after June 2020. As a result, we failed to deliver certain products to our overseas customers. As of the Latest Practicable Date, products for which we had received payment from customers but had not been delivered amounted to approximately RMB7.5 million. We had not recognized any revenue for such sales. The relevant payment was recorded as cash and cash equivalents and our obligations to fulfill the contract were recorded as contract liabilities.

To resolve this, we have adopted a series of measures, including (i) proactively contacting third-party e-commerce platforms trying to reach those affected customers to initiate refund process, and (ii) devoting great efforts to delivering products that had been delayed due to the impact of COVID-19 in 2020. As of the Latest Practicable Date, the vast majority of our affected products had been delivered to our customers. Taking into account the above, we expect the delayed delivery during the Track Record Period would not materially and adversely affect our business, results of operations and financial condition. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints from our customers due to our delayed delivery nor had we received any notice from or been penalized by third-party e-commerce platforms for the same.

Except as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption in the delivery of our products or suffer any material loss as a result of delays in delivery or poor handling of goods. As advised by our PRC Legal Advisors, we did not violate the prohibitive provisions of applicable custom laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### **After-Sales Services**

We provide our customers with comprehensive after-sales services. For details, see “– Our Customers – Customer Services and Customer Feedback.”

### ***Product Return, Exchange and Recall***

Our product exchange and refund policies follow the standard rules of third-party e-commerce platforms we cooperate with, which are stipulated in the agreements entered into with such platforms. For product return policy for our sale through third-party e-commerce platforms and our self-operated online stores, see “– Sales and Marketing.”

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The value of products returned to us from the third-party e-commerce platforms (which were excluded from our revenue) amounted to RMB189.7 million, RMB214.7 million, RMB438.0 million, RMB159.0 million and RMB404.3 million in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 12.3%, 12.4%, 17.6%, 15.2% and 25.0%, respectively, of our products delivered during the same periods, lower than the general product return rate on Amazon and Wish. According to Frost and Sullivan, the product return rate of apparel and footwear products sold on Amazon ranges from 25% to 30% and the average return rate of apparel and footwear products sold on Wish is approximately 25%. Since 2022, it has been seen that the product return rate of apparel and footwear products sold on Amazon has been increasing. The increased product return rate since March 2022 was primarily affected by the high inflation and the increasing interest rates in the United States. Most product return cases on Amazon, Wish and our self-operated online stores are due to unfit sizes and customer dissatisfaction. The value of products returned to us from our self-operated online stores amounted to RMB5.6 million, RMB22.5 million, RMB14.6 million, RMB11.0 million and RMB4.5 million in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 4.8%, 5.5%, 5.3%, 5.9% and 5.4%, respectively, of our products delivered during the same periods. Customers are generally required to keep the product and original packaging undamaged and not to affect the product resell value. During the Track Record Period and up to the Latest Practicable Date, there were no product recalls, product returns, product liability claims, or customer complaints that materially and adversely affected our business.

## PRICING

In line with the industry norm, we adopted market-oriented pricing approach. We principally offer customers products at competitive prices. We price our products based on, to the extent practicable, a series of factors including:

- historical purchase volume and sales statistics;
- customer review;
- selling prices of comparable products and competitive landscape of our products;
- market trends;
- costs or expenses to operate on such third-party e-commerce platforms;
- product positioning and target customer base; and
- foreign exchange rate fluctuations.



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## BUSINESS

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Our product operation department (產品運營部) determines the retail pricing plan for each product taking into account the above-mentioned factors. Generally, we set competitive prices for our products. In addition, we take into account our target customers to determine the price. We review our pricing strategies from time to time and adjust the prices of our products from time to time.

### SEASONALITY

Our sales and results of operations are subject to seasonal fluctuations. We typically achieve higher revenue from sale of our autumn and winter collections due to the higher average unit selling price of our autumn and winter apparel. In addition, we typically carry out more sales and marketing activities before and during holiday seasons, such as Black Friday, Christmas and New Year. We also actively participate in shopping events and promotion activities launched by third-party e-commerce platforms, such as Amazon Prime Day (亞馬遜會員日) and Wish Express Day, to capture more sales opportunities. On the other hand, our businesses are vulnerable to extreme or unusual weather conditions. For example, the extended period of warm weather during the winter season could render a portion of our products incompatible with such unseasonable conditions, and thus may affect our sales and inventories. For risks associated with our seasonal fluctuation, see “Risk Factors – Risks Relating to Our Business and Industry – Our sales are subject to seasonality, which could cause our results of operations and financial condition to fluctuate.”

### SUPPLY CHAIN MANAGEMENT

We apply big data analysis in our supply chain management process, from procurement of raw materials, logistics, to delivery to third-party e-commerce warehouses and customers. We have developed and operated ERP and SCM systems, to digitalize our supply chain management through closely connecting procurement orders, production, shipping and packing, and tracking logistics and inventories. Procurement orders generated in the ERP system are synchronized to the SCM system for suppliers to check, and the order status during production at the suppliers’ end can be simultaneously synchronized back to the ERP system for our follow-up. Supported by our ERP system, orders are able to be processed automatically and accurately. The ERP system will automatically carry out replenishment testing upon the order entry, including manual testing as well as intelligent testing every four hours, through which we are able to monitor the inventory status on a real-time basis. After the product information reaches the warehouse, the packing will proceed. We check the product and customer information before shipment. Through our SCM system, we provide our customers with detailed information, including details of fabric and accessories, styles and customized demands. We closely monitor the progress of orders and periodically evaluate the performance of our suppliers. The SCM system also provides suppliers with necessary statistics about the fabric and accessories for production and the quantity needed. To protect data security, each supplier is independent and can only view its own order and the related fabric and accessories information.

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Our suppliers primarily consist of third-party OEM suppliers and logistics service providers, most of whom are located in the PRC. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we procured from 374, 376, 335 and 238 OEM suppliers, respectively, all of whom were located in the PRC. During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes with our OEM suppliers.

Our procurement department at our headquarters, consisting of 182 members as of June 30, 2022, is responsible for selecting qualified OEM suppliers and reviewing their performance, as well as negotiating the procurement particulars.

### Our OEM Suppliers

#### *Selection and Review of Our OEM Suppliers*

We select our OEM suppliers based on stringent criteria to ensure the quality of our products. When selecting suppliers, we consider, among others, service or product quality, production or delivery capacity, pricing, location, qualifications, reputation and delivery schedule. Our exclusive OEM suppliers are OEM suppliers who only produce products for us exclusively. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had 25, 31, 46 and 37 exclusive suppliers, respectively. The following table sets forth the movement of the number of exclusive OEM suppliers during the Track Record Period:

	<b>Year ended December 31,</b>			<b>Six months ended June 30,</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
As of the beginning of the period	22	25	31	46
Newly engaged as exclusive OEM suppliers	17	11	23	8
Terminated to be exclusive OEM suppliers	(14) <sup>(1)</sup>	(5)	(8)	(17) <sup>(2)</sup>
<b>As of the end of the period</b>	<b>25</b>	<b>31</b>	<b>46</b>	<b>37</b>

*Notes:*

- (1) We terminated the exclusive cooperation with 14 exclusive OEM suppliers in 2019, among which, (i) 12 of them failed to fulfill the more stringent requirements we newly imposed as part of our quality control enhancement; and (ii) two of them expanded their production capacities thus are able to take up more production orders from other companies, as a result they became our general OEM suppliers.
- (2) We terminated the exclusive cooperation with 17 exclusive OEM suppliers in the first half of 2022, among which, (i) 13 of them expanded their production capacities thus are able to take up more production orders from other companies, as a result they became our general OEM suppliers; and (ii) four of them ceased the cooperation with us for business reason.

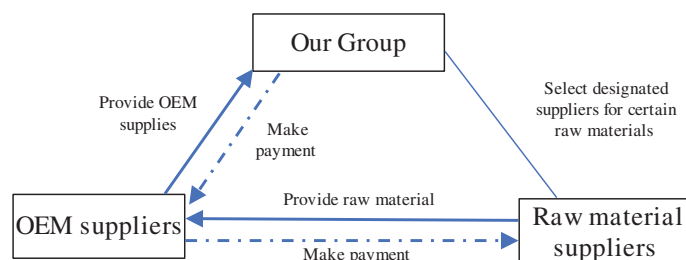
## BUSINESS

As of the Latest Practicable Date, our OEM supplier pool consisted of 805 OEM suppliers for our apparel products and 178 for our footwear products. Our suppliers are required to possess all licenses and permits necessary to conduct their operations. We routinely review and assess our OEM suppliers’ performance to ensure the quality and stability of our supplies, and replace those suppliers who fail to meet our standards and requirements with others. See “– Quality Control and Cost Control.”

### *Relationship with Our OEM Suppliers*

We have built and maintained long-term and stable relationships with our major OEM suppliers, the majority of which have cooperated with us for more than three years. Leveraging our rich industry experience and expanded operational scale, we have strong bargaining power in negotiating price and other terms with our OEM suppliers. Raw materials used for the manufacture of apparel and footwear products mainly include synthetic materials, cotton and down. Generally, we require our OEM suppliers to procure certain raw materials based on various factors, including among others, our designs and specifications on the products, policies of third-party e-commerce platforms or our self-operated online stores, and regulations and policies of the country of delivery destination. Our OEM suppliers’ costs to procure raw materials are included in their selling prices. For certain raw materials such as knitted fabrics, woven fabrics, buttons and zippers, we require our OEM suppliers to procure from our list of designated suppliers. We believe our OEM suppliers would provide us with sufficient support, and in any event, we could engage alternative OEM suppliers within a short period as replacements from our pool of suppliers, considering that normally there are abundant OEM supplier candidates available on the market as advised by Frost & Sullivan.

The following chart illustrates the transaction and fund flow between the OEM suppliers and us.



### *Arrangement with Our OEM Suppliers*

We generally entered into annual framework agreements with our OEM suppliers and place orders as necessary. We specify the category, design, fabric and accessories, unit price, quantity and delivery schedule for each product.

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## BUSINESS

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The framework agreements with our major OEM suppliers include the following salient terms.

- *Terms and termination.* Generally one year subject to annual renewal.
- *Pricing.* Generally, a combination of cost for fabric and accessories, processing cost, and appropriate and reasonable profit.
- *Minimum purchasing requirement.* No minimum purchase is required.
- *Delivery.* Our suppliers are generally responsible for arranging the delivery to our designated warehouses and bearing the costs. In the event of delay in delivery, our OEM suppliers are obligated to pay us a penalty of RMB0.1 per supplied item per day, provided, however, if the total delayed products represent not more than 10% of our total procurement during that month, the late delivery penalties will be waived. The risks transfer to us after we complete the inspection and confirm the receipt of products.
- *Product return.* We are required to inspect our products within seven days. We are typically entitled to return or exchange certain supplies that do not meet our standards upon inspection after delivery and within one month after acceptance.
- *Sub-contracting.* Our OEM suppliers are not allowed to engage sub-contractors to produce products ordered by us.
- *Credit terms and payment.* We are typically given a credit term of one month. We normally pay our suppliers via wire transfer.
- *IP rights protection.* We enter confidential agreements with our OEM suppliers. Our OEM suppliers are generally not allowed to keep, use or leak our designs to third parties. In the event of infringement, they may be imposed a penalty of RMB500,000.

As result of the good relationships and successful experience with our major OEM suppliers, we can usually get quick response and have our additional demand satisfied in due course. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant shortage of or delay in the delivery of supplies, and we had not encountered any material difficulties in procuring products from OEM suppliers.

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## BUSINESS

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### **Our Logistics Service Providers**

As of June 30, 2022, we had 62 domestic logistics service providers and 19 overseas logistics service providers, all of whom have extensive and reliable delivery networks. We select logistics service providers based on their geographical coverage and track record.

We have built and maintained long-term and stable relationships with our major logistics service providers, the majority of whom have cooperated with us for more than two years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in procuring the logistics services from logistics service suppliers.

### ***Arrangement with Our Logistics Service Providers***

The framework agreements with our major logistics service providers include the following salient terms.

- *Terms and termination.* Generally one year subject to annual renewal.
- *Pricing.* Price is set according to the weight and distance of the product.
- *Contractual liabilities.* In the event of products lost, damaged or failed to deliver on-time, our logistics service providers are obligated to bear the stipulated damages.
- *Transfer of risks.* The logistics service providers bear the risks during transportation and related insurance expenses.
- *Sub-contracting.* The logistics service providers are not allowed to subcontract the work to third parties without prior written consent.
- *Credit terms and Payment.* We are typically given a credit term ranging from 15 days to one month. We normally pay our suppliers via wire transfer.
- *Customs duty.* Our major logistics service providers are typically responsible for all customs duties concerning export and import customs clearance.

### **Our Payment Service Providers**

Third-party e-commerce platforms and our self-operated online stores provide customers with the flexibility to choose from a number of payment options. These payment options include online payments with credit cards, debit cards, and payment through third-party online payment platforms. To a much lesser extent, our logistics service providers in Japan also offer a “payment on delivery” payment option, under which our logistics service providers deliver products to the designated addresses by our customers and collect payment on site.

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## BUSINESS

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### *Arrangement with Our Payment Services Providers*

The framework agreements with our major payment services providers include the following salient terms:

- *The scope of service.* The third-party payment service providers are responsible for the fund payment and receipt, and the fund settlement with us.
- *Terms and termination.* The payment services agreements generally have a term of one year. We have the rights to terminate the payment services agreements at any time without cause, while upon prior notice the third-party payment services providers have the rights to terminate the agreements.
- *Pricing.* Price is set according to the scope of the payment services provided.
- *Contractual liabilities.* We are responsible for the payment of all governmental fees and taxes and the claims from our customers.
- *Tax liabilities.* The service providers are not liable for the underlying transactions. We are responsible for the payment of any applicable taxes and customs duties and subject to foreign currency controls.

When our customer purchases products through third-party e-commerce platforms or our self-operated online stores, and choose to make online payment through third-party payment platforms, such as PayPal and Union Pay, such platforms will be considered as our payment service providers.

### **Our Five Largest Suppliers**

The following tables set forth certain information of our five largest suppliers during the Track Record Period.

**BUSINESS**

**Six Months Ended June 30, 2022**

Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier A	Third-party e-commerce platform	Online platform services	Settle with us every 14 days	Deduct from sales proceeds	686,552	57.4%	Since 2014	Supplier A is the largest online e-commerce company in the United States and one of the first companies in the world to start e-commerce business. Supplier A has become the world's largest online retailer and the world's second largest internet company.	Supplier A is a cross-border e-commerce platform that facilitates transactions between merchants and customers on its platform.
Supplier B	Marketing service provider	Marketing services	Prepayment	Bank transfer	14,002	1.2%	Since 2021	Established in 2019, Supplier B is a Singaporean marketing service provider providing marketing services to its customers.	Supplier B primarily engages in the development of software and applications (except games and cybersecurity) and online marketing services.
Shenzhen Nanshan District Juli Clothing Factory (original name: Shenzhen Longgang District Juli Clothing Factory)	OEM supplier	OEM services	Settle with us every month	Bank transfer	13,854	1.2%	Since 2020	Established in 2019, Shenzhen Nanshan District Juli Clothing Factory is an apparel merchant and OEM service provider.	Shenzhen Nanshan District Juli Clothing Factory primarily provides finished goods, including apparel, hat, and footwear, as well as OEM services to its customers.
Zhejiang Yinghe International Logistics Co., Ltd.	Logistics service provider	Logistics services	Settle with us every month	Bank transfer	13,222	1.1%	Since 2020	Zhejiang Yinghe International Logistics Co., Ltd. is a logistics service provider, focusing on providing logistics services to cross-border merchants.	The main business of Zhejiang Yinghe International Logistics Co., Ltd. primarily includes agency services for international freight transportation, covering sea transportation, air transportation and land transportation.
Shanghai Linke International Freight Transportation Agency Co., Ltd.	Logistics service provider	Logistics services	Settle with us every month	Bank transfer	11,832	1.0%	Since 2020	Shanghai Linke International Freight Transportation Agency Co., Ltd. is an international freight transportation service provider, primarily providing agency services, covering import and export, air transportation and sea transportation, to its customers.	Shanghai Linke International Freight Transportation Agency Co., Ltd. primarily provides international transport services to its customers, covering logistics services, warehousing services, custom declaration services, and other services.
					739,462				
						61.9%			

**BUSINESS**

**Year Ended December 31, 2021**

Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier A	Third-party e-commerce platform	Online platform services	Settle with us every 14 days	Deduct from sales proceeds	895,189	38.6%	Since 2014	Supplier A is the largest online e-commerce company in the United States and one of the first companies in the world to start e-commerce business. Supplier A has become the world's largest online retailer and the world's second largest internet company.	Supplier A is a cross-border e-commerce platform that facilitates transactions between merchants and customers on its platform.
Supplier C	Third-party e-commerce platform and logistic service provider	Online platform services and logistics services	Settle with us every 15 days	Deduct from sales proceeds and bank transfer	126,574	5.5%	Since 2015	Established in the United States, Supplier C is the largest mobile e-commerce platform in North America and Europe, on which 90% of the merchants are from China.	Supplier C is a cross-border e-commerce platform that facilitates the transactions between the sellers and customers. Supplier C is the parent company of the cross-border e-commerce solutions service provider which provided logistics services to us. Such e-commerce solutions service provider provides services including ordering, collection, distribution, and tracking.
4PX Express Co., Limited	Logistics service provider	Logistics services	Prepayment	Bank transfer	44,286	1.9%	Since 2018	4PX Express Co., Limited is an international services provider, providing international express channels and system services to its customers.	4PX Express Co., Limited is an international service provider providing procurement management, inventory management, warehousing management, order processing, and logistics delivery services to its customers, which also cooperates with e-commerce platforms to provide information, fund and logistics solutions for cross-border e-commerce transactions.



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Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier D	Logistics service provider	Logistics services	Settle with us every month	Bank transfer	34,632	1.5%	Since 2020	Supplier D is the PRC subsidiary of a global transportation and logistics company established in the United States with an operating network covering more than 220 countries and regions around the world.	The parent company of Supplier D is an industry leader in the transportation and logistics industries, providing services including forwarding, ground freight, brokerage, logistics, and delivery services in more than 200 countries and regions.
Hangzhou Zhuoyue Supply Chain Management Co., Ltd.	Logistics service provider	Logistics services	Settle with us every 14 days	Bank transfer	30,028	1.3%	Since 2020	Established in 2019, Hangzhou Zhuoyue Supply Chain Management Co., Ltd. is a logistics service provider providing international transport services.	Hangzhou Zhuoyue Supply Chain Management Co., Ltd. provides a full range of logistics services, including service such as import, air transportation, sea transportation and customs declaration.
<b>Year Ended December 31, 2020</b>									
Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier C	Third-party e-commerce platform and logistics service provider	Online platform services and logistics services	Settle with us every 15 days	Deduct from sales proceeds and bank transfer	335,728	19.7%	Since 2015	Established in the United States, Supplier C is the largest mobile e-commerce platform in North America and Europe, on which 90% of the merchants are from China.	Supplier C is a cross-border e-commerce platform that facilitates the transactions between the sellers and customers. Supplier C is the parent company of the cross-border e-commerce solutions service provider which provided logistics services to us. Such e-commerce solutions service provider provides services including ordering, collection, distribution, and tracking.

**BUSINESS**

Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier A	Third-party e-commerce platform	Online platform services	Settle with us every 14 days	Deduct from sales proceeds	292,414	17.2%	Since 2014	Supplier A is the largest online e-commerce companies in the United States and one of the first business. Supplier A has become the world's largest online retailer and the world's second largest internet company.	Supplier A is a cross-border e-commerce platform that facilitates transactions between merchants and customers on its platform.
Supplier E	Marketing service provider	Marketing services	30 days	Bank transfer	62,529	3.7%	Since 2018	Established in China, Supplier E is a listed company on the Main Board of the Stock Exchange, and provides SaaS services to its customers.	Supplier E provides a series of SaaS products and services including but not limited to mobile marketing, statistical attribution, creation automation, traffic monetization, and cloud architecture cost optimization to its customers.
Jiahe Group <sup>(1)</sup>	Marketing service provider	Marketing services	30 days	Bank transfer	54,905	3.2%	Since 2020	Jiahe Group is a company established in Hong Kong in 2018. See “Financial Information – Related Party Transactions – Transactions with Related Parties – Purchase of Advertising Services” in this Document.	See “Financial Information – Related Party Transactions – Transactions with Related Parties – Purchase of Advertising Services” in this Document.
Yamichoice Inc.	Cross-border logistics service provider	Logistics services	Prepayment	Bank transfer	49,714	2.9%	Since 2020	Yamichoice Inc. is a cross-border logistics service provider established in the United States.	Yamichoice Inc. primarily provides cross-border freight forwarding services to its customers.
					795,290	46.7%			

*Note:*

(1) In May 2021, Jiahe Group was disposed to an Independent Third Party and we ceased to procure online advertising agency services from Jiahe Group when our contract with Jiahe Group expired upon mutual consent and engaged an Independent Third Party to provide similar services. We will not continue to procure advertising agency services from Jiahe Group.

**BUSINESS**

**Year Ended December 31, 2019**

Supplier	Business nature	Major services purchased by us	Credit terms	Payment method	Purchase amount (RMB'000)	As a percentage of our total purchases	Length of relationship	Size of operation	Business profile and background
Supplier C	Third-party e-commerce platform and logistics service provider	Online platform services and logistics services	Settle with us every 15 days	Deduct from sales proceeds and bank transfer	289,656	23.5%	Since 2015	Established in the United States, Supplier C is the largest mobile e-commerce platform in North America and Europe, on which 90% of the merchants are from China.	Supplier C is a cross-border e-commerce platform that facilitates the transactions between the sellers and customers. Supplier C is the parent company of the cross-border e-commerce solutions service provider which provided logistics services to us. Such e-commerce solutions service provider provides services including ordering, collection, distribution, and tracking.
Supplier A	Third-party e-commerce platform	Online platform services	Settle with us every 14 days	Deduct from sales proceeds	197,255	16.0%	Since 2014	Supplier A is the largest online e-commerce company in the United States and one of the first companies in the world to start e-commerce business. Supplier A has become the world's largest online retailer and the world's second largest internet company.	Supplier A is a cross-border e-commerce platform that facilitates transactions between merchants and customers on its platform.
China Postal Express & Logistics	Logistics service provider	Logistics services	Settle with us every 15 days, credit term 30 days	Bank transfer	70,811	5.7%	Since 2017	China Post Express Logistics Co., Ltd., is a comprehensive express logistics service provider with the longest operating history and the widest express network coverage in China.	China Post Express Logistics Co., Ltd., mainly provides domestic express delivery, international express delivery, contract logistics and other value-added services to its customers.
Supplier E	Marketing service provider	Marketing services	30 days	Bank transfer	43,311	3.5%	Since 2018	Established in China, Supplier E is a listed company on the Main Board of the Stock Exchange, and provides SaaS services to its customers.	Supplier E provides a series of SaaS products and services including but not limited to mobile marketing, statistical attribution, creation automation, traffic monetization, and cloud architecture cost optimization to its customers.
Jia Cheng International Logistics Co., Ltd	Logistics service and other cross-border e-commerce services provider	Logistics services	30 days	Bank transfer	39,567	3.2%	Since 2018	Jia Cheng International Logistics Co., Ltd is an integrated cross-border e-commerce service provider, with widely-distributed branches and business sites domestically and globally.	As an integrated logistics service provider, Jia Cheng International Logistics Co., Ltd is engaging in providing international express delivery and international freight forwarding services to its customers.
					640,600	51.9%			

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Jiahe Group, our fourth largest supplier for the year ended December 31, 2020, is a company used to be controlled by a family relative of Ms. Yu, before its disposal to one of our former employees, who is an Independent Third Party in May 2021. Jiahe Group acted as our advertising agency from June 2020 to May 2021, when the contract between Jiahe Group and us expired upon mutual consent. Except for Jiahe Group (prior to its disposal to the Independent Third Party), all of our five largest suppliers during the Track Record Period are Independent Third Parties. For transactions with Jiahe Group, see “Financial Information – Related Party Transactions.” To the best knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period, except for Jiahe Group before May 2021. For the years ended December 31, 2020 and 2021, our consideration to Jiahe Group, which was on an actual basis and included the advertising fees for advertisement placement on social media platforms, net off the rebate provided by Jiahe Group, was RMB54.9 million and RMB5.8 million, respectively, representing 4.7% and 0.4% of our total selling expenses and distribution costs for the relevant year. Supplier A, a third-party e-commerce platform, was one of our five largest suppliers and also our customer during the Track Record Period. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, Supplier A procured a small amount of apparel products at the amount of approximately RMB0.3 million, RMB0.7 million, RMB0.5 million and RMB0.4 million, respectively, representing a negligible portion of our total revenue. During the same periods, the gross profit attributable to our sale to Supplier A amounted to approximately RMB0.2 million, RMB0.5 million, RMB0.4 million and RMB0.3 million, respectively, while the gross profit margin attributable to our sale to Supplier A was 80.2%, 81.5%, 82.8% and 80.5%, respectively. Other than Jiahe Group and Supplier A, none of our five largest suppliers during the Track Record Period was also our customers.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant return or exchange of supplies that did not meet our standards and had not suffered any significant loss or damage caused by quality problems with the supplies.

### **Inventory Management**

In line with the industry norm, our inventories primarily consist of products procured from OEM suppliers. We have strict inventory management and control system that monitors each stage of the warehousing process, including procurement, storage, distribution, exchange, return, and disposal. Our warehousing personnel is responsible for the inspection, storage and distribution of inventories. All inventories are inspected upon receipt, recorded in-stock book, and stored in different areas according to their respective storage condition requirement, properties, usage and batch number. We review our inventories monthly. Our warehousing personnel also carries out regular check to ensure consistency among inventories and records.

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We have implemented the following measures to monitor our inventory level:

- We procure inventories according to our sales plan and replenish products if necessary to meet our sales expectations;
- We have developed and deployed a digital ERP system, through which we can collect inventory and sales statistics on a real-time basis, enabling us to analyze and track the sales performance of our product and inventory level. See “– Information Technology Systems” for more details;
- Where inventories are unable to meet our sales expectation, we replenish such products from our OEM suppliers. Leveraging the good relationships with our OEM suppliers, we can generally place additional orders to fulfill our inventories;
- In anticipation of the greater demand for products for the forthcoming holidays and festivals, such as Amazon Prime Day, Black Friday, Christmas and New Year, we will stock up on products for up to two months of inventories; and
- For obsolete inventories that fail to sell for more than one year, we offer customers certain discount on the uniform retail prices of products to stimulate sales.

For details of our policy for provisions for inventories, see “Financial Information – Selective Items from Consolidated Statements of Financial Position – Inventories.” For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our inventories turnover days were 175 days, 177 days, 304 days, 292 days and 442 days, respectively. During the same periods, we made provision for impairment loss of our inventories in the amount of RMB54.5 million, RMB24.6 million, RMB36.9 million, RMB30.9 million and RMB51.1 million, respectively. Due to the outbreak of COVID-19, we experienced shortage or delay in the supply of certain products in a short period of time. From February 2020 to March 2020, approximately 13% of the products we ordered in terms of product volume, were in short supply, higher than the annual average of approximately 3% under normal circumstance. As the logistics service providers and OEM suppliers have soon resumed normal, our business operation has not encountered material disadvantage. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage of inventory or obsolescence of inventory.

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### QUALITY CONTROL AND COST CONTROL

We believe that quality control is essential to our success. We have established and maintained stringent quality control system. As of June 30, 2022, our Quality Control Department comprised 74 staff.

Key aspects of our all-stage quality control system are as follows:

- ***Quality control at supplier selection stage:*** We follow stringent procedures in selecting OEM suppliers. In particular, we evaluate OEM supplier candidates, primarily focusing on their service or product quality, production capacity, pricing, location, qualifications, reputation, delivery schedule and inventory level. As the historical performance of our suppliers, especially their delivery timeline and product quality can be conveniently accessed and digitally analyzed through our SCM system, we are able to evaluate the cooperation of these suppliers on a data-oriented basis;
- ***Quality control at product production:*** We typically conduct on-site inspections to make sure sufficient quantities and proper qualities of supplies will be delivered in a timely manner;
- ***Quality control upon delivery.*** We have established a complete SCM system to assess ratings of suppliers and the quality of their products. For products delivered to our warehouses, we conduct inspection on both quantity and quality before acceptance of such products. We inspect products according to our quality standards and craft sheets (工藝單), from sewing techniques (stitch line, thread color, wash mark), sizes (chest, waist, shoulder, sleeve length, neck circumference), printing, wrinkling, smocking (打攬), fabric and accessories (color, quality, dirt), finishing techniques (後整工藝) (ironing (整燙), SKU managing, barcodes printing and packaging), to factory assessment (warehouse return rate, order delay rate).

We strive to operate in cost efficient manner and control our costs and expenses, in order to improve our profitability. We have taken the following major measures to control our costs and expenses during the daily operations:

- ***Procurement costs control.*** We have established and maintained long-term and stable relationships with our major OEM suppliers, enabling us to procure quality products while controlling the costs. Leveraging on our growing operational scale, we have stronger bargaining power in negotiating prices with our OEM suppliers. We also plan to reduce our procurement costs through enhancing our supply chain management by engaging more OEM suppliers that would offer products at competitive prices;

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- ***Freight and insurance costs and warehousing expenses control.*** We reduce the package size and weight of our products, enabling (i) reduction on unit delivery charges; and (ii) reduction on warehousing charges, which depend on the size and weight of the package. We also encourage the delivery on consolidated basis under the “full container shipments” model, which can enhance the delivery efficiency while reducing the delivery charges. In addition, leveraging on our long-term and stable relationships with our major logistics service suppliers and our growing operational scale, we are able to enjoy quality logistics services at relatively competitive prices, which can control the delivery charges for both products delivered under the international direct mail method and inbound delivery of products delivered under the FBA model. We have promoted and delivered more products through normal sea freight, to the extent practicable and applicable, the costs of which are generally lower than delivery by expedited sea freight or air;
- ***Marketing and advertising expenses control.*** We keep monitoring our marketing and advertising expenses. With the intention to further enhance the cost efficiency of our marketing and advertising activities, we from time to time evaluate and compare the sales performance and market potential of different products and markets, respectively, to make timely adjustment on our advertising mix, product portfolio and our marketing focus. We gradually reduce our marketing efforts on products with relatively stable sales performance or products or markets with less sales potential. Due to our continuous efforts trying to achieve an optimal balance between the costs and benefit of our marketing and advertising activities through these measures, the percentage of marketing and advertising expenses spent on Amazon to the associated sales generated thereon stabilized since July 2022 and up to the Latest Practicable Date, after experiencing a temporary decline in the first half of 2022, as compared to that in 2021, according to our internal record. In addition, through establishing and maintaining stable long-term relationship with third-party advertising agencies and leveraging our growing operational scale, we strive to enhance our bargaining power in negotiating more favorable prices with such advertising agencies for our placement of advertisements for our self-operated online stores; and
- ***Frequent internal discussion and communication with industry peers.*** Our management frequently reviews the management account and operating data and monitors the implementation of cost control measures. Our management also from time to time communicates with industry peers on their experience of cost control.

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### MARKETING AND PROMOTION

During the Track Record Period, we primarily engaged in online marketing and promotional activities. We evaluate our marketing and promotion performance by a number of indicators, such as Return on Investment (ROI) by platforms or by stores within our operating teams. ROI is calculated based on revenue divided by selling and marketing costs allocated to the platforms or stores within the operating teams during the relevant period. Generally, the higher the ratio is, the better performance may be reflected, as this could imply more revenue generated from the same marketing and promotion efforts.

However, the ROI may not always be indicative when there are material fluctuations, and therefore, we also evaluate our marketing and promotion performance in combination with other indicators such as GMV, sale to return ratio, the number of new stores opened and new products launched to evaluate the overall effectiveness of our marketing and promotion activities. During the Track Record Period, we recorded a general decrease in our overall ROI, primarily due to our gradual shift of strategic focus from sale through Wish to sale through Amazon. Also, we substantially increased our marketing and advertising efforts to promote numerous new products during the initial sale of such products on Amazon, and it takes time for the sales to ramp up and gradually achieve profitability.

We market our products primarily through the following ways:

- ***Promotion by our self-operated online stores.*** We place advertisement on leading social media platforms, including Facebook, Instagram and Google, from time to time. Leveraging our content production capability and deep understanding of our products, we normally design and produce the initial advertisement content and place the advertisement on social media platforms through advertising agencies or authorized advertising resellers, to reach our potential customers precisely.
- ***Placing advertisement on e-commerce platforms.*** We gain marketing support from third-party e-commerce platforms we cooperate with through capitalizing their vast user traffic. Our third-party e-commerce platform partners are also our traffic suppliers who offer us online traffic sources through navigations to our products and providing advertising spaces.

Their services include (i) Cost Per Clicks (CPC), which is a pricing mechanism that charges us each time a visitor clicks on a sponsored link; and (ii) Demand-Side Platform (DSP), a precise marketing service provided by Amazon, which can help us increase our brand awareness both on and off the e-commerce platforms through buying display, video, and audio advertisements and programmatically reaching existing and new customers across the web on both Amazon sites and apps as well as through Amazon’s publishing partners. Our ability to closely and consistently cooperate with the e-commerce platforms allows us to leverage the huge amount of platform traffic and further boosts our sales volume.



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- **Periodic sales and discounts.** We offer sales and promotional discounts on our products to promote sales and reduce obsolete inventories, particularly during holidays and festival seasons such as Amazon Prime Day, Christmas, New Year and Black Friday. From time to time, we offer customers discount on the retail prices for excess inventory.

As of June 30, 2022, our sales departments have a total of 485 employees. They are responsible for our operation and sales activities. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our marketing and advertising expenses were RMB116.2 million, RMB263.2 million, RMB319.1 million, RMB146.2 million and RMB192.2 million, respectively, representing 8.1%, 13.9%, 13.6%, 13.3% and 15.0%, respectively, of our total revenue for the same periods. Our allocation of marketing and advertising expenses across sales channels including social media platforms and third-party e-commerce platforms, depends on our estimated advertising budgets and sales targets for our self-operated online stores and seller stores on the third-party e-commerce platforms, and we adjust our expense allocations from time to time based on their sales performance. For example, when we intend to promote our sale through self-operated online stores, we would spend more advertising expenses on social media platforms and vice versa.

### OUR CUSTOMERS

Our customers are primarily retail customers who purchased our products either through major third-party e-commerce platforms, or our self-operated online stores directly. To a much lesser extent, our customers also include corporate customers such as third-party e-commerce platforms and other third-party merchants. Although we primarily target female customers aging from 18 to 45 years who seek quality womenswear with reasonable and affordable prices, given the dispersed base of our customers, we do not have a concentration risk. The revenue contributed by our five largest customers in each year during the Track Record Period accounted for less than 1.6% of our total revenue of the relevant year. Our five largest customers during the Track Record Period primarily comprised third-party e-commerce platforms, other third-party merchants and individual customers. Among our five largest customers, Jiahe Group, our second largest customer for the year ended December 31, 2021, was our fourth largest supplier for the year ended December 31, 2020. For the year ended December 31, 2021, Jiahe Group (i) purchased furniture and outdoor and sporting goods from us with a consideration of approximately RMB14.2 million, representing 0.6% of our total revenue for the same period; and (ii) received warehousing and logistics services from us with a consideration of RMB1.5 million, representing a negligible portion of our total revenue for the same period. For the year ended December 31, 2021, the gross profit attributable to our sale of furniture and outdoor and sporting goods to Jiahe Group amounted to approximately RMB1.5 million and warehousing and logistics services to Jiahe Group amounted to approximately RMB0.2 million, while the gross profit margin attributable to our sale of furniture and outdoor and sporting goods and warehousing and logistics services to Jiahe Group was 10.2% and 11.2%, respectively. The gross profit of our sale of furniture and outdoor and sporting goods to Jiahe Group were lower than the overall gross profit generated from our sale to corporate customers, primarily due to the relatively low selling prices of such products

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as (i) we intended to focus more on sale of apparel and footwear products and ceased to explore sale of furniture through e-commerce platforms thereby disposing the inventories we hold at relatively low prices; and (ii) we did not charge Jiahe Group outbound delivery fees, as the majority of such products were stored in overseas warehouses and we were not responsible for further delivery to the retail customers of Jiahe Group. In addition, Jiahe Group is responsible to pick up the remaining products at our domestic warehouses and arrange the subsequent delivery. As comparison, we are generally responsible for the outbound delivery of our sale of products to other corporate customers and our selling prices for such sale comprised outbound delivery fees, as those products were primarily stored in the domestic warehouses. Our outbound shipping charges and relevant insurance fees were mainly included in freight and insurance cost in selling expenses and distribution costs instead of our freight and insurance cost in cost of sales. Apart from the procurement of products, Jiahe Group also purchased warehousing and logistics services from us to store and deliver products procured from us and other third-party suppliers. The gross profit margin for our warehousing and logistics services to Jiahe Group were comparable to our gross profit margin for provision of similar services to other corporate customers during the same period. Besides, our fourth largest customer for the year ended December 31, 2020, an e-commerce platform which also provides logistics services, primarily procured sporting goods, apparels, and toys from us, was also our logistics service supplier during the Track Record Period. Our sales to the above-mentioned logistics service supplier amounted to approximately RMB3,726, RMB136,983, RMB93,811 and RMB624 for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. In addition, Supplier A was also our second largest and third largest customer for the years ended December 31, 2019 and 2020, respectively. See “– Supply Chain Management – Our Five Largest Suppliers.” Other than the above-mentioned three customers, none of our five largest customers were our suppliers during the Track Record Period. As advised by Frost & Sullivan, it is the industry norm for e-commerce platforms to purchase products from e-commerce companies like us and provide platform services such as logistics or advertising services.

Our second largest customer for the year ended December 31, 2021 was Jiahe Group, which is a company used to be controlled by a family relative of Ms. Yu before its disposal to an Independent Third Party who is our former employee in May 2021. Before its disposal, Jiahe Group also provided us advertising agency services. For more information of the transactions with Jiahe Group, see “Financial Information – Related Party Transactions.” Our largest customer for the years ended December 31, 2019, 2020 and 2021, Super Summer, used to be our subsidiary before we disposed it to an Independent Third Party in July 2019. Super Summer was incorporated solely for the purpose of registering online stores on the platform of Walmart. At the time of the incorporation of Super Summer, Walmart used to only accept companies incorporated in the U.S. to be registered as the beneficial owner of the online stores. However, the aforesaid registration requirement was abolished subsequently and as a result, the PRC companies were allowed to be registered as the beneficial owner of the online stores. Therefore, the Group could register online stores on the platform of Walmart through its PRC subsidiaries with no necessity to manage or maintain an U.S. entity at a high cost. In addition, as our sale on the online platform of Walmart was insignificant and we focused our operations

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primarily on sale through online stores on Amazon, we disposed Super Summer to an Independent Third Party in July 2019. We generated revenue of RMB6.2 million from sale of products through Walmart by Super Summer for the year ended December 31, 2019, representing an insignificant portion of our total revenue during the same year. As the financial position and financial performance of Super Summer during the Track Record Period are immaterial to our Group’s financial statements as a whole, and Super Summer did not regard the United States as the major geographical area of its operations, the disposal of Super Summer was not treated as a discontinued operation in our Group’s financial statements. The below table sets forth the selected financial information of Super Summer and its percentage in our Group as a whole for the year indicated:

	<b>For the year ended/As of December 31, 2019</b>			
	<b>Assets</b>	<b>Equity/ (deficit)</b>	<b>Revenue</b>	<b>Profit/(loss) before income tax</b>
Super Summer ( <i>RMB’000</i> )	–	–	6,207	(30)
Percentage of Super Summer in our Group (%)	–	–	0.43	(0.03)

For more details on the disposal of Super Summer, please refer to “History, Reorganization and Corporate Structure – Reorganization – Offshore Reorganization – (v) Acquisition and Subsequent Disposal of Super Summer” of this document. Due to the established business arrangement, Super Summer continued to purchase from us after the reorganization as a corporate customer, at terms similar to other corporate customers. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, we generated revenue of RMB6.4 million, RMB27.4 million, RMB15.8 million, RMB12.7 million and RMB1.3 million, respectively, from sale to Super Summer after reorganization, which was in line with the sustained demand from the online stores on Walmart, as customers are more accustomed to online shopping due to the impact of COVID-19. Except for Jiahe Group and Super Summer, all of our five largest customers during the Track Record Period are Independent Third Parties. To the best knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period, except for Jiahe Group before May 2021 and Super Summer before July 2019.

### **Customer Services and Customer Feedback**

#### ***Customer Service and Feedback***

We provide customer service to customers on both the e-commerce platform and our self-operated online stores, for which we allocate separated human resource and set different working flows, primarily responding to distinguished customer demands.

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- ***Third-party e-commerce platforms.*** Unlike our self-operated online stores, we cannot directly contact and closely interact with customers on third-party e-commerce platforms. All communications with such customers are conducted through communication channels provided by the platforms. In order to provide prompt responses to our customers of certain third-party e-commerce platforms, in addition to the customer service teams of those third-party e-commerce platforms themselves, we also retain our own customer service staff for our stores operated on such third-party e-commerce platforms. Our customer service staff primarily deal with the customers' requests for product exchange or return, which could not be fully solved by the platforms.
- ***Self-operated online stores.*** Aiming at responding to our customers effectively and efficiently, we retain a separate customer service department, who responds to our customers inquiries and complaints on a 24/7 basis. Our customers usually contact us for the following reasons: (i) to amend their orders, including types and quantities of products, size or color, and shipping address; (ii) to check the process progress of their order; (iii) to check the delivery status of their order; (iv) to report a defective, damaged, or missing item in their order; and (v) to initiate a return, exchange, or refund of their order.

We leverage our digital system to improve the quality as well as efficiency of our customer service. We employ our digitalized system to collect customers' feedback using keywords search and monitor, such as comments on our fabric and accessories and pattern, and generate a report for our design team to improve and upgrade our products. Our IT department independently develops and operates the e-mail management system for our self-operated online stores, which was initially designed to increase the responding efficiency. Integrated the functions of responding to customers' inquiries, receiving timely comments, checking the order information and logistics, recommending new series as well as precisely distributing the discount codes, we are able to promptly and effectively respond to the customers' inquires through the integrated e-mail management system.

We have also developed our own data analysis system to digitalize and visualize data for the operation of our self-operated online stores, based on data collection, big data analysis and core algorithm. Our self-developed data analysis system empowers our delicate operations with big data analysis, through which we can analyze vast operating data efficiently to reach decision for our operations.

We also provide various channels to ascertain customers' expectations and collect customers' comments. We mainly collect customer feedback through various channels, including but not limited to customer service hotline and comment collection surveys that we encourage customers to fill out.

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### *Management of Customer Complaints*

Given the nature of our business, we receive customer complaints from time to time. In line with the industry norm, customer complaints are usually in relation to the following categories by nature:

- ***Logistics:*** this typically occurs when a customer receives a damaged, defective or incorrect item from us.
- ***Product size and color:*** this typically occurs when a customer finds the size, or color of our products is not fit or matched as expected.
- ***Product quality:*** this typically occurs when a customer finds the quality of our products below his or her expectation.

On third-party e-commerce platforms we cooperate with, customer complaints are primarily handled by their own customer service teams, as they are directly responsible for the sales process on that platform. For those complaints they fail to solve, for example, those in relation to product exchange or return, our customer service team will follow up and handle accordingly. We usually reach out to the customers, to understand the issue and propose solutions to the extent possible. Our involvements in the customer complaint management vary depending on the internal policies of different third-party platforms. For example, we have been more involved in the customer complaint management and established an online store management team on Wish consisting of approximately 15 employees. By contrast, most of the customer complaints on Amazon are directly handled by sales operation staff from Amazon. On our self-operated online stores, we are responsible for handling customer complaints. In order to ensure prompt and proper handling of customer complaints, we have set up internal processes which we require our staff to follow. In order to maintain good customer relationships, we seek to resolve these complaints reasonably and amicably as soon as possible. When complaints of a similar nature recur, we hold internal discussions periodically to review such complaints and implement appropriate measures for rectification.

Customers generally accept complimentary services and/or products return and/or refunds to settle their complaints. We may also be required to pay monetary compensation to settle customer complaints. We review the grounds of the requests for refunds or compensation on a case-by-case basis, depending on the reasonableness of the customer's complaint and demand, as well as other factors such as resources that we may otherwise have to spend in handling the matter. During the Track Record Period and up to the Latest Practicable Date, in addition to product return or exchange, we had not incurred any material monetary compensation to settle customer complaints.

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### TRANSFER PRICING ARRANGEMENT

During the Track Record Period, we conducted our operations primarily through our subsidiaries in the PRC and Hong Kong. We primarily conducted our sales activities through Zibuyu HK, our subsidiary in Hong Kong. During the Track Record Period, our subsidiaries in China are responsible for the logistics, technical services, e-commerce operations, supply chain management, warehousing and IT support. Zibuyu HK then sells the products to our overseas customers through third-party e-commerce platforms or our self-operated online stores. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the relevant intra-Group transactions amounted to RMB537.5 million, RMB580.3 million, RMB680.5 million and RMB248.6 million, respectively.

The Organization for Economic Co-operation and Development (the “**OECD**”), an international organization of international cooperation, promulgated the transfer pricing guidelines for multinational enterprises and tax administrations (the “**OECD Transfer Pricing Guidelines**”), which is generally followed by the relevant tax jurisdictions involved in the intra-Group transactions including Hong Kong and the PRC. According to the OECD Transfer Pricing Guidelines, the intra-Group transactions should be at arm’s length basis to avoid distorted taxable income in different jurisdictions.

We have engaged international professional accounting firms as independent tax consultants to conduct annual transfer pricing review on our cross-border intra-Group transactions during the Track Record Period to ensure compliance with the relevant transfer pricing regulations and an independent transfer pricing consultant (the “**Transfer Pricing Advisor**”) to conduct benchmarking studies on the intra-Group transactions during the Track Record Period in accordance with the OECD Transfer Pricing Guideline. Our Transfer Pricing Advisor determined that the transactional net margin method was the most appropriate transfer pricing methods to assess whether the transfer pricing arrangements related to the cross-border intra-Group transactions involved were consistent with the arm’s length principle. A range of reasonable profit level was determined by reference to the range of reasonable profit level derived by comparable companies (the “**Comparable Profit Level Range**”). The Transfer Pricing Advisor has performed benchmarking study for the intra-Group transactions to search for reliable comparable companies with publicly available information. The Transfer Pricing Advisor has applied both quantitative and qualitative criteria to select comparable companies. Applying the quantitative criteria, the comparable companies must be companies which (i) had two years consecutive financial information available; and (ii) did not report two years consecutive losses. Applying the qualitative criteria, the comparable companies must be companies which engaged in sufficiently similar industries and activities of the companies involved in the intra-Group transactions. The Comparable Profit Level Range determined through the benchmarking study follows the OECD Transfer Pricing Guidelines and can be regarded as an arm’s length profit level range.

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The following table sets forth the Comparable Profit Level Range and the profit level of our subsidiaries in Hong Kong and the PRC for the periods indicated:

	Comparable Profit Level Range										Profit level indicator						
	Year ended December 31,					Six months ended June 30,					Year ended December 31,						
	2019		2020		2021		2022		2019	2020	2021	2022	2020	2021	2022		
	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile	Lower quartile	Upper quartile		
<i>The PRC subsidiaries of our Group</i>																	
Hangzhou Zibuyu <sup>(1)</sup>	2.73%	1.87%	1.72%	3.33%	2.20%	1.71%	3.60%	1.79%	1.00%	3.60%	1.79%	1.00%	3.60%	1.94%	1.92%	2.48%	2.70%
Huzhou Zibuyu <sup>(1)(2)</sup>	-	-	-	-	-	-	3.60%	1.79%	1.00%	3.60%	1.79%	1.00%	3.60%	-	-	7.56%	3.67%
Zhejiang Zibuyu <sup>(3)</sup>	6.25%	4.26%	1.39%	5.80%	4.19%	2.61%	5.66%	2.35%	2.03%	5.66%	2.35%	2.03%	5.66%	1.61%	4.41%	4.52%	4.03%
Hangzhou Junbuqi <sup>(1)</sup>	-	-	-	-	-	-	8.53%	5.16%	3.34%	8.53%	5.16%	3.34%	8.53%	-	-	6.50%	4.61%
<i>Hong Kong subsidiaries of our Group</i>																	
Zibuyu HK <sup>(3)</sup>	6.25%	4.26%	1.39%	5.80%	4.19%	2.61%	5.66%	2.35%	2.03%	5.66%	2.35%	2.03%	5.66%	1.61%	4.41%	4.52%	4.03%

*Notes:*

- (1) For our PRC subsidiaries, Hangzhou Zibuyu, Huzhou Zibuyu and Hangzhou Junbuqi, the Transfer Pricing Advisor has adopted full cost markup rate as the profit indicator for the comparison with the profit levels of the comparable companies during the periods indicated.
- (2) Huzhou Zibuyu was established in December 2020.
- (3) For intra-Group transactions with Zhejiang Zibuyu, the Transfer Pricing Advisor has selected Zibuyu HK as the tested party, as Zibuyu HK is the major transaction party with Zhejiang Zibuyu and Zhejiang Zibuyu owns major intangible assets of our Group. After consulting our Transfer Pricing Advisor, our Directors are of the view that any comparable adjustment on a subsidiary holding major intangible assets of our Group would be material and unreliable. Therefore, Zhejiang Zibuyu cannot be selected as the tested party. The Transfer Pricing Advisor has applied operating profit margin as the profit indicator with the comparison of the profit level of the comparable companies during the periods indicated.

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After consulting our Transfer Pricing Advisor, we believe that our transfer pricing arrangement during the Track Record Period was in accordance with the arm’s length principle and in compliance with the applicable Hong Kong and PRC transfer pricing regulations, and there was no need for any transfer pricing adjustment within our Group, and the likelihood of triggering transfer pricing audit by the tax authority is remote.

Having (i) reviewed annual transfer pricing review reports issued by the independent tax consultants and the benchmarking studies memorandum issued by the Transfer Pricing Advisor, (ii) conducted an interview with the Transfer Pricing Advisor to understand its qualification, and bases, assumptions and measures adopted to reach its views on the Group’s transfer pricing arrangements, and (iii) reviewed the legal opinions issued by the Company’s PRC Legal Advisors, the tax compliance confirmation letters from the competent PRC tax authorities, the Hong Kong legal opinions issued by the Hong Kong legal advisors to the Company, and results of the background searches on the Group companies, nothing has come to the attention of the Joint Sponsors that would (i) cause them to disagree with the Transfer Pricing Advisor’s view on the transfer pricing arrangements, or (ii) indicate that the Group’s transfer pricing arrangements involve tax evasion.

We have also adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- our transfer pricing arrangements were monitored to ensure compliance with the arm’s length principle;
- training was provided to the senior management relating to updates on relevant transfer pricing laws and regulations in the relevant jurisdictions to ensure no material deviation exists between the transfer pricing methodology adopted by us and the relevant laws and regulations;
- internal control measures have been implemented to enhance our supervision over transfer pricing arrangements within applicable jurisdictions, as we have established and implemented clear procedures, including approval procedures of the transfer pricing transactions, examination on the reasonability of the considerations and due diligence of the background information, prices and other relevant information towards such transaction. In addition, we have designated responsible staff to keep the list of connected parties updated and report material changes to our Directors; and
- all reporting forms are reviewed by two of our executive Directors before submitting to the relevant tax authority.



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Having considered the above, our Directors are of the view that such measures are sufficient and effective. However, for risks associated with our transfer pricing arrangement, see “Risk Factors – Risks Relating to Our Business and Industry – Some of our transfer pricing arrangements may be subject to scrutiny by the relevant tax authorities in the PRC and Hong Kong and additional tax may be imposed which may reduce our revenue and adversely affect our business, financial condition and results of operation.”

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we were not aware of any inquiries, audit, investigation or challenge by any relevant tax authorities in Hong Kong and the PRC in relation to our intra-Group transactions.

### TAXATION AND RELATED ARRANGEMENTS

We have been primarily focusing on the sale of a wide range of apparel, footwear and other products through major third-party e-commerce platforms and our self-operated online stores to customers, with major sales to the United States and Europe which collectively accounted for approximately 87.8%, 89.1%, 95.6%, and 98.6% of the total revenue in 2019, 2020 and 2021 and the first half of 2022, respectively.

Based on the Company’s experience in our industry, there is very limited established common practice for professional tax management to deal with indirect tax matters in different jurisdictions which arise from sale of tangible products through third-party e-commerce platforms or self-operated online stores. In particular, it has become common for relevant tax authorities to impose value-added tax (the “VAT”)/sales and use tax (collectively, the “**indirect tax**”) collection and payment obligations on product vendors which do not have physical presence in their respective jurisdictions over time. As global and local laws and regulations concerning online sales continue to evolve, we may be subject to potential indirect tax exposure where we are required to collect and remit indirect tax in respect of other jurisdictions where our customers are located.

During the Track Record Period, for our sale through third-party e-commerce platforms in the U.S., such platforms would generally withhold and remit certain indirect tax on our behalf in respect of our sale to the extent legally required. During the same time period, for our sale to Europe, we engaged a tax agency to handle our tax filings in Europe. In preparation of the [REDACTED], we have also conducted a review of our indirect tax compliance obligations and consulted tax consultants on indirect taxes from our major overseas markets in this regard. Further particulars of our tax obligations in the U.S. and Europe, which are our major overseas markets, are as follows.

#### **Sales and Use Tax in the U.S.**

In general, sales and use tax in the U.S. is imposed on customers upon the sale, transfer, or exchange of goods or services based on purchase price. Sales and use taxes are imposed and administered at the state and local level and the rules vary among the taxing jurisdictions.

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### *Self-operated Online Stores*

We have total online sales, through our self-operated online stores, to various states and jurisdictions in the U.S. of RMB92.1 million, RMB322.9 million, RMB248.7 million and RMB70.3 million for years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

For the states which have enacted the rules for sales and use tax, we are expected to be subject to sales and use tax in those states, depending on whether the sales and/or transaction volume thresholds have been met for that particular state.

Prior to March 2021, no sales and use tax were paid by us from sale through our self-operated online stores. Therefore, we are liable for the state sales and use tax due from sales made from our self-operated online stores. Our failure to collect or remit sales and use tax was primarily because (i) as a foreign company, we were not familiar with the state and local tax laws in the United States, and were not aware of our tax duty; and (ii) the responsible staff who managed the daily operations of the self-operated online stores were lacking of knowledge of the U.S. tax regime. In addition, our Directors and senior management were not involved in the handling of relevant tax matters, and no findings had been reported to them. When we commenced sale through self-operated online stores in 2018 and started to gradually shift our focus to the North American market in 2019, the third-party e-commerce platforms collected applicable sales and use tax in the United States from customers directly during the sales and subsequently settled with us the net proceeds which we were entitled to receive. As a result, we were not involved in the tax collection and payment previously thus lack of relevant knowledge, and in good faith believed our sale through self-operated online stores did not create a nexus to the relevant states in the United States for the purpose of the declaration of sales and use taxes in the United States. In addition, we had neither been subject to any administrative penalties imposed by any relevant U.S. tax authorities nor had we been notified that we were involved in any tax dispute with the relevant U.S. tax authorities. Therefore, such tax incident was not timely identified by our Group until March 2021, when our Internal Control Consultant completed its review of our internal control process. After the discovery of such underpayment of indirect tax, we engaged a U.S. tax consultant on indirect taxes in March 2021 to conduct an assessment on the relevant tax exposure, and we have engaged an agent in March 2021 to initiate the process to execute the voluntary disclosure agreement (the “VDA”) in all the states, to the extent practicable, where our Group has sales with the purpose of paying the sales and use tax and any associated interest and penalties, if applicable.

A VDA involves an agreement with a taxing jurisdiction whereby all taxes are paid by the taxpayer on a voluntary basis and typically results in reduced or waived penalties. In addition to penalty waiver, VDAs generally offer three or four year “lookback periods” which limit the years the state can go back and assess tax. The process of submission and requirements in which a VDA is submitted vary from state to state. Generally, a VDA may be submitted by the Company for each taxing jurisdiction and a VDA contract is signed by both the state and the taxpayer. Companies seeking to utilize VDAs may also choose to use a multi-state VDA submission through the Multistate Tax Commission (the “MTC”). The MTC is an

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intergovernmental state tax agency that works with state legislatures to create and promote consistent tax policy and assist taxpayers in becoming compliant with the existing state tax laws. A VDA submission via the MTC is initially submitted on an anonymous basis, and the MTC will communicate between the state and taxpayer regarding the initial VDA request, compiling all required information and certifying and communicating the formal VDA agreement between the taxpayer and state. Regardless of the method used to submit a VDA to any state, the end effect remains the same. The taxpayer will register with the state for any tax type agreed upon in the VDA, as well as file overdue tax returns and pay existing liabilities to the taxing jurisdiction according to the prescribed lookback period in return for penalty reduction or waiver by the state. The taxpayer will subsequently begin collecting and remitting tax on a prospective basis.

As of June 30, 2022, among the states where sales and use tax is applicable, for our self-operated online stores operated by Xingzezhi HK, we (i) had completed the VDA progress with state tax authorities of 40 states and proceeded in accordance with the respective VDA and had paid tax, penalty, and interest in connection with VDA in all 40 states as abovementioned and (ii) resumed tax filing and payment to the state tax authorities of six states under the requirements of the relevant state tax authorities as we previously registered for sales tax in five states in April 2021 before the commencement of VDA process which prohibits us from entering into VDA under local tax regulations and the relevant tax authority has not officially activated its VDA declaration system in the remaining one state. Instead, we resumed regular tax filing and payment to the state tax authorities of the aforesaid six states under the requirements of the relevant state tax authorities. As of the same date, among the states where sales and use tax is applicable, for our self-operated online stores operated by Zibuyu HK, we (i) had completed the VDA progress with state tax authorities of 45 states and proceeded in accordance with the respective VDA, among which we had paid tax, penalty, and interest in connection with aforesaid VDA in 44 states, and pending for the payment notices from the relevant tax authority of one state; and (ii) resumed tax filing and payment to the state tax authority of one state under the requirements of the relevant state tax authority, as the relevant tax authority has not officially activated its VDA declaration system.

The VDA process is deemed to be completed when the VDA agreement is executed. As of March 27, 2022, Xingzezhi HK and Zibuyu HK had completed the VDA progress in all the states where they were allowed to.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any tax enquiries raised by any U.S. tax authorities. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our Group has provided an accumulated provision balance of RMB4.8 million, RMB18.9 million, RMB11.3 million and RMB1.9 million, respectively, based on the revenue from self-operated online stores, for the unpaid sales and use tax, and an accumulated provision balance of RMB0.2 million, RMB8.4 million, RMB1.2 million and RMB0.1 million for the interest and penalties for late payments of such taxes, if applicable. See "Financial Information – Selective Items from Consolidated Statements of Financial Position – Other Payables." As of June 30, 2022, our payment had covered the estimated tax exposure, as confirmed by our U.S. tax consultant on indirect taxes.

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Upon completion of a sale of products to a U.S. customer through our self-operated online stores, we will debit account receivables for an amount equaling to the sales amount, and credit revenue for an amount equaling to the sales amount net of the relevant tax, and the sales and use tax payable for an amount equaling to the relevant tax amount. As the nature of the U.S. sales and use tax is not income tax, the rectification of the tax incident did not and would not have any material impact on our Company's effective tax rate.

### *Third-party E-commerce Platforms*

Major third-party e-commerce platforms, such as Amazon and Wish, to the extent required by local legislations, have registered to collect and remit sales tax in the relevant states on behalf of our Group on taxable sales from the U.S. customers. The third-party e-commerce platforms also provide our Group with periodic statements disclosing such sales revenue and sales taxes collected and remitted. Accordingly, our Directors are of the view that the risk of underpayment of sales and use tax in the U.S. associated with sale through third-party e-commerce platforms is remote.

### **VAT in Europe**

In general, VAT in countries in Europe is applied to sale of goods imported into each country, depending on whether the value of the goods and/or transaction volume thresholds have been met for that particular tax jurisdictions. For example, in France and Germany, import VAT is not due when the total value of all goods in one consignment is lower than €22, before July 1, 2021 while in the United Kingdom the threshold is GBP135 for goods sold online direct to customers in the United Kingdom after January 1, 2021.

For the sale to countries in Europe, we used to conduct sale and ship our products mainly through logistics service suppliers from our warehousing facilities in China to customers in those countries per the order directly. Revenue from sale to customers in Europe under direct delivery arrangement accounted for approximately 98.9%, 94.9% and 76.5%, respectively of our total revenue from sale to customers in Europe for the years ended December 31, 2019, 2020 and 2021, respectively. Nevertheless, as our products are generally with lower value compared with the taxable threshold of each tax jurisdictions, if applicable, our Directors, after consulting the tax consultants on indirect taxes, believe that there were no outstanding VAT liabilities for our sales during the Track Record Period in countries in Europe which are material to our operations, notwithstanding the potential underpayment of VAT (plus interest and potential penalties) of less than RMB15,000, which is immaterial to us. Such potential VAT underpayment was primarily caused by our misinterpretation of the contract terms with our logistics service providers for our sale to the United Kingdom with respect to the payment of sales VAT in relation to such sales, all of which had been settled by April 30, 2022. We had filed with and paid all relevant VAT and interest and potential penalty to the tax authorities. After consulting our tax consultants, we believe such VAT underpayment would not materially and adversely affect our operations and results of operations, taking into account the insignificance of the underpaid amount. For the sale to customers in the European countries that are material to our operations which are not under the direct delivery arrangement, after

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consulting our tax consultants, we believe that the third-party online platforms are liable for the collection and declaration of VAT on goods, thus there is no potential VAT impact on our Group. Since 2022, the majority of our sale to customers in Europe have adopted the FBA model.

### Internal Control Measures

During the internal control review carried out by the Internal Control Consultant we engaged, the Internal Control Consultant has identified that our tax management policy is insufficient to cover overseas tax filing, payment and record which resulted in the tax incident. To rectify such deficiency, we established and issued updated tax management policy in May 2021 to regulate the tax filing, payment and record for our overseas operations. In addition, we have implemented the following enhanced internal control measures to ensure that we will comply with relevant tax laws and regulations:

- *Engagement of tax consultants.* We have engaged and will continue to engage external tax consultants to provide professional tax advice.
- *Policies regarding tax payment.* We have implemented internal control measures with respect to overseas tax filing and payments to ensure the proper and timely payment of applicable tax in accordance with the applicable laws and regulations within each jurisdiction, including among others, requiring the responsible department to deal with tax filing and payment properly and timely in accordance with applicable requirements of the tax authorities in each jurisdiction, if applicable, and reviewing the work handled by third-party tax agents we engaged on a regular basis.
- *Professional trainings.* We have engaged two external tax consultants to provide regular professional trainings at least once a year in relation to tax matters and additional professional trainings where there are any updates on relevant tax rules and regulations or if we enter into a new jurisdiction or start a new sales channel in an existing jurisdiction to our Directors, senior management and finance staff.
- *Responsible team.* We have set up a tax management department, led by our chief financial officer, to handle relevant tax issues.
- *Professional service system.* We have connected our sales system with a third-party professional tax service system in the U.S., which will automatically file the applicable VAT with tax authorities of different states on behalf of us.
- *Direct supervision.* Our finance staff who handle tax matters will report directly to our chief financial officer.
- *Director briefings.* Our Directors and senior management will receive annual briefings from our chief financial officer in relation to relevant tax laws and regulations and the appropriate compliance measures to be taken.

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### Our Directors and the Joint Sponsors' Views

On the bases that:

- (i) our underpayment of indirect tax in the U.S. was due to the lack of relevant knowledge of our responsible staff who managed the daily operations of the self-operated online stores and our Group on the U.S. tax regime, and our belief in good faith that our sale through self-operated online stores did not create a nexus to the relevant states in the U.S. for the purpose of the declaration of sales and use taxes, and our VAT underpayment in the United Kingdom was primarily caused by our misinterpretation of the contract terms with our logistics service providers for our sale to the United Kingdom with respect to the payment of sales VAT, all of which were inadvertent and unintentional;
- (ii) the potential tax underpayment had not been identified during our annual audit, until identified by the Internal Control Consultant during the internal control review in March 2021;
- (iii) upon discovery of the potential underpayment, we had voluntarily engaged an agent to initiate the process to execute the VDA in all the states in the U.S., to the extent practicable, where we have sales with the purpose of paying the sales and use tax and any associated interest and penalties, if applicable, and had achieved the above-mentioned progress as of June 30, 2022 which we believe to be significant;
- (iv) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any tax enquiries raised by any U.S. tax authorities;
- (v) during the Track Record Period and up to the Latest Practicable Date, neither had we been subject to any material administrative penalties imposed by any relevant tax authorities nor had we been involved in any unresolved tax disputes with the tax authorities of jurisdictions that are material to our Group's operations, despite the VDA process we are undergoing;
- (vi) we did not have any material outstanding indirect tax liabilities (including interest and penalties, if applicable) in Europe as of the Latest Practicable Date, which were not provided for in our financial statements;
- (vii) we had made provision for the unpaid sales and use tax plus the interest and penalties for the late payments of such taxes in the U.S., if applicable, which we believe to be sufficient, and we do not expect a material financial or operational impact on our Company in the future as a result of such tax incidents, individually or in aggregate;

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- (viii) after consulting our external tax consultants, the risk of underpayment of sales and use tax in the U.S. associated with sale through third-party e-commerce platforms is remote and our underpayment of VAT in the European countries which are material to our operations is insignificant;
- (ix) after consulting our U.S. tax consultant on indirect taxes, upon completion of the VDA process and to the extent outstanding sales taxes are paid in full under a VDA to a taxing jurisdiction, we believe the likelihood of our Company and our Directors being prosecuted by the taxing jurisdictions for failure to comply with the relevant tax obligations during the Track Record Period is low;
- (x) we had engaged the Internal Control Consultant to perform review on our remedial internal controls and had adopted the rectification measures to address the tax incidents and the enhanced internal control measures to ensure on-going compliance;
- (xi) the Internal Control Consultant did not have any further recommendation in our internal control system after the follow up review;
- (xii) although the U.S. tax incidents persisted during the Track Record Period, (a) we do not have any material outstanding indirect tax liabilities (including interest and penalties, if applicable) in other jurisdictions including Europe as of the Latest Practicable Date; (b) we had complied with all applicable laws and regulations in all material aspects in material jurisdictions in relation to our operations and we were not imposed any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; having considered aforementioned (a) and (b), other than the U.S. tax incidents, during the Track Record Period and up to the Latest Practicable Date, there were no tax issues which may have an adverse impact on the operation of our Group as a whole; (c) we have taken appropriate and proactive rectification measures and enhanced internal control measures (including but not limited to professional tax trainings and annual tax briefings to Directors and senior management) to ensure on-going tax compliance in the future; and (d) our Directors have attended trainings conducted by our Hong Kong legal adviser on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong; and
- (xiii) our Controlling Shareholders’ indemnity undertaking, pursuant to which the Controlling Shareholders have jointly and severally undertaken to indemnify us against all costs, expenses, interests, penalties or other liabilities which we may incur in connection with any claim, counterclaim, assessment, notice, demand or other documents issued or action taken by or on behalf of any person, authority or body (collectively, the “**Indirect Tax Claim**”) in connection with our non-compliance of our indirect tax obligations arisen as a result of or in consequence of

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any event or transaction occurred on or before the [REDACTED], to the extent that such Indirect Tax Claim has not already been settled with the relevant authorities on or before the [REDACTED]; our Directors are of the view, that:

- (a) the internal control measures listed above are adequate and expected to help us establish an effective internal control system to prevent future similar tax incidents;
- (b) the historical tax incidents listed above would not negatively reflect on the Directors' suitability under Rules 3.08 and 3.09 of the Listing Rules or the Company's suitability for [REDACTED] under Rule 8.04 of the Listing Rules;
- (c) the tax incidents above are neither material nor systemic non-compliances;
- (d) the tax incidents were unintentional, did not involve any dishonest or fraudulent act on the part of the Directors; and
- (e) our Directors are of the view that the U.S. tax incidents do not impact negatively on the Directors' ability or tendency to operate in a compliant manner under Rules 3.08 and 3.09 of the Listing Rules, and such incidents do not constitute systemic or material non-compliances.

Based on the foregoing and having, among others:

- (aa) discussed and/or conducted interviews with the Group's management and reviewed relevant VDA submissions and other relevant documents, to understand, among others, the reasons for and the circumstances leading to the tax incidents, the potential impact on the financial or operational impact on the Group, and the rectification measures and enhanced internal control measures taken to ensure on-going compliance;
- (bb) reviewed the results of the background searches on the Group companies and Directors conducted by an independent background search agent, which showed no abnormal finding with respect to the Group's historical tax-related compliance status and the Directors' suitability (including competency) to act as directors;
- (cc) reviewed the legal opinions issued by the Company's PRC and Hong Kong Legal Advisors, which showed no material non-compliances with applicable laws and regulations in the PRC and Hong Kong where the Group operates, nor any material administrative penalties imposed on the Group during the Track Record Period and up to the Latest Practicable Date;



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- (dd) discussed and/or conducted interviews with the Group’s external tax consultants and reviewed their tax opinions to understand their views and assessments on the above-mentioned tax incidents, and assessed the qualifications, experience, resources and competence of the external tax consultants;
- (ee) discussed and/or conducted interview with the Group’s Reporting Accountants and reviewed the Accountant’s Report and noted that no significant issue related to tax provisions would have an impact on the Reporting Accountant’s giving a true and fair view for the financial information of the Group as a whole for the Track Record Period;
- (ff) discussed and/or conducted interview with the Group’s Internal Control Consultant and reviewed the internal control review report, which reflected the enhanced internal control measures taken to ensure on-going tax compliance in the future; and
- (gg) reviewed the record of Directors’ trainings conducted by the Company’s Hong Kong legal adviser,

nothing has come to the Joint Sponsors’ attention that could cause the Joint Sponsors to disagree with our Directors’ views above, in particular, that based on paragraph (xi) above, other than the U.S. tax incidents, as of the Latest Practicable Date, there were no tax issues which may have an adverse impact on the operation of our Group as a whole.

### **BUSINESS ACTIVITIES WITH CUSTOMERS IN RELATION TO COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS**

We refer to “Risk Factors – Risks Relating to Our Business and Industry – We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.” While we have ceased all sales involving customers in the Comprehensively Sanctioned Countries, during the past five years (the OFAC statute of limitations period), we sold a small amount of non-U.S. origin fashion apparel and footwear products to Cuba and Crimea, which are Comprehensively Sanctioned Countries, and two customers who potentially are SDNs. During the Track Record Period, our activities with Crimea and two customers who potentially are SDNs involved USD payments and were not consistent with the U.S. sanctions to the extent the customers were actually SDNs or were actually located in the Crimea region.

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During the Track Record Period, we had sold our non-U.S. origin fashion apparel and footwear products to the Relevant Regions. The revenue generated from such transactions related to the Relevant Regions (excluding Hong Kong) was approximately RMB13.14 million, RMB10.10 million, RMB11.39 million and RMB1.30 million, representing approximately 0.92%, 0.53%, 0.49% and 0.10% of our total revenue for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. As advised by our International Sanctions Legal Advisors, the U.S. primary sanctions are applicable to activities involving a U.S. nexus such as funds transfers in the U.S. currency that clear through the U.S. financial system or are processed by the U.S. payment processors. As advised by our International Sanctions Legal Advisors, our U.S. dollar denominated transactions in relation to customers in Cuba appear to be authorized by OFAC’s general license at 31 C.F.R. § 515.584(d), which was in effect between March 2016 and October 9, 2019, and which authorized the U.S. banks to process so called “U-turn” payments (i.e., the U.S. dollar payments for Cuba-related transactions where the payment originated and terminated outside the United States, with the originator and the beneficiary of the payment not being persons subject to the U.S. jurisdiction). To our knowledge, except two of our customers from the Relevant Regions whose first and last name match individuals designated by the OFAC as SDNs but for whom the Company did not have enough information to confirm whether its customers were the same individuals as those designated by OFAC, our customers involved in sales with the Relevant Regions are not Sanctioned Persons. As advised by our International Sanctions Legal Advisor, 266 payments in an aggregate amount of approximately US\$2,432.16 received from our online platform or through third party online platforms with respect to our non-US origin fashion apparel and footwear products sold to customers in Crimea and two customers who appear to be SDNs are potential violations of the U.S. sanctions regulations that are applicable to transactions with Crimea and SDNs, respectively.

Based on our current understanding and advised by our International Sanctions Legal Advisors, we believe that we are not subject to sanctions risks that could have a material adverse effect on our business from our past sale of products involving USD-denominated payments from customers in Crimea and two customers who may be SDNs that were inconsistent with the U.S. sanctions due to number of transactions and the minimal value compared with our total revenue during the Track Record Period and the nature of our products. As of the Latest Practicable Date, our Directors confirm that we had not been notified that any International Sanctions penalties would be imposed on us for our historic sale to the Comprehensively Sanctioned Countries. Our Directors confirm we do not have present intention to undertake new business involving the Comprehensively Sanctioned Countries. Based on our current understanding and advised by our International Sanctions Legal Advisors, the possibility for us to be subject to any primary sanctions and secondary sanctions is remote. We had ceased all sales involving the Comprehensively Sanctioned Countries since June 2021. Further, we will not knowingly and intentionally conduct any future business with persons, entities or organizations designated on the SDN List, or any business in any Comprehensively Sanctioned Countries and we will not use the [REDACTED] from the [REDACTED] to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Comprehensively Sanctioned Countries or Sanctioned Targets. In addition, we have adopted enhanced internal control and risk management measures which we believe enable us to monitor and evaluate our business to address economic sanctions risks. During the Track

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Record Period, our business to Russia and Ukraine amounted to less than 1% of our revenue for each of the three years ended December 31, 2021 and for the six months ended June 30, 2022, respectively. As a result, our Directors consider that the cessation of business with Russia and/or Ukraine, if we consider necessary in response to the development of international sanctions in light of the Russia-Ukraine conflict, will not have any material impact on our financial position and business operations. In the first half of 2022, our sale to Russia and Ukraine amounted to less than RMB1.3 million, which was negligible to our Group's total revenue.

As advised by our International Sanctions Legal Advisors after performing the procedures they consider necessary, except our USD-denominated sale to Crimea region and two customers whose potentially are SDNs which were not consistent with the U.S. sanctions but do not implicate material sanctions risks to the Relevant Persons, (i) our business dealings with the Relevant Regions do not appear to be unlawful under the restrictive measures adopted by the EU, the United Nations and Australia, and (ii) we did not engage in other Primary Sanctioned Activity or any Secondary Sanctionable Activity during the Track Record Period and up to the Latest Practicable Date.

As advised by our International Sanctions Legal Advisors, the laws and regulations of the International Sanctions do not create a legal obligation nor is it common practice to self-report to our principal banks that we had transactions involving sale to the countries subject to International Sanctions during the Track Record Period. In addition, as of the Latest Practicable Date, we have not been requested by our principal banks to report that we had payments for sales involving the countries subject to International Sanctions during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, our principal banks have not suspended or terminated their business relationships with us, such as deactivating or freezing our accounts, withholding payments to us, or terminating our loans or banking facilities. Our Company confirms that our principal banks are not aware of any contradiction between their awareness and the disclosure in this document. Our Directors do not foresee and the Joint Sponsors concur with our Directors' view that our Group's business or our relationship with the principal banks would be negatively affected as a result of our transactions with the countries subject to International Sanctions during the Track Record Period due to the minimal value of the transactions compared with our total revenue during the Track Record Period, the nature of our non-U.S. origin fashion apparel and footwear products, which our Directors believe do not involve any sensitive technology and national security considerations, that are not subjected to specific sanctions under the laws and regulations of the International Sanctions, and that we have ceased our sales to the Comprehensively Sanctioned Countries since June 2021.

Given the scope of the [REDACTED] and the expected use of [REDACTED] as set out in this document, our International Sanctions Legal Advisors are of the view that the involvement by parties in the [REDACTED] will not implicate any applicable International Sanctions on such parties, including our Company and our subsidiaries, the respective directors and employees of our Company and our subsidiaries, our Company's or our subsidiaries' investors, shareholders as well as the Stock Exchange and its related group companies.

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The following internal control and risk management measures have been implemented in June, 2021:

- no further sale, directly or indirectly, to any Comprehensively Sanctioned Country;
- designate staff to regularly collect and organize the list of Countries subject to International Sanctions and Sanctioned Target and have an intimate knowledge of changes in relevant rules and policies, to assist our management with our business decision and prevent relevant compliance risks; and
- our Directors will continuously monitor the use of [REDACTED] from the [REDACTED], as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Comprehensively Sanctioned Countries or Sanctioned Targets.

### OUTBREAK AND SPREAD OF COVID-19

There has been an outbreak of an infectious disease caused by a novel coronavirus (the “COVID-19”). The disease quickly spread within the PRC and globally, and has materially and adversely affected the domestic and global economy. As of the Latest Practicable Date, the COVID-19 pandemic has spread to more than 200 countries and regions globally. To contain the COVID-19 outbreak, the PRC government imposed certain measures across the country including travel restrictions and quarantine of not less than 14 days for travelers or returnees from affected regions, whether infected or not, and an extended shutdown of business operations in certain regions exposed to high infection risks. The United States imposed stay home orders and other travel restriction measures in 2020 and 2021. Several countries in Europe also imposed travel restriction measures to contain the spread of COVID-19. The outbreak of COVID-19 worldwide has the following impacts on our business, results of operations and financial conditions:

- **Industry and market:** COVID-19 has demonstrated its adverse impact on the global economy and the cross-border e-commerce export industry and caused interruptions to logistics services as well as the suspension of OEM suppliers, especially at the beginning of the outbreak. However, in the long term, the outbreak of COVID-19 has positively influenced the industry as the customers’ online consumption habits have been cultivated, logistics infrastructure and warehouse facilities have been better established to actively respond to the outbreak, and favorable government policies have also been promulgated to benefit the industry.
- **Supply chain:** We encountered shortage or delay in the supply of, or fluctuation in the price of, certain products in a short period from February 2020 to March 2020, primarily due to the suspension of operations of our OEM suppliers in the PRC during the same period subject to relevant governmental policies, all of which resulted from the outbreak and spread of COVID-19. From February 2020 to March

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2020, approximately 13% of the products we ordered in terms of product volume, were in short supply, higher than the annual average of approximately 3% under normal circumstance. However, our procurement department managed to secure such supplies by, among others, frequently communicating with our OEM suppliers for strategic stockpiling in advance, and expanding procurement channels. Therefore, our operations in the PRC bounced back quickly, and such shortage, delay or price fluctuation did not have a material impact on our business, results of operations and financial conditions.

- **Logistics:** For orders placed by our customers on third-party e-commerce platforms, we encountered delay in the shipment to such third-party e-commerce platforms from February 2020 to March 2020. Our delivery timeline has been affected from time to time, especially the delivery of our products under international direct mail method has been significantly affected during the outbreak and spread of COVID-19. In addition, certain of our overseas logistics services had been adversely affected as a result of the spread of COVID-19 in other countries from June 2020 to the first quarter of 2021. Normally, it takes 20 days or less from the receipt of customer orders to the shipment of products from the warehouse. In 2020, 2021 and the first half of 2022, the value of our products shipped later than 20 days from the order time due to the above-mentioned reason amounted to approximately RMB189.7 million, RMB210.1 million and RMB39.5 million, representing 8.8%, 7.5% and 2.3% of our products shipped during the same periods, respectively. We are responsible for losses arising from any delay in shipment caused by the shortage of our products, while our logistics service providers are generally liable to compensate for our losses arising from failing to deliver on-time. In addition, the logistics service fees increased during the COVID-19 pandemic, primarily due to the limited shipping capacity. According to Frost & Sullivan, cross-border logistics services have resumed normal since the first quarter of 2021. Accordingly, most of the international delivery has returned to normal and our sales amount has been increasing.
- **Employees:** In line with our effort to provide a safe working environment for all our employees, we have promptly taken precautionary measures, including distribution of protective masks to our onsite employees, temperature screening at entry of office buildings, hand and desk sanitizing and disinfection of common areas, advising our staff to avoid unnecessary travel to areas affected by the COVID-19 outbreak and crowded places, and maintained good indoor ventilation. To the best knowledge of our Directors, there had been no confirmed case of COVID-19 infection among our employees as of the Latest Practicable Date. During the Track Record Period, we had incurred RMB0.2 million in respect of these precautionary measures in order to prevent the transmission of COVID-19 within our Group.

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On the above basis, our Directors are of the view that the outbreak and spread of COVID-19 had no material adverse impact on our business operation and financial condition during the Track Record Period and up to the Latest Practicable Date. Nevertheless, in the event that the COVID-19 cannot be successfully countered globally in a timely manner, our supply chain or international logistics may continue to be affected. See “Risk Factors – Risks Relating to Our Business and Industry – Our business operations may be affected by the outbreak of COVID-19.”

### COMPETITION

According to Frost & Sullivan, there were over 16,000 sellers in China’s cross-border e-commerce export market in 2021, among whom over 5,000 sellers focuses on B2C business. The market size of China’s cross-border e-commerce export B2C market in 2021 was approximately RMB2,738.4 billion in terms of GMV. The total market share of the top five participants in China’s cross-border e-commerce export B2C market was approximately 6.5% in 2021. Among all sellers in China’s cross-border e-commerce export B2C market, platform-based sellers were the majority, holding a market share of approximately 74.5% in such market in terms of GMV in 2021. As the largest component of China’s cross-border e-commerce export B2C market, China’s cross-border e-commerce export B2C apparel and footwear market took a market share of approximately 27.4% in terms of GMV in 2021. The total market share of the top five participants in China’s cross-border e-commerce export B2C apparel and footwear market was approximately 1.8% in terms of GMV generated through third-party e-commerce platforms in 2021. In the same year, the total market share of the top five participants in China’s cross-border e-commerce export B2C apparel and footwear market in terms of GMV generated through third-party e-commerce platforms in North America market was approximately 2.1%, indicating a highly fragmented market.

According to Frost & Sullivan, we ranked third amongst all China’s platform-based sellers in cross-border e-commerce export B2C apparel and footwear market in terms of GMV in 2021, holding a market share of 0.4% in the RMB596.5 billion market. In addition, we ranked first in terms of GMV generated through North America amongst all platform-based sellers in China’s cross-border e-commerce export B2C apparel and footwear market in 2021, holding a market share of 0.7% in the RMB303.0 billion market.

According to Frost & Sullivan, we operate in the highly competitive cross-border e-commerce export B2C apparel and footwear industry. We primarily compete on a few major factors: (i) brand awareness and customer loyalty; (ii) the diversification of product portfolio; (iii) marketing and promotion; (iv) sales network coverage; (v) operation capabilities; (vi) pricing; and (vii) delivery efficiency. However, we believe we are well positioned to capitalize on the future industry growth, leveraging our leading market position on third-party e-commerce platforms and extensive market knowledge. See “Industry Overview” for a more detailed discussion regarding the industries and markets where we operate.

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### INFORMATION TECHNOLOGY SYSTEMS

We have built a reliable, scalable and secure IT infrastructure to support nearly all aspects of our operations including product design and development, supply chain and procurement, after-sales services as well as to accommodate demand for new features and functionalities. This IT system is managed by our strong IT center, consisting of product planning team, technology development team, and operation and maintenance team, comprising 66 dedicated and experienced IT employees as of June 30, 2022. In particular, our chief IT officer has over ten years of professional experience in Internet, big data and technology management. From 2019 to the first half of 2022, our core IT systems had been upgraded for over 350 times in line with our business expansion. As of June 30, 2022, our IT systems can support the process of nearly 100,000 orders per day and integrated and connected the database of 58 third-party platforms. The details of our main IT systems are set out as follows:

- ERP is primarily used for tracking our incoming and outgoing inventory. ERP is based on IT and is guided by advanced and systemic management idea, which provides our staff and the management team with a platform for decision-making. ERP enables us to monitor inventory level on a real-time basis, leveraging its ability to automatically check the inventory status as soon as the orders received by the system, which in turn helps us maintain optimal inventory level and improve our working capital sufficiency. The accuracy of our shipment could also be effectively guaranteed as the ERP could conduct a double-review before shipment. By closely monitoring the inventory status as well as the sales volume of our products, we are able to collect and analyze the massive data and prepare inventory of hot-selling products in advance, supporting the cultivation of hot-selling products. Supported by our ERP system, we are able to react rapidly to, and to synchronize our production with changing market trends and customer demand.
- SCM is primarily used for informatizing our supply chain process. SCM helps to digitalize the whole supply chain process, tracking every step from the placing of the online orders, the procurement of customized garment styles, fabric and accessories, the monitoring of the production process, and the acceptance and inspection of goods. This system also allows us to gather massive information and data regarding the performance of our suppliers so that we can further adjust our cooperation with them basing on their historical performance. As of June 30, 2022, our SCM serves over 980 suppliers using the supplies module online.
- GMS is primarily used for creating and maintaining our product information, product launches on and sales performance of our designers from Wish. By gather sufficient information on the market acceptance of our products, our designers can adjust their production priority and reflect customers’ preferences on our product designs in the next season.

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- Marketing and promotion system. We cooperate with third-party e-commerce platforms to obtain customers’ feedback, which enables our design and operation teams to optimize our products, providing the basis for our operation and inventory management, as well as realigning our marketing strategy.
- E-mail Management System is developed by our in-house IT team to provide comprehensive services to our customers on the self-operated online store for better operating efficiency and more economical performance. Main functions of self-operated e-mail management system include (i) responding to customers’ inquiries, (ii) receiving comments timely, (iii) checking the order information and logistics; (iv) recommending new series; and (v) precisely distributing the discount codes.

We have also cooperated with Amazon Web Services (“AWS”) (亞馬遜雲科技) that provides us a series of IT facilities, including Elastic Compute Cloud, Elastic Load Balancing, Simple Storage Service, Amazon Simple Email Service, Relational Database Service and Global Accelerator.

Our costs and expenses incurred in respect of IT amounted to approximately RMB12.5 million, RMB12.2 million, RMB12.6 million, RMB5.8 million and RMB8.7 million, respectively, in 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022. We plan to continuously invest in our IT infrastructure to support the growth and expansion of our business and operations. In particular, we intend to further invest in big data analytics and AI technology to improve the accuracy of our forecasts of production and sales, and to achieve higher efficiency in our supply chain management. Leveraging our big data analysis capabilities, we analyze the order data of each of our stores to consolidate the sales trend of each store and product. In addition, we utilize API system to synchronize FBA inventory data from Amazon to our ERP system, for us to analyze inventory status and determine whether to replenish stocking. Leveraging our digital management of the supply chain, we expect to efficiently connect our ERP system, SCM system, GMS system, logistics and warehousing systems in the future, enabling us to monitor our products at each stage along the supply chain, estimate the sales performance and prepare for the suppliers selection, order placement, storage management and logistics arrangement based on our historical data and intelligent analysis, thus effectively improving our supply chain efficiency.



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### AWARDS AND RECOGNITIONS

The following table sets forth recent major awards and recognitions received by our Group:

<u>Year</u>	<u>Entity</u>	<u>Award/Recognition</u>	<u>Awarding Institution/Authority</u>
2022	Zhejiang Zibuyu	Cross-border E-commerce Benchmarking Enterprise of Hangzhou (杭州跨境電商標桿企業)	Hangzhou Municipal People’s Government, Department of Commerce of Zhejiang Province (杭州市人民政府, 浙江省商務廳)
2022	Zhejiang Zibuyu	High Quality Development Award of Service Industry (服務業高品質發展獎)	The CPC Hangzhou Linping District Committee, Hangzhou Linping District People’s Government (中共杭州市臨平區委, 杭州市臨平區人民政府)
2021	Zhejiang Zibuyu	Cross-border E-commerce Renowned Export Brands of Zhejiang Province (浙江跨境電商出口知名品牌)	Department of Commerce of Zhejiang Province (浙江省商務廳)
2021	Zhejiang Zibuyu	Certificate of High and New Technological Enterprise (高新技術企業證書)	Zhejiang Provincial Department of Science and Technology, Zhejiang Provincial Department of Finance, State Administration of Taxation Zhejiang Taxation Bureau (浙江省科學技術廳, 浙江省財政廳, 國家稅務總局浙江省稅務局)
2018-2021	Our Group	Best Cross-border E-commerce Brand Award (最佳跨境電商品牌獎)	Department of Commerce of Zhejiang Province, Zhejiang Daily Press Group (浙江省商務廳, 浙江日報報業集團)

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<u>Year</u>	<u>Entity</u>	<u>Award/Recognition</u>	<u>Awarding Institution/Authority</u>
2020	Hangzhou Xingzezhi	Certificate of High and New Technological Enterprise (高新技術企業證書)	Zhejiang Provincial Department of Science and Technology, Zhejiang Provincial Department of Finance, State Administration of Taxation Zhejiang Taxation Bureau (浙江省科學技術廳, 浙江省財政廳, 國家稅務總局浙江省稅務局)
2020	Our Group	High Quality Development of Yuhang District Open Economy Award (餘杭區開放型經濟高質量發展獎)	The CPC Hangzhou Yuhang District Committee, Hangzhou Yuhang District People’s Government (中共杭州市餘杭區委, 杭州市餘杭區人民政府)
2016-2017	Our Group	Best Cross-border E-commerce Brand Award (最佳跨境電商品牌獎)	Hangzhou Municipal People’s Government, Department of Commerce of Zhejiang Province, Zhejiang Daily Press Group (杭州市人民政府, 浙江省商務廳, 浙江日報報業集團)
2017	Our Group	Vice President Unit (副會長單位)	Hangzhou Yuhang District Fashion Industry Association (杭州市餘杭區時尚產業聯合會)
2016	Our Group	Top 10 E-commerce Enterprise of the Yuhang Industrial Contribution Award (產業餘杭貢獻獎 十佳電子商務企業)	The CPC Hangzhou Yuhang District Committee, Hangzhou Yuhang District People’s Government (中共杭州市餘杭區委, 杭州市餘杭區人民政府)

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### INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had (i) 17 pending patent applications; (ii) 13 registered trademarks; (iii) four registered domain names; and (iv) 60 registered copyrights in the PRC, which were material to our business. In addition, we had one registered trademark in Hong Kong as of the Latest Practicable Date. See “Appendix IV – Statutory and General Information – B. Further Information about Our Business – 2. Intellectual Property Rights of Our Group” for more details of our material IP rights.

Due to the similarity of certain fashion elements and our diversified product portfolio, we may, from time to time, be involved in IP disputes where third parties claiming our products infringe their IP rights, which we believe is in line with the industry norm. Generally, if third-party e-commerce platforms receive complaints from third parties alleging our products infringe their IP rights, or third-party e-commerce platforms identify any potential infringement during their periodic review, they will request us to remove such product from our stores and/or pay penalties under certain circumstance. If third parties bring up any legal proceedings against us for alleged IP infringement, the court will issue preliminary injunction orders requesting third-party e-commerce platforms to seize the fund of the relevant online store or suspend the relevant online store account until a settlement agreement is reached. Generally, we negotiate with such complaining third parties with the intention to reach settlement agreement with them before the commencement of legal proceedings, taking into account our diversified SKU portfolio, the efficiency, legal costs and our brand reputation. Therefore, we may, from time to time, incur settlement fees for the above-mentioned reasons. In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, we incurred a total settlement fees of RMB3.0 million, RMB1.0 million, RMB1.7 million, RMB1.3 million and RMB0.1 million, respectively, in relation to our settlement with third parties, which we believe were immaterial to us. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any penalties or punishment imposed by any third-party e-commerce platforms that were material to us due to any alleged IP infringement. As of the Latest Practicable Date, we had six outstanding legal proceedings in relation to alleged IP infringement for which approximately RMB300,000 of our fund had been seized pending for settlement.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any material dispute or legal proceedings in relation to alleged IP infringement. In addition, during the Track Record Period and up to the Latest Practicable Date, we had not been the subject of any adverse finding in an investigation or audit by any government authorities in respect of infringement of any IP of third parties or sale of counterfeit products that had a material adverse effect on our business.

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To effectively prevent the occurrence of potential infringement, we have implemented the following internal control policies:

- (i). we have established a comprehensive management mechanism to prevent infringement, including (i) setting up a product compliance department, to identify risks of potential infringement and promptly dealing with the potentially infringing products, through revising our design or delisting the products, if inspected, and (ii) requiring our operating team and designers to enhance their awareness of preventing infringement and protecting our brand value; and
- (ii). we have also engaged IP legal counsels to assist us with IP-related disputes and litigation when needed. We also invite external consultants to provide trainings related to IP protection, to enhance our staffs’ knowledge of how to prevent infringement.

## EMPLOYEES

As of June 30, 2022, we had 1,212 employees in total, among which, 1,210 were based in the mainland China and two were based in Hong Kong. The following table sets forth a breakdown of our employees by function as of the same date:

<u>Function</u>	<u>Number of employees</u>	<u>% of total employees</u>
Management	8	0.7%
Product designing and development	344	28.4%
Supply chain management	182	15.0%
Sales and operation	485	40.0%
Warehousing and logistics management	69	5.7%
IT	66	5.4%
Human resources, administrative, finance and legal	58	4.8%
<b>Total</b>	<b>1,212</b>	<b>100.0%</b>

Our success depends on our ability to attract, retain and motivate qualified personnel, especially designers. We use various methods for our recruitment, including campus recruitment, internal and external recommendation and recruiting through hunting firms or agents, to satisfy our demands for different types of talents, and we adopt high standards and stringent procedures in our recruitment to ensure the quality of new hiring. Our employees typically enter into standard labor contracts with us.

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We provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and performance-based bonus. We set performance targets for our employees primarily based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. To maintain and enhance the knowledge and skill levels of our workforce, we provide our employees with internal training, including orientation programs for new employees and technical training for existing employees. We also offer external training opportunities to our management team and other staff.

During the Track Record Period, we did not make adequate contributions to social insurance and housing provident funds for some of our employees as required by applicable PRC law and regulations. For more information, please refer to the section headed "Risk Factors – Risks Relating to Our Business and Industry – Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties." As of the Latest Practicable Date, we had made full social insurance and housing provident fund contributions for all employees. Our employees have formed a labor union. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on our business.

### LICENSES, PERMITS AND CERTIFICATES

As advised by our PRC Legal Advisors, we had obtained all material licenses, permits and approvals required for the current operations in the PRC and such licenses, permits and approvals were valid and remain in effect during the Track Record Period and up to the Latest Practicable Date. As advised by our legal advisors as to Hong Kong, the United States, Germany, France and Japan laws as to general legal compliance matters, we had also obtained all material licenses, permits and approvals required for the current operations in Hong Kong as well as our major overseas markets including the United States, Germany, France and Japan as of the Latest Practicable Date.

We monitor the validity status of, and make timely applications for the renewal of, relevant licenses, permits and certificates prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses, permits and certificates for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses, permits, approvals and certificates as they expire in future as long as we are in compliance with applicable laws, regulations and rules. However, we cannot assure you that we will be able to obtain or renew such licenses, permits or certificates in the future.

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### INSURANCE

We maintain liability insurance, commercial general liability insurance, compulsory insurance for motor vehicle traffic accident liability, and basic property insurance. As advised by our PRC Legal Advisors, we are not required to, and generally do not, maintain property insurance, product liability insurance, business interruption insurance or key person insurance.

During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies.

Our Directors believe that our insurance coverage is adequate and is in line with the industry practice. However, the risks related to our business and operations may not be fully covered by insurance. See “Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage may be insufficient to cover potential losses arising as a result of business interruption, damage to our property or third-party liabilities.”

### PROPERTIES

As of the Latest Practicable Date, we did not own any properties. As of the Latest Practicable Date, we leased 30 properties in the PRC with a total GFA of 114,297.1 sq.m. for various purposes and two properties in Hong Kong with a total GFA of 48.6 sq.m. for commercial and dormitory purpose.

As of the Latest Practicable Date, 13 of our lease agreements with an aggregate GFA of 66,138.5 sq.m. had not been registered with the relevant PRC authorities, primarily due to (i) certain landlords failed to cooperate to complete the lease registration; or (ii) landlords of certain properties leased by our subsidiaries had not provided the relevant Building Ownership Certificates or other proofs evidencing their legitimate rights. As advised by our PRC Legal Advisors, failure to register an executed lease agreement will not affect its legality, validity or enforceability. However, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify and we fail to do so within the prescribed time period. We estimate that the maximum penalty we may be subject to for these unregistered lease agreements will be approximately RMB130,000, which we believe is immaterial. Therefore, we believe that the failure to register these lease agreements will not have any material adverse effect on our financial condition or results of operations. We will actively liaise with the respective lessors to complete the registration of all such lease agreements, if possible.

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As of the Latest Practicable Date, we failed to obtain consent from the landlord for the sub-lease of two properties in Dongguan with an aggregate GFA of 25,750 sq.m. from the existing leasees to us. As advised by our PRC Legal Advisors, according to relevant PRC laws and regulations, the landlord has the right to terminate the sub-lease due to the failure to obtain the consent from the landlord for the sub-lease from the existing leasees to us. Under such circumstance, we have the rights to claim for damages from the existing leasees according to the terms of lease agreements. However, as such properties are used as office premises and storages, we would be able to locate alternative properties in a timely manner, should the landlord terminate such sub-lease. Therefore, we do not expect our failure to obtain landlord’s consent for the subleases would have any material and adverse impact on our business, financial condition and results of operations.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to environmental protection and promoting corporate social responsibility and best corporate governance practices for the sustainable development and take up responsibilities as a corporate citizen. We have established ESG policies which set forth our environmental protection measures, social responsibility principles and internal governance.

Under our ESG policies for environmental protection, we will promote usage of renewable resources and reduce production of hazardous chemicals and gas emissions. Our ESG policies for social responsibility and corporate governance aim to ensure our compliance with applicable laws and regulations, contribute to social responsibility causes and promote our employees’ work safety. We also established ESG policies for corporate governance, which aim to manage risks in operation and enhance our operating efficiency.

Our Directors have overall responsibility regarding environmental, social and climate-related risks, ensuring that our relevant policies are duly implemented and have continuous updates for full compliance with the latest laws, regulations and standards. Our Directors also support our commitment to fulfill its environmental and social responsibility, for which they are responsible for identification, assessment and management of our ESG-related risks, and ensuring that appropriate and effective ESG-related risk management and internal control systems are in place.

### Environmental Protection

As a cross-border e-commerce industry participant engaging in sale of products procured from OEM suppliers through third-party e-commerce platforms, we believe that our operations do not directly constitute the major sources of environmental pollution as our operations do not involve any significant direct air emission, wastewater emission, noise emissions and waste generations. Due to the nature of our business, we do not directly discharge any hazardous sewage or hazardous solid waste during our daily operations. Therefore, we are not subject to significant environmental protection obligations or health or occupational safety risks. Despite the environmental impact directly caused by us is minimal, our operations may have indirect

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environmental impacts, such as the greenhouse gas emissions caused by our OEM suppliers during the manufacturing of products, as well as sea, air or land transportation during logistics service providers' delivery of our products. Logistics service providers may use excessive packaging materials during the delivery, which may not be environmental-friendly. We recognize our social responsibilities in managing the environmental impacts associated with our operations and the importance of risk avoidance in minimizing potential impact that might affect the implementation of our business plan and strategy and financial performance to the extent we can. For example, our operational activities do not directly generate industrial pollutants, or produce air emissions. However, to reduce the potential indirect air emission, we aim to cooperate with logistics service providers with relatively high environmental awareness and are strive to minimize the environmental impact of direct emissions from their transportation fleet. We also promote the use of facilities and equipment which has much higher energy efficiency.

We have noticed that in recent years, there are growing concerns from the general public, third-party e-commerce platforms and government authorities on ESG issues relating to the sale of apparel and footwear products, such as the promotion on recycling clothing and packaging materials in China and the U.S., boycotting the use of certain raw materials that may involve the deployment of cheap workforce in certain countries, reducing the waste of clothing and packaging materials and reducing greenhouse gas emissions. We have also noticed the recent negative news on the ESG issues relating to third-party cross-border e-commerce platforms, such as Amazon and AliExpress. Relevant news primarily mentioned the relatively high greenhouse gas emissions, hazardous waste emissions and waste of materials during the manufacturing, packaging and delivery of the products sold through such platforms. In recognition of such growing concerns and negative news, we attach great importance to the ESG issues that may directly or indirectly arising from the manufacturing, packaging, delivery and sale of apparel and footwear products, and have formulated the following measures and working mechanisms to improve our ESG related efforts:

- (i) increasing the design and sale of quality products with pragmatic patterns or classic patterns, which can be dressed for more than one single season, and selling the less salable or out-of-season products to third parties for sale to rural areas or recycling, instead of destroying the products, thus would not cause large amount of waste or other issues that may have material adverse ESG impact;
- (ii) closely monitoring the origin of raw materials of products procured from our OEM suppliers to avoid violation of requirements of the destination countries or regions of our products or the relevant third-party e-commerce platforms;
- (iii) requiring OEM suppliers to strictly follow ESG requirements and establishing stable cooperation relationships with those have better ESG performance;
- (iv) carrying out regular inspection on OEM suppliers' ESG performance and terminating procurement from the OEM suppliers that materially failed to meet ESG requirements;



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- (v) increasing the delivery under “full container shipments (整箱發貨)” model, instead of “less container load (拼箱運輸)” model, which reduces the waste of packaging materials;
- (vi) encouraging logistic service providers to use recyclable wrapping and packaging materials, such as carton box instead of foam and plastic bags, and reduce the types of packaging materials used in packaging a single parcel, in order to facilitate waste recycling;
- (vii) encouraging the logistics service providers to implement environmental-friendly policies during the delivery of products, such as collecting and recycling packages, increasing the use of carton packaging bags that meet shipping standards to replace woven bags, implementing the online appointment for cargo collection to enhance the paperless operation and applying the new energy vehicles from the warehouses in the PRC to the prescribed destination;
- (viii) establishing internal policies to encourage our employees to reuse paper and conserve water and electricity, where efficient and applicable;
- (ix) increasing internal trainings on ESG-related laws and regulations, ESG-related risks and ESG responsibilities to raise the awareness of ESG among our employees; and
- (x) improving our ESG monitoring mechanism to better adapt to the tightening and ever-changing laws and regulations regarding environmental protection and continue to comply with the laws and regulations in a timely manner in the foreseeable future.

We integrate the above environmentally sustainable measures and working mechanisms into our daily operations to save resources and decrease the emission of pollutants, enabling us to reduce the environmental impact of our business operations.

### ***Key ESG Performance Indicators***

Our energy consumption is mainly derived from electricity consumption from our warehouses, offices and IT systems maintained by us during our e-commerce operations. Electricity consumption is among the main sources of our indirect greenhouse gas emissions. We also use water during our daily operations. We have implemented measures to increase energy and water efficiency in our operations in order to fulfill our environmental and social responsibilities. For example, we encourage the installment of LED lighting system in our offices, which has much higher energy efficiency. In addition, we encourage our employees to save water resources in our offices. We keep records for our electricity consumption and water consumption during our daily operations.

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The below table sets forth our electricity consumption analysis for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Electricity consumption ( <i>kWh'000</i> )	860.9	921.7	1,508.4
Electricity consumption ( <i>kWh'000</i> )/revenue ( <i>RMB in millions</i> )	0.6	0.5	0.6	0.4

The below table sets forth our water consumption analysis for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
	Water consumption ( <i>ton'000</i> )	8.8	10.0	19.7
Water consumption ( <i>ton'000</i> )/revenue ( <i>RMB in millions</i> )	0.01	0.01	0.01	0.01

Although there are no hazardous sewage or hazardous solid waste directly discharged during our daily operations, we have noticed the hazardous waste emissions and waste of materials during the manufacturing, packaging and cross-border delivery of apparel and footwear products. We are committed to lowering the environmental impact of our products through encouraging our OEM suppliers to use the sustainably produced fabrics or recycled material fibers and encouraging our logistics service suppliers to use recyclable materials for packaging and wrapping. To address the health concerns and potential harmful impact arising from usage of hazardous materials during the production of apparel and footwear products, we pay close attention to the usage of any hazardous chemical materials by our OEM suppliers during their production process. We encourage our OEM suppliers to reduce the discharge of bleaching and dyeing wastewater during their production process. We continuously increase our procurement of logistics services from logistics service providers with good ESG performance. To our best knowledge, all of our 10 largest logistics service suppliers in the first half of 2022 have actively taken measures to reduce the waste of materials and greenhouse gas emissions during their operations, including but not limited to recycling and reusing the woven bags and carton boxes for product wrapping and packaging, and gradually replacing conventional fuel vehicles with new energy vehicles. We also put emphasis on purchase from OEM suppliers that have obtained environmental protection certificates upon inspection and

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assessment in accordance with Global Recycled Standard (the “GRS,” 全球回收標準), or Recycled Claim Standard (the “RCS,” 再循環聲明標準). Among our 10 largest OEM suppliers in 2020, our purchases from those holding environmental protection certificates accounted for over 7% of our total purchases from the 10 largest OEM suppliers in the same year, which significantly increased to over 20% in 2021. Such percentage was approximately 12% in the first half of 2022. We also from time to time discuss with our industry peers on the emerging industry trend for sale of apparel and footwear products made of environmental-friendly materials or delivered by new energy vehicles.

We endeavor to use less non-biodegradable packaging materials and instead use more carton boxes, which are biodegradable, during our daily operations, with the intention to reduce non-biodegradable emissions. For the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our procurement expenses on the packing bags, which primarily comprise bags made of non-biodegradable materials, such as woven bags, bubble bags and compression bags, were approximately RMB1.8 million, RMB2.7 million, RMB1.3 million and RMB0.3 million, respectively, while our procurement expenses on carton boxes were approximately RMB0.8 million, RMB1.1 million, RMB2.3 million and RMB0.6 million, respectively.

From time to time, we also collect and sell waste paper, such as waste carton boxes and waste paper board, to third parties for recycling. We generally collect such waste paper in a designated area in our warehouses and offices for temporary storage in a safe and efficient manner. The below table sets forth the weights of waste paper sold by us for the periods indicated:

	<b>Six months ended</b>			
	<b>Year ended December 31,</b>			<b>June 30,</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>tonne</i>			
Weights of waste paper sold	73	146	164	40

In addition, we promote the use of new energy vehicles to reduce air pollution during our daily operations. We procured two electric lift-trucks in 2020, two electric forklifts in 2021 and one electric forklift in the first half of 2022, to reduce air pollution during our warehousing operations and gradually alleviate our dependency on conventional fuels. In 2019, 2020, 2021 and the first half of 2022, based on our best estimates, petrol consumption during the daily operations of our warehouses were 1,392 liters, 4,235 liters, 1,630 liters and 387 liters in aggregate, respectively. The petrol consumption in 2020 was relatively high, primarily due to the delivery of apparel and footwear products from the warehouses to port by our own trucks, as some of our logistics service suppliers experienced shortage for transportation capacity or suspended to provide the logistics services during the outbreak of COVID-19 in 2020.

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With a sustainable perspective, we will continue to minimize our environmental impact through monitoring our resource consumption and pollutant emission levels. In order to better manage our ESG risks and reduce green gas emissions and hazardous waste emissions, we have set multiple ESG-related targets, taking into account our existing ESG-related performance indicators and ESG-related measures that will be implemented in the future. These ESG related targets primarily includes:

- (i) striving to reach approximately 50% of installment of LED lighting system in our warehouses and offices in the following five years;
- (ii) striving to reach approximately 20% of our OEM suppliers using environmental-friendly packaging materials in the following five years;
- (iii) striving to reach approximately 80% of all products sold by us packaged in recyclable packaging materials in the following five years;
- (iv) striving to reach 100% of electric lift-truck and electric forklift for all newly procured lift-truck and forklift in our warehouses from the second half of 2022;
- (v) striving to make procurement expenses on packaging materials made of paper account for over 70% of our total annual procurement expenses on packaging materials by 2025;
- (vi) striving to reduce the electricity consumption per revenue generated by us by 5% by 2023 compared to 2022; and
- (vii) striving to reduce the water consumption per revenue generated by us by 5% by 2023 compared to 2022.

In 2019, 2020 and 2021 and the first half of 2021 and 2022, our annual cost of compliance with environmental protection laws and regulations in the PRC was approximately RMB20,400, RMB24,700, RMB37,000, RMB5,946, and RMB7,559, respectively. We expect such compliance cost to increase in the future in line with the growth and expansion of our business. During the Track Record Period and up to the Latest Practicable Date, we complied with all PRC laws and regulations with respect to environmental matters in all material respects, and we did not receive any complaint from any parties in respect of any environmental protection issues and we have not experienced any material environmental incidents arising from our operations. We will continue to proactively pay close attention on the growing concerns on ESG issues, including but not limited to negative news relating to ESG issues of the e-commerce platforms where we sell the products and feedback relating to environmental protection from our OEM suppliers, logistics service suppliers and customers. We will closely monitor the development of laws and regulations on ESG issues and implement or update our measures accordingly on a timely basis, to ensure our compliance with the latest regulatory laws and regulations.

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### **Working Safety**

We are committed to meeting all health and safety statutory requirements. For example, we provide our employees internal guidance and trainings with respect to working safety requirements. Our working sites are expected to implement preventive measures whenever possible to minimize the risks of injury and fatality of employees and operational disruptions.

### **The Employment Protection, Equality and Diversity**

We aspire to be a diverse, equitable, and inclusive company where provide fair treatment and equal opportunities for all of our employees. To this end, we have adopted the following policies:

- (i) we attach great importance to the employees' labor rights and interests, and strive to implement our internal policies and procedures in compliance with applicable laws and regulations. In the event that we need to adjust our employees' positions and responsibilities due to strategical adjustment or the employee's competency, we will actively notify and negotiate with our employees in compliance with our internal procedures. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute or litigation arising from the payment of labor compensation;
- (ii) we aim to maintain balanced employee structures. As of June 30, 2022, women employees represented over 60% of our total employees. To provide a caring working environment, we also provide our female employees with nursing rooms in our office premise;
- (iii) we provide diverse welfare policies for our employees, including but not limited to travel allowance, transportation and accommodation allowance and employee care fund, to continuously strengthen the sense of belonging and cohesiveness of our employees; and
- (iv) to provide our employees with a safe working environment during the outbreak of COVID-19, we conduct worksite temperature screening on daily basis to detect any potential infection. We also provide our employees with anti-epidemic facilities such as medical masks.

As our expenses associated with the labor compensation attributed to less than 0.9% of our administrative expense annually during the Track Record Period, our Directors are of the view that there was no actual or potential material impact on our business operations and financial conditions arising from such policies.

Our initiatives to foster a culture where we value, respect, and provide diversified opportunities for our employees. We take our employees' feedback seriously and make improvement. As we continue to expand our business, we closely monitor the regulatory update and update our internal policies as appropriate.

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### Social Responsibility

We believe the best approach to corporate social responsibility is embedding elements of social responsibility in our business. For example, we actively made donations to schools located in remote and rural mountain areas.

### Board Diversity

We have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. For example, Ms. Hua was appointed as our Director with a view to promoting the gender diversity at our Board level given its composition of all-male Directors before the appointment of Ms. Hua. See “Directors and Senior Management.”

To ensure compliance with applicable laws and regulations, from time to time, our human resource department would, if necessary and after consultation with our legal advisers, adjust our human resources policies to accommodate material changes to relevant laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we complied with all PRC laws and regulations with respect to health and occupational safety matters in all material respects.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents in the course of our operations, nor were we subject to any material claims for personal or property damages or compensation paid to employees.

Going forward, our Board will be responsible for establishing, adopting and reviewing our ESG policies and to evaluate, determine and address our ESG-related risks once a year. Necessary improvement will then be implemented to mitigate the risks.

### DATA PRIVACY AND PROTECTION

During our ordinary course of business, we involve a large amount of personal data, including their name, postal address and phone numbers and we are committed to protecting our customers’ personal information and privacy. Such information includes, among others, customer name, height, weight, delivery address, age, gender, phone number and email address (the “**Confidential Information**”). We do not have the access to customers’ personal information collected through third-party e-commerce platforms, most of which are stored in the data centers of the e-commerce platforms. Unless the authorization is duly approved, we have no right to store and use customers’ personal information in connection with their accounts, such as login account and contact, instead of all their personal information collected through our self-operated stores. We have built our own customer cloud data base, in which we generally collect and store data for three months. The degree of access to customer information is determined by reference to the relevance to the role of our staff and seniority of the staff.

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We have implemented multiple measures on cybersecurity. The following sets out our major internal control measures in safeguarding our online sales operations against cyberattacks.

- We have established and implemented strict policies to protect our IT system from cyberattacks during our daily online sales operations, such as *Management Policy on Computer Information Network Security of Zhejiang Zibuyu Electronic Commerce Co., Ltd.* (《浙江子不語電子商務有限公司計算機信息網絡安全管理制度》) and *Management Policy on Secret-related Computer of Zhejiang Zibuyu Electronic Commerce Co., Ltd.* (《浙江子不語電子商務有限公司涉密計算機管理制度》);
- We provide internal trainings to our sales and operation employees on cybersecurity to enhance their awareness and knowledge on cyberattacks and relevant measures against them; and
- We utilize firewalls to prevent the unauthorized access to our IT systems. Our experienced IT employees regularly backup the sales statistics and financial data derived from our daily operations and conduct periodic review on the availability and security of our data assets.

The following sets out our efforts in preventing the leakage or unauthorized use of the customer data we have collected.

- We have entered confidentiality agreements in respect of confidential information, under which (i) we are only allowed to use and retain confidential information only as is reasonably necessary for our participation in sales; and (ii) we are not allowed to disclose Confidential Information to any other person except as required to comply with laws;
- We arrange trainings and meetings for our employees on data privacy, data classification and data encryption, in order to reduce the risk of leakage of customers’ private data or improper use or disclosure of such data during our operations;
- Our customers can easily access our data privacy protection policy and information collection policy set out on websites of e-commerce platforms and our self-operated stores;
- We have established and implemented a strict group-wide policy on data collection and storage, as well as internal procedures on handling customer information. We have also established data access control policy based on a prudent, appropriate and necessary principle, which strictly restrict the range of data that our employees can access based on their seniority and function. In the event of breach of data privacy rules, we conduct investigations and take remedial measures; and

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- Our IT employees are required to conduct regular review on the retention and usage of our data assets, especially data in relation to our customers' privacy. Our management team monitor the implementation of data privacy and data security regulations in our Company and ensure the timely respond to any unexpected incidents in relation to customers' data privacy and security. Should there be any leakage of the customer data being identified by our employees, they are required to report to senior staff promptly.

We are committed to protecting our customers' personal information and privacy. We believe it is crucial that our customers understand how we handle their information so that they can make informed choices in deciding how such information is used and shared. We have established internal policy to process and protect customers' personal data including (i) providing notice to customers as to why and how their data are being collected and used; (ii) making efforts to prevent loss or leakage of customer data; and (iii) providing customers with choices in whether or not, and how, they receive promotional information from us. We do not distribute or sell our customers' personal data to other companies without customers' permission. All customer and behavioral data are only stored for a fixed period time in accordance with local laws and regulations and we will not hold customers' personal information longer than the necessary period. During the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable laws and regulations relating to data privacy in all material aspects in jurisdictions related to our operations and we did not experience any material information leakage, loss of customer data, cyberattacks or data security breaches. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any legal or regulatory proceedings in relation to data privacy.

## COMPLIANCE AND LEGAL PROCEEDINGS

### Legal Proceedings

We are subject to legal proceedings, disputes and claims that arise in the ordinary course of business, which primarily include contractual disputes, product liability, employment, IP and regulatory compliance matters.

As of the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we were not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.



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### Compliance

During the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable laws and regulations in all material aspects in material jurisdictions in relation to our operations and we were not imposed any material administrative penalties. We did not experience any material or systemic non-compliance incidents, which, taken as a whole, are likely to have a material and adverse effect on our business, financial condition or results of operations.

### INTERNAL CONTROL AND RISK MANAGEMENT

We have adopted a series of internal guidelines, policies and procedures to monitor and reduce the impact of risks which are relevant to our business, improve our corporate governance and ensure compliance with the applicable laws and regulations. Our Board is responsible for establishing our internal control and risk management measures and reviewing their effectiveness. During the Track Record Period and up to the Latest Practicable Date, we did not engage in any significant hedging activity.

Our Company has established an Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of three Directors, being Mr. Yu Kefei, Mr. Shen Tianfeng and Dr. Lau Kin Shing Charles. The chairperson of the Audit Committee is Mr. Yu Kefei, who is the independent non-executive Director with the appropriate accounting and related financial management expertise. The primary duties of the Audit Committee include, among others: (i) reviewing our compliance, accounting policies and financial reporting procedures; (ii) supervising the implementation of our internal audit system; (iii) advising on the appointment or replacement of external auditors; (iv) liaising between our internal audit department and external auditors; and other responsibilities as authorized by our Board.

### Internal Control Review

In preparation for the [REDACTED], we have engaged the Internal Control Consultant in February 2021 to perform a review over selected areas of our internal controls (the “**Internal Control Review**”). The Internal Control Consultant performed the follow up review in June 2021 to review the status of the management actions taken by us to address the findings of the Internal Control Review (the “**Follow-up Review**”). We had improved our internal control system and the Internal Control Consultant did not have any further recommendation in the Follow-up Review.

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In addition, we have adopted and implemented a series of new internal control policies as well as measures and procedures designed to provide further assurance on effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures.

In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented measures with a view to establishing and maintaining our internal control system, including monitoring of operational processes, the establishment of risk management policies and compliance with applicable laws and regulations. In particular:

- our Directors have attended trainings conducted by our Hong Kong legal adviser on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and the Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong; and
- we have appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.