You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 included in the Accountant's Report set out in Appendix I to this document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" to this document.

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 and self-operated online stores. 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 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 e-commerce platforms since 2012 and have since expanded our sales channel to include our self-operated online stores in 2018. As of the Latest Practicable Date, our sales channel 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 geographical coverage. As of the Latest Practicable Date, our products have been primarily sold to customers located in over 80% of countries and regions globally, including among others, the United States, Germany and France.

Our revenue experienced 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. 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. 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. Such decrease was primarily as the slowing economic activity and the constantly rising inflation in the United States had imposed negative impact 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 and in turn slowed down our revenue growth rate. The decrease was also attributable to (i) the increase in marketing and advertising expenses, primarily due to increased advertising prices driven by more sellers intending to place advertisements on Amazon under advertising bidding scheme, in line with the industry trend as confirmed by Frost & Sullivan; (ii) the increase in freight and insurance cost in our selling expenses and distribution costs, primarily due to the increase in prices for outbound shipping under the FBA model since early 2022, in line with the industry trend as confirmed by Frost & Sullivan; and (iii) the increase in employee benefit expenses in both selling expenses and distribution costs and general and administrative expenses, mainly caused by the increased number of employees, mainly consisted of staff we recruited for our sales and operation, product designing and development and IT teams, to expand our talent reserves for future business expansion.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on August 6, 2018 as an exempted company with limited liability, following which we implemented a series of corporate restructurings and our Company became the holding company of our current business. See "History, Reorganization and Corporate Structure."

Our historical financial information has been prepared in accordance with all applicable International Financial Reporting Standards (the "**IFRSs**") issued by International Accounting Standards Board (the "**IASB**"). All effective standards, amendments to standards and interpretations, including IFRS 16, which is mandatory for the financial year beginning on January 1, 2019, have been early adopted by us in the preparation of the historical financial information throughout the Track Record Period.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the followings are the key factors that have been and will continue to affect our financial condition and results of operations:

The Evolving Cross-border E-commerce Export B2C Industry in China

The cross-border e-commerce export B2C industry is driven by the increase of internet users and penetration rate of internet. More and more customers around world are getting used to the digitalized shopping experience without time and space constraints. Cross-border e-commerce export B2C market in China is steadily releasing market potential and attracting massive industry participants. Market size of China's cross-border e-commerce export B2C market, as measured by total GMV of all cross-border e-commerce platforms, increased significantly from RMB924.5 billion in 2017 to RMB2,738.4 billion in 2021, and is expected to reach RMB5,504.9 billion by 2026, representing a CAGR of 15.0% from 2021 to 2026, according to Frost & Sullivan.

Benefiting from the steady growth of cross-border e-commerce export B2C industry in China, our revenue experienced remarkable growth during the Track Record Period, increasing from RMB1,428.9 million in 2019 to RMB1,898.1 million in 2020, and further to RMB2,346.5 million in 2021, representing a CAGR of 28.1% from 2019 to 2021. Our revenue increased by 16.1% to RMB1,277.5 million for the six months ended June 30, 2022 from RMB1,100.7 million for the six months ended June 30, 2021. We expect that the evolving cross-border e-commerce export B2C industry will continue to support our organic and profitable future growth.

Product Portfolio and Market-oriented Pricing

We sell a broad range of apparel, footwear and other products worldwide. The vast majority of our products were self-designed, which distinguished us from our competitors in the cross-border e-commerce export B2C apparel and footwear industry. Therefore, our ability to accurately identify and anticipate fashion trends, customer preferences and market demand in a timely manner and further reflect in our product designs is of great importance to our market performance. Any failure to timely respond to fashion trends and customer preferences could result in obsolete inventories and lead to a reduction in our business profitability, which may in turn have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to identify and respond to changes in fashion trends, consumer preferences and market demand in a timely manner."

We have adopted market-oriented pricing strategy to offer customers products at competitive prices. We consider a number of factors to the extent applicable, in determining the selling prices of our products, including among others, our cost structure, such as historical procurement and sales statistics, customers' rating, selling prices of comparable products, competitive landscape of our products, our product positioning, our target customers and the pricing policy of third-party e-commerce platforms. Any material change in our pricing strategy may have a material impact on our results of operations in the future. In line with the industry norm, from time to time, we offer sales discounts for different purposes, such as promoting sales and managing inventory level. The amount and timing of offering discounts is essential for our competitiveness and profitability.

Our Relationship with Third-party E-commerce Platforms

Historically, we mainly sold our products through major third-party e-commerce platforms, such as Amazon, Wish, eBay and AliExpress, to customers. Our revenue generated from sale through third-party e-commerce platforms amounted to RMB1,312.7 million, RMB1,505.9 million, RMB2,052.3 million and RMB1,200.3 million, respectively, accounting for 91.9%, 79.3%, 87.4% and 94.0%, respectively, of our total revenue in 2019, 2020 and 2021 and the first half of 2022. Amongst these third-party e-commerce platforms, Amazon and Wish were our two largest third-party e-commerce platforms as of June 30, 2022. Our revenue generated from sale through Amazon and Wish amounted to RMB1,179.2 million, representing 92.3% of our total revenue for the six months ended June 30, 2022. We expect our sale through third-party e-commerce platforms will continue to contribute the vast majority of our total revenue in the foreseeable future. Our profitability, performance and financial results rely on, among other things, the strong and stable business relationship between us and such third-party e-commerce platforms.

Seasonality

Our financial condition and results of operations are subject to seasonal fluctuations. 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. We typically achieve higher revenue and have higher level of inventories to satisfy market demand before and during holiday seasons and relevant shopping events than at other times in the year.

We also typically achieve higher revenue from the sale of our autumn and winter collections than spring and summer collections as autumn and winter collections typically have higher average selling prices as a result of the comparatively costly materials used to produce autumn and winter collections, which is in line with the industry norm. On the other hand, our sales are vulnerable to extreme or unusual weather conditions. See "Business – Seasonality" for details. As a result, any comparison of our financial condition and results of operations between different periods within a single financial year, or between different periods in different financial years, may not be meaningful and cannot be relied on as indicators of our financial performance.

Ability to control our costs and expenses

During the Track Record Period, cost of inventories sold represented the largest component of our cost of sales. Cost of inventories sold refers to the cost to purchase products from our OEM suppliers, including the cost incurred by the OEM suppliers to deliver the products to our warehouses or designated places which was also included in their selling price. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our cost of inventories sold amounted to RMB380.7 million, RMB455.3 million, RMB469.1 million and RMB230.1 million, respectively, accounting for approximately 88.4%, 87.5%, 80.8% and 74.6%, respectively, of our total cost of sales for the same periods. The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of inventories sold on our net profit for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
% change in cost of inventories sold	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit	Change in net profit	% change in net profit
	RMB'000, except percentage						*(unaudited)*			
+15%	(57,110)	(70.4)	(68,290)	(59.9)	(70,361)	(35.1)	(34,218)	(30.0)	(34,522)	(56.3)
+10%	(38,073)	(46.9)	(45,527)	(39.9)	(46,907)	(23.4)	(22,812)	(20.0)	(23,015)	(37.5)
+5%	(19,037)	(23.5)	(22,763)	(20.0)	(23,454)	(11.7)	(11,406)	(10.0)	(11,507)	(18.8)
-5%	19,037	23.5	22,763	20.0	23,454	11.7	11,406	10.0	11,507	18.8
-10%	38,073	46.9	45,527	39.9	46,907	23.4	22,812	20.0	23,015	37.5
-15%	57,110	70.4	68,290	59.9	70,361	35.1	34,218	30.0	34,522	56.3

We expect that cost of inventories sold to continue to be our most significant costs and expenses going forward, particularly in light of our continued expansion and ramping up of our business presence on both third-party e-commerce platforms and self-operated online stores. Our ability to control such costs and expenses may significantly affect our profitability.

Foreign Exchange Rate Fluctuation

Most of our sale to customers are denominated and settled in the U.S. dollars, with the remaining mainly denominated and settled in currencies of the countries to which we sell our products. We mainly pay our OEM suppliers and logistics service suppliers that locate in the PRC in Renminbi. During the Track Record Period, we recorded net foreign exchange losses due to the foreign exchange rate fluctuation in connection with our outstanding trade and other receivables denominated in foreign currencies, most of which in the U.S. dollars. As a result, changes in the exchange rates between the foreign currency, in particular the U.S. dollar and Renminbi could affect our results of operations and competitiveness against foreign apparel and footwear sellers. For the year ended December 31, 2019 and the six months ended June 30, 2022, we recorded foreign exchange gains of RMB3.6 million and RMB8.9 million, respectively. For the years ended December 31, 2020 and 2021 and the six months ended June 30, 2021, we recorded foreign exchange losses of RMB3.9 million, RMB8.6 million and RMB4.6 million, respectively.

The value of the Renminbi against the U.S. dollar and other foreign currencies may fluctuate due to a number of factors, all of which are beyond our control. Any depreciation of the U.S. dollar against Renminbi may have a negative impact on our gross profit while any appreciation of the U.S. dollar may have a positive impact on our gross profit. We may choose to mitigate the impact of a depreciation of the U.S. dollar by increasing our products' selling prices after taking the competitive landscape of our products into consideration. During the Track Record Period and up to the Latest Practicable Date, we had not adopted any hedging arrangement with respect to the foreign exchange risks. However, we may not be able to effectively mitigate the impact of foreign exchange rate fluctuation, and even if we are able to mitigate such impact, the price competitiveness of our products may be affected. See "Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks associated with foreign exchange rate fluctuations."

The Outbreak of COVID-19

The outbreak and continuous spread of COVID-19 has caused an adverse impact on the Chinese and global economy, as well as the industry where we operate.

Our business operations and financial conditions had been and may continue to be affected by the COVID-19 pandemic. The negative impact of the COVID-19 pandemic on us was primarily in the first quarter of 2020, during which we incurred additional incremental fulfilment expenses caused by interruptions to logistics services. 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. We adopted strict disease prevention measures to reduce the risk of infection of COVID-19. Our expenses in connection with the prevention of COVID-19 mainly includes, among others, (i) sterilizing and ventilating our workplaces; (ii) requiring employees to return to work in batches; (iii) monitoring the body temperature of employees regularly; and (iv) keeping track of the travel history and health of employees. As of June 30, 2022, we had incurred approximately RMB0.2 million in respect of these measures in order to prevent the transmission of COVID-19.

Since June 2020, the delivery of our products has encountered delay caused by the continuous spread of COVID-19 in other countries. Although the delivery of our products under the FBA model has not been materially affected, our delivery under international direct mail has been significantly affected during the outbreak and spread of COVID-19. Accordingly, our contract liabilities increased significantly from RMB24.7 million as of December 31, 2019 to RMB132.6 million as of December 31, 2020. Since the first quarter of 2021, most of the logistics arrangement of our products under international direct mail has resumed gradually and our sales amount has been increasing. Although our operations in the PRC bounced back, we cannot assure you that the continuous spread of COVID-19 will not have further adverse impact on our operations. Any interruption in the operations of our logistics service suppliers or OEM suppliers may materially and adversely affect the supply chain as we may not be able to maintain sufficient inventories and/or we may not be able to deliver products to our overseas customers in a timely manner. See "Risk Factors – Risks Relating to Our Business and Industry – Our business operations may be affected by the outbreak of COVID-19."

On the other hand, the outbreak of COVID-19 has stimulated the development of e-commerce industry. To contain the COVID-19 outbreak, many countries imposed strict restrictions on travel and strict measures on offline business operations in certain regions exposed to high infection risks. The United States imposed stay home orders and other travel restriction measures during the pandemic in 2020. Several countries in Europe also imposed travel restriction measures to contain the spread of COVID-19. As people have limited outdoor activities during the outbreak of COVID-19, their demand for certain industries increased sharply, such as online shopping and online entertainment. We believe we would be able to benefit from such factors and further expand our business in the cross-border e-commerce industry.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The preparation of historical financial information requires management to exercise judgements in applying assumptions and making estimates that would yield materially different results in our management different assumptions or estimates. Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances. We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results.

The summary of significant accounting policies is set out in Note 2 to the Accountant's Report set out in Appendix I to this document. Critical accounting estimates and judgements are set out in Note 4 of the Accountant's Report set out in Appendix I to this document. We set forth below the accounting policies, estimates and judgements that we believe are the most significant to our financial information or that involve the most significant judgements and estimates used in the preparation of our financial statements.

Revenue Recognition

We generate revenue primarily from sale of products. Revenue from contracts with customers is recognized when control of goods or services is transferred to our customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The following is a description of the accounting policy for our principal revenue streams.

Revenue from Sale of Products

We sell our products to customers through third-party e-commerce platforms, such as Amazon and Wish, and self-operated online stores. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and the delivery. Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on the receipt of products by customers.

If the contract for the sale of goods provides customers with rights of return, it gives rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned so as to best predicts the amount of variable consideration that we will be entitled to receive. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, a refund liability is recognized. A right-of-return asset and the corresponding adjustment to cost of sales are also recognized for customers' right to return products to us.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration, or an amount of consideration is due from the customer.

Foreign currencies

Functional and presentation currency

Financial statements of each of our entities are measured using the functional currency, the currency of the primary economic environment where the entity conducts operations. Since all of our assets are located in the PRC, the consolidated financial statements are presented in Renminbi, our functional and presentation currency.

Transactions and balances

Foreign currency used in transactions are translated into the functional currency with the exchange rates at the date of each transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in the consolidated statement of comprehensive income on a net basis as "other gains/(losses), net."

Non-monetary items that are measured at fair value in a foreign currency are translated with the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. In particular, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized as other comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realizable value. The costs of inventories are determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling and marketing expenses. We assess the net realizable value of the inventories as well as the required amount of impairment of inventory provision at each balance sheet date, which involves significant judgment on determination of the estimated residual value of the inventories based on our marketing and retail pricing strategy, sales forecast of each product collection, and the price markdown necessary to sell off-season products at certain stage of the product lifecycle based on the general historical pattern on a season-by-season basis. We perform regular check on the physical conditions of inventories and assesses possible write-down for any damaged inventories at each balance sheet date.

These key estimates are based on the current market condition and the historical experience of selling products of similar nature, which are reassessed at each balance sheet date as they could change significantly as a result of changes in customer taste and competitor actions in the competitive industry.

Trade and other receivables

Trade receivables are amounts due from third-party e-commerce platforms or customers for merchandise sold or services rendered in the ordinary course of business. Trade and other receivables are classified as current assets if the collection of such receivables is expected to be within one year or in the normal operating cycle of the business. Otherwise, trade and other receivables are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. We hold the trade receivables to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 21 and Note 2.10.4 to the Accountant's Report set out in Appendix I to this document for further information about the accounting for trade receivables and the description of our impairment policies, respectively.

Trade and other payables

Trade and other payables represent obligations to pay for goods or services that have been acquired by us in the ordinary course of business from the suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or in the normal operating cycle of the business. Otherwise, they are presented as non-current liabilities. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statements, cash and cash equivalents include cash on hand, demand deposits held at banks, and other short-term investments with high liquidity, the original maturities of which are three months or less. Such short-term investments are readily convertible to known amounts of cash without a significant risk of changes in value.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Machinery	10 to 20 years
Transportation equipment	Four years
Electronic equipment	Three years
Office equipment	Five years
Leasehold improvement	Less than three years

At each balance sheet date, the residual values and useful lives of the assets are reviewed and adjusted, if appropriate. Carrying amount of the asset is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized under item "Other gains/(losses), net" in the consolidated statements of comprehensive income.

Intangible assets

Software

Acquired software is initially capitalized based on the costs incurred to acquire and bring to use the specific software. Costs associated with maintenance are recognized as an expense as incurred. Software is stated at historical cost less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives of two to five years. The amortization period and amortization method of intangible assets are reviewed at each reporting period. Revisions are recognized as profit or loss when the changes arise.

Leases

We mainly lease office, warehouse and dormitory as lessee. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments: (i) fixed payments (including in-substance fixed payments), less any lease incentives receivable; (ii) variable lease payment that are based on an index or a rate; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following: (i) the amount of the initial measurement of lease liability; (ii) any lease payments made at or before the commencement date less any lease incentives received; (iii) any initial direct costs; and (iv) restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our incremental borrowing rate. We determine the incremental borrowing rate through: (i) using recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received; (ii) using a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by us, which does not have recent third-party financing; and (iii) making adjustments specific to the lease, such as term, country, currency and security.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of IT equipment.

Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

We are subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made. Deferred income tax assets relating to certain temporary differences and tax losses are recognized as management considers that it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to other non-current liabilities account and is released to the consolidated statements of comprehensive income on a straight-line basis over the expected useful life of the relevant assets. At the end of each reporting period, the recognition period of government grants is reviewed and adjusted if appropriate.

Redeemable convertible preference shares

In order to involve institutional investors to further develop our business, we introduced [**REDACTED**] investors and designated the preferred shares as financial liabilities at fair value through profit or loss. Redeemable convertible preferred shares can be automatically converted into our ordinary shares upon the [**REDACTED**].

The preferred shares are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. All fair value changes except for those relating to our credit risk are recognized in profit or loss. The component of fair value changes relating to our credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss. Such amounts are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss. The preferred shares are classified as our current liability. Holders of preferred shares are entitled to demand us to redeem the preferred shares within 12 months upon the occurrence of certain future events.

See "History, Reorganization and Corporate Structure – Reorganization – Offshore Reorganization – (viii) [**REDACTED**] Investments" and Note 31 to the Accountant's Report set forth in Appendix I to this document for further details of redeemable convertible preference shares.

DESCRIPTION OF KEY ITEMS OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The following table sets forth selected consolidated statement of comprehensive income items for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
			RMB'000		
				(unaudited)	
Revenue	**1,428,854**	**1,898,109**	**2,346,543**	**1,100,686**	**1,277,527**
Cost of sales	(430,919)	(520,301)	(581,008)	(266,225)	(308,411)
Gross profit	**997,935**	**1,377,808**	**1,765,535**	**834,461**	**969,116**
Selling expenses and distribution costs	(833,610)	(1,162,217)	(1,413,705)	(636,422)	(838,255)
General and administrative expenses	(69,636)	(70,979)	(108,969)	(55,616)	(62,923)
Net (impairment losses)/reversal of impairment on financial assets	(616)	(697)	15	(293)	(3,077)
Other income	4,340	8,981	15,982	3,755	5,596
Other gains/(losses), net	3,477	(11,753)	(9,092)	(4,752)	8,656
Operating profit	**101,890**	**141,143**	**249,766**	**141,133**	**79,113**
Finance income	365	–	–	–	1,215
Finance costs	(8,655)	(6,720)	(9,876)	(3,871)	(6,706)
Finance costs – net	(8,290)	(6,720)	(9,876)	(3,871)	(5,491)
Fair value changes of redeemable convertible preferred shares	–	–	(2,259)	(287)	(2,274)
Profit before income tax	**93,600**	**134,423**	**237,631**	**136,975**	**71,348**
Income tax expense	(12,491)	(20,462)	(37,122)	(22,742)	(10,034)
Profit and total comprehensive income for the year/period, all attributable to owners of the Company	**81,109**	**113,961**	**200,509**	**114,233**	**61,314**
Earnings per share for profit attributable to owners of the Company (express in RMB per share)					
– Basic and diluted	0.20	0.28	0.50	0.29	0.15

Revenue

Revenue breakdown by business segment

During the Track Record Period, we generated our revenue primarily from the sale of a wide range of apparel, footwear and other products worldwide. Please see "Business – Our Business Model" for more details.

The following table sets forth our revenue by business segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
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(1)	25,553	1.8	158,564	8.4	59,251	2.5	46,891	4.3	2,782	0.2
Total	**1,428,854**	**100.0**	**1,898,109**	**100.0**	**2,346,543**	**100.0**	**1,100,686**	**100.0**	**1,277,527**	**100.0**

Note:

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

We provide our customers with a comprehensive range of apparel products, including among others, sweaters, T-shirts, coats, jackets, dresses, trousers and sportswear. Our revenue generated from sale of apparel products increased from RMB1,146.9 million in 2019 to RMB1,338.4 million in 2020, and further to RMB1,833.7 million in 2021, primarily due to the increased sales through Amazon mainly resulting from the increased sales volume of hot-selling and new products and the increased prices of our products on such platform. The increase in the prices was mainly due to stronger pricing power we have on hot-selling products, and our pricing adjustment in response to the foreign exchange rate fluctuation. Our revenue generated from sale of apparel products increased from RMB824.5 million for the six months ended June 30, 2021 to RMB1,016.7 million for the six months ended June 30, 2022, primarily due to the increased sales through Amazon, mainly as (i) we increased marketing and advertising investments on our sale through Amazon; and (ii) we increased prices of our apparel products on Amazon to pass the additional selling expenses and distribution costs, such as the rising costs for advertising services on Amazon and the rising outbound shipping charges under the FBA model, to customers aiming to maintain our profitability on such platform. Apart from apparel products, we also sell footwear products. Our revenue generated from sale of footwear products increased from RMB256.4 million in 2019 to RMB401.1 million in 2020, primarily due to the rapid development of our self-operated online stores in 2020, through which we mainly sell footwear products. Our revenue generated from sale of footwear products further increased to RMB453.6 million in 2021, primarily due to more footwear products sold through Amazon in the same year. Our revenue generated from sale of footwear products increased from RMB229.3 million for the six months ended June 30, 2021 to RMB258.1 million for the six months ended June 30, 2022, primarily due to the increased sales of footwear products through Amazon, mainly caused by the raised selling prices of footwear products for the same reason as our sale of apparel products through such platform during the same period. In recent years, we diversified our product offerings to different types of other products, including among others, electronic devices, stationery and sporting goods. Our revenue generated from sale of other products increased from RMB25.6 million in 2019 to RMB158.6 million in 2020, primarily due to our diversified product portfolio in 2020. Our revenue generated from sale of other products decreased from RMB158.6 million in 2020 to RMB59.3 million in 2021, and further decreased from RMB46.9 million for the six months ended June 30, 2021 to RMB2.8 million for the six months ended June 30, 2022, primarily due to the decrease of our sale of other products, as we strategically focused more on our sale of apparel and footwear products and reduced our selling and marketing efforts on sale of other products since 2021 due to their unsatisfactory profitability.

Revenue breakdown by sales channel

We sell products through major third-party e-commerce platforms and our self-operated online stores. The table below sets forth a breakdown of revenue by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Third-party E-commerce Platforms										
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[(1)]	84,019	5.9	49,663	2.6	75,805	3.2	43,292	3.9	21,095	1.7
Sub-total	**1,312,653**	**91.9**	**1,505,888**	**79.3**	**2,052,279**	**87.4**	**897,655**	**81.5**	**1,200,303**	**94.0**

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Self-operated Online Stores	**109,708**	**7.7**	**362,601**	**19.1**	**257,319**	**11.0**	**172,612**	**15.7**	**74,756**	**5.8**
Others(2)	6,493	0.4	29,620	1.6	36,945	1.6	30,419	2.8	2,468	0.2
Total	**1,428,854**	**100.0**	**1,898,109**	**100.0**	**2,346,543**	**100.0**	**1,100,686**	**100.0**	**1,277,527**	**100.0**

Notes:

(1) Primarily include other third-party e-commerce platforms, such as eBay and AliExpress.

(2) Primarily represent our offline sale of apparel and other products to corporate customers. Corporate customers may place order 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.

During the Track Record Period, we generated the substantial amount of our revenue from selling products through third-party e-commerce platforms, including among others, Amazon and Wish. Our revenue generated from third-party e-commerce platforms amounted to RMB1,312.7 million, RMB1,505.9 million, RMB2,052.3 million and RMB1,200.3 million, respectively, accounting for 91.9%, 79.3%, 87.4% and 94.0%, respectively, of our total revenue in 2019, 2020 and 2021 and the six months ended June 30, 2022.

During the Track Record Period, Amazon and Wish were the two largest third-party e-commerce platforms that we collaborate with. We regrouped our sales and marketing team for sale through Amazon in 2019 in order to devote more efforts to strengthening our business presence on Amazon. Our revenue generated from Amazon increased from RMB450.2 million in 2019 to RMB615.1 million in 2020, and further to RMB1,672.3 million in 2021, primarily due to our efforts to develop our sale through Amazon during the Track Record Period and the sales volume of both our hot-selling products and new products launched through Amazon increased. Our revenue generated from Amazon increased from RMB629.4 million for the six months ended June 30, 2021 to RMB1,157.5 million for the six months ended June 30, 2022, primarily due to (i) the increased customer orders due to our continuous efforts to develop our sales through Amazon; and (ii) the increased selling prices for our products sold on such platform, to pass the additional selling expenses and distribution costs, such as the rising costs for advertising services on Amazon and the rising outbound shipping charges under the FBA model, to customers aiming to maintain our profitability on such platform. For example, our operating staff for sale through Amazon increased by over 60% as of June 30, 2022, as compared with that of December 31, 2021. Our revenue generated from Wish increased slightly from RMB778.5 million in 2019 to RMB841.1 million in 2020, primarily due to our increased sales through Wish to North America in 2020, as we continued to focus more on the development of our sale to North American market through third-party e-commerce platforms, including Wish. Our revenue generated from Wish decreased from RMB841.1 million in 2020 to RMB304.1 million in 2021, primarily as we reduced our sale of products with low profit margin through Wish and strategically focused more on sale through other third-party e-commerce platforms, especially Amazon. We also reduced our marketing and advertising expenses for sale through Wish since the second half of 2020. In particular, compared with that of the whole year of 2020, in 2021, we reduced our marketing and advertising expenses and staff resources for sale through Wish by over 60%, thus the number of SPUs of our new products launched on Wish and the number of our new products sold through Wish decreased significantly in 2021. Our revenue generated from Wish decreased from RMB225.0 million for the six months ended June 30, 2021 to RMB21.7 million for the six months ended June 30, 2022, primarily as we reduced marketing and advertising investments and staff resources for sale through Wish in the first half of 2022.

Following our strategies of developing self-operated online stores, our revenue generated from self-operated online stores experienced rapid growth in 2019 and 2020, amounted to RMB109.7 million and RMB362.6 million, respectively, accounting for 7.7% and 19.1%, respectively, of our total revenue in the same years, primarily due to our continuous efforts to improve our sale through self-operated online stores, including attracting customers and cultivating our brand awareness through (i) placing advertisement covering countries where our products are sold to, on nine leading online social media platforms, such as Google, Instagram and Facebook, the advertisement fees we paid for the advertisement placement on which increased from RMB49.6 million in 2019 to RMB183.6 million in 2020; and (ii) offering sales and promotional discounts of up to 40% on our self-operated online stores mainly during the festival and holiday seasons. With such continuous efforts, the number of new products launched on our self-operated online stores increased from 2019 to 2020. The number of SPUs sold through our self-operated online stores increased from 4,912 in 2019 to 6,479 in 2020. Our revenue generated from self-operated online stores decreased from RMB362.6 million in 2020 to RMB257.3 million in 2021, primarily as we strategically focused on cultivating selected self-operated online stores with better sales performance and profitability potential in the first half of 2021 to enhance profitability and concentrate our resources to cultivate our brand awareness, while reduced selling and marketing efforts on other self-operated online stores in 2021, thus our overall sale through self-operated online stores decreased in the same year. Our revenue generated from self-operated online stores further decreased from RMB172.6 million for the six months ended June 30, 2021 to RMB74.8 million for the six months ended June 30, 2022, primarily due to the decreased sales of products through self-operated online stores caused by (i) our operating strategies adjusted 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 need ramp-up time before the realization of normal growth; and (ii) the reduced investment in the sales and marketing for our self-operated online stores during the same period. Despite the decreased revenue from self-operated online stores as a whole, the selected self-operated online stores strategically cultivated by us since the first half of 2021 have achieved growth under our strategic cultivation.

We started to sell products through self-operated online stores in 2018. In 2019 and 2020, our self-operated online stores were loss-making, primarily as we typically spend relatively high marketing and advertising expenses at the early development stage of such online stores, in order to cultivate our own brand awareness and accumulate customer base. We took measures to turn around the financial performance of our self-operated online stores, such as cultivating selected self-operated online stores with better sales performance in the first half of 2021 to establish brand awareness, attracting mid- to high-end customers and raising prices of products sold through such online stores to the extent appropriate. In 2021, we started to generate profit through operating such online stores. We aim to improve the financial performance of those selected self-operated online stores strategically cultivated by us through growing brand awareness and developing business operations.

Revenue breakdown by geographical location

As of the Latest Practicable Date, our products were primarily sold to customers located in over 80% of the countries and regions around the world. 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**	
	Revenue	**% of total revenue**	**Revenue**	**% of total revenue**	**Revenue**	**% of total revenue**	**Revenue**	**% of total revenue**	**Revenue**	**% of total revenue**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
North America										
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[1]	59,621	4.2	68,347	3.6	22,190	1.0	13,154	1.2	6,931	0.5
Sub-total	**899,794**	**63.0**	**1,378,302**	**72.6**	**2,029,381**	**86.5**	**889,456**	**80.8**	**1,220,094**	**95.5**

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Europe										
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(2)	167,820	11.7	156,849	8.2	96,498	4.1	71,603	6.5	12,567	1.0
Sub-total	**414,658**	**29.0**	**381,607**	**20.1**	**237,576**	**10.1**	**155,077**	**14.1**	**46,486**	**3.6**
Asia										
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
Sub-total	**37,799**	**2.6**	**56,537**	**3.0**	**50,100**	**2.1**	**38,753**	**3.5**	**4,019**	**0.3**
Others(3)	**76,603**	**5.4**	**81,663**	**4.3**	**29,486**	**1.3**	**17,400**	**1.6**	**6,928**	**0.6**
Total	**1,428,854**	**100.0**	**1,898,109**	**100.0**	**2,346,543**	**100.0**	**1,100,686**	**100.0**	**1,277,527**	**100.0**

Notes:

(1) Include countries such as Canada.

(2) Include countries such as Spain and Netherlands.

(3) Include countries such as Australia.

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 in the United States amounted to RMB840.2 million, RMB1,310.0 million, RMB2,007.2 million, RMB876.3 million and RMB1,213.2 million, respectively, accounting for 58.8%, 69.0%, 85.5%, 79.6% and 95.0%, respectively, of our total revenue in 2019, 2020 and 2021 and the first half of 2021 and 2022.

Our revenue generated from sale of products in North America increased from RMB899.8 million in 2019 to RMB1,378.3 million in 2020, and further to RMB2,029.4 million in 2021. Our revenue generated from sale of products in North America increased from RMB889.5 million for the six months ended June 30, 2021 to RMB1,220.1 million for the six months ended June 30, 2022. Such continuous increase during the Track Record Period was primarily due to our increased sales through Amazon, through which we mainly focused on North America market. In particular, our revenue generated from sale of products in the United States increased from RMB840.2 million in 2019 to RMB1,310.0 million in 2020, and further to RMB2,007.2 million in 2021. Our revenue generated from sale of products in the United States increased from RMB876.3 million for the six months ended June 30, 2021 to RMB1,213.2 million for the six months ended June 30, 2022. Such continuous increase was primarily due to our increased sales through Amazon. Our revenue generated from sale of products in Europe decreased from RMB414.7 million in 2019 to RMB381.6 million in 2020, and further to RMB237.6 million in 2021, primarily as we strategically shifted our focus to sales through Amazon, the market focus of which is mainly North America thus less European customers purchased products from us. In the first half of 2022, we further reduced our resources allocated to the sale through Wish and continued to focus on Amazon, the major market focus of which is not Europe. As a result, our revenue generated from sale of products in Europe further decreased from RMB155.1 million for the six months ended June 30, 2021 to RMB46.5 million for the six months ended June 30, 2022. Our revenue generated from sale of products in Asia increased from RMB37.8 million in 2019 to RMB56.5 million in 2020, primarily due to our enhanced marketing activities in line with our strategic exploration of Asia market. Our revenue generated from sale of products in Asia decreased slightly from RMB56.5 million in 2020 to RMB50.1 million in 2021, and further decreased from RMB38.8 million for the six months ended June 30, 2021 to RMB4.0 million for the six months ended June 30, 2022, primarily due to the decrease in our sale of products in Japan mainly through self-operated online stores, as a result of our streamlining of self-operated online store business and reduced selling and marketing efforts on such self-operated online stores in 2021 and the first half of 2022.

Cost of Sales

Our cost of sales primarily consists of (i) cost of inventories sold; (ii) freight and insurance cost, mainly representing the inbound shipping charges and related insurance fees; and (iii) impairment provision of inventories, mainly representing the impairment provision we made for inventories. The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* *(unaudited)*	*% of total*	*RMB'000*	*% of total*
Cost of inventories sold	380,731	88.4	455,266	87.5	469,071	80.8	228,121	85.7	230,148	74.6
Freight and insurance cost	27,658	6.4	34,928	6.7	90,522	15.6	31,653	11.9	57,869	18.8
Impairment provision of inventories	22,386	5.2	29,952	5.8	21,162	3.6	6,322	2.4	20,313	6.6
Others	144	0.0	155	0.0	253	0.0	129	0.0	81	0.0
Total	**430,919**	**100.0**	**520,301**	**100.0**	**581,008**	**100.0**	**266,225**	**100.0**	**308,411**	**100.0**

During the Track Record Period, cost of inventories sold constituted the largest portion of our cost of sales. Cost of inventories sold mainly represents purchase price of products we procure from OEM suppliers. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our cost of inventories sold amounted to RMB380.7 million, RMB455.3 million, RMB469.1 million, RMB228.1 million and RMB230.1 million, respectively, accounting for approximately 88.4%, 87.5%, 80.8%, 85.7% and 74.6%, respectively, of our total cost of sales for the same periods. During the Track Record Period, our cost of sales fluctuated primarily in line with the fluctuation in the cost of inventories sold. Our cost of inventories increased in 2020, primarily in line with our expanded sales in the same year. Our cost of inventories sold increased slightly from RMB455.3 million in 2020 to RMB469.1 million in 2021, primarily due to the slight increase of our sales volume of menswear and footwear products in 2021. Our cost of inventories sold increased from RMB228.1 million for the six months ended June 30, 2021 to RMB230.1 million for the six months ended June 30, 2022, primarily due to the increased orders we received from customers in the first half of 2022.

Impairment provision of inventories mainly represents the impairment provision we made for inventories. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our impairment provision of inventories amounted to RMB22.4 million, RMB30.0 million, RMB21.2 million, RMB6.3 million and RMB20.3 million, respectively, accounting for approximately 5.2%, 5.8%, 3.6%, 2.4% and 6.6%, respectively, of our total cost of sales for the same periods. During the Track Record Period, we provided a significant amount of impairment loss on inventories, primarily as we assessed the net realizable value of inventories and the amount of impairment based on multiple factors, including product lifecycle, sales performance and age of inventories.

The following table sets forth a breakdown of our cost of sales by business segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Cost of sales	% of total	Cost of sales	% of total	Cost of sales	% of total	Cost of sales	% of total	Cost of sales	% of total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Sale of apparel products	361,728	84.0	393,864	75.7	459,907	79.2	199,287	74.9	250,181	81.1
Sale of footwear products	61,819	14.3	86,915	16.7	91,358	15.7	44,836	16.8	57,069	18.5
Sale of other products	7,372	1.7	39,522	7.6	29,743	5.1	22,102	8.3	1,161	0.4
Total	**430,919**	**100.0**	**520,301**	**100.0**	**581,008**	**100.0**	**266,225**	**100.0**	**308,411**	**100.0**

Gross Profit and Gross Profit Margin

Our gross profit consists of our revenue less cost of sales. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our gross profit amounted to RMB997.9 million, RMB1,377.8 million, RMB1,765.5 million, RMB834.5 million and RMB969.1 million, respectively. Gross profit margin represents gross profit divided by total revenue, expressed as a percentage. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our gross profit margin was 69.8%, 72.6%, 75.2%, 75.8% and 75.9%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by business segment:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Sale of apparel products	785,164	68.5	944,551	70.6	1,373,770	74.9	625,171	75.8	766,477	75.4
Sale of footwear products	194,590	75.9	314,215	78.3	362,257	79.9	184,501	80.4	201,018	77.9
Sale of other products	18,181	71.2	119,042	75.1	29,508	49.8	24,789	52.9	1,621	58.3
Total	**997,935**	**69.8**	**1,377,808**	**72.6**	**1,765,535**	**75.2**	**834,461**	**75.8**	**969,116**	**75.9**

In 2019, 2020 and 2021, the gross profit margin of sale of both apparel and footwear products increased continuously. The main reason for such increase was our strategic focus on developing our sale through Amazon, the prices of apparel and footwear products on which was relatively high, as (i) Amazon primarily targets mid- to high-end customers with strong spending power; and (ii) we have more pricing power for our hot-selling products on Amazon. Our gross profit margin of sale of apparel products remained relatively stable in the first half of 2022, compared with that in the first half of 2021. Our gross profit margin of sale of footwear products decreased in the first half of 2022, primarily due to the decrease in selling prices mainly as we sold certain footwear products that were short in size or out-of-season at discount. The increase of the gross profit margin of sale of other products in 2020 was primarily due to our stronger bargaining power with our OEM suppliers, resulting from our growing economies of scale. The decrease of the gross profit margin of sale of other products in 2021 was primarily due to discounts we offered on products that were short in size, such as furniture, decoration goods and outdoor and sporting goods. The increase of the gross profit margin of sale of other products in the first half of 2022 was primarily due to the decreased sale of products with low profit margin on Wish.

The table below sets forth a breakdown of revenue, gross profit and gross profit margin by sales channel for the periods indicated:

	Year ended December 31,									Six months ended June 30,					
	2019			2020			2021			2021			2022		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	RMB'000	*RMB'000*	%	*RMB'000*	*RMB'000*	%	*RMB'000*	*RMB'000*	%	*RMB'000*	*RMB'000* (*unaudited*)	%	*RMB'000*	*RMB'000*	%
Third-party E-commerce Platforms															
Amazon	450,152	330,616	73.4	615,117	441,809	71.8	1,672,349	1,264,705	75.6	629,382	486,741	77.3	1,157,463	878,527	75.9
Wish	778,482	527,028	67.7	841,108	593,811	70.6	304,125	228,148	75.0	224,981	167,174	74.3	21,745	16,334	75.1
Others[(1)]	84,019	53,509	63.7	49,663	31,596	63.6	75,805	50,060	66.0	43,292	28,841	66.6	21,095	13,664	64.8
Sub-total	**1,312,653**	**911,153**	**69.4**	**1,505,888**	**1,067,216**	**70.9**	**2,052,279**	**1,542,913**	**75.2**	**897,655**	**682,756**	**76.1**	**1,200,303**	**908,525**	**75.7**
Self-operated Online Stores	109,708	83,748	76.3	362,601	289,514	79.8	257,319	209,190	81.3	172,612	139,193	80.6	74,756	60,007	80.3
Others[(2)]	6,493	3,034	46.7	29,620	21,078	71.2	36,945	13,432	36.4	30,419	12,512	41.1	2,468	584	23.7
Total	**1,428,854**	**997,935**	**69.8**	**1,898,109**	**1,377,808**	**72.6**	**2,346,543**	**1,765,535**	**75.2**	**1,100,686**	**834,461**	**75.8**	**1,277,527**	**969,116**	**75.9**

Notes:

(1) Primarily include other third-party e-commerce platforms, such as eBay and AliExpress.

(2) Primarily represent our sale of apparel and other products to corporate customers. 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.

Our gross profit increased continuously during the Track Record Period, generally in line with our increased revenue during the same periods. Our gross profit margin increased from 69.8% in 2019 to 72.6% in 2020, and further to 75.2% in 2021, primarily as (i) we strategically focused more on developing our sale though Amazon, which primarily targets mid- to high-end customers with strong spending power; and (ii) we developed and streamlined our self-operated online store business, through which we enjoyed a relatively high gross profit as our sale through self-operated online stores mainly target at mid- to high-end customers, the price of products sold to whom are generally at a relatively high level. Our gross profit margin remained relatively stable at 75.9% in the first half of 2022 compared with 75.8% in the first half of 2021.

The gross profit margin of our sale through Amazon decreased from 77.3% in the first half of 2021 to 75.9% in the first half of 2022, primarily as (i) the increase in our cost of sales incurred for sale through Amazon outpaced the increase in our revenue generated from sale through such platform, due to the increased product return rate during the period of constantly rising inflation and the increasing interest rates in the United States, in line with the industry trend as confirmed by Frost & Sullivan; and (ii) we offered discounts to customers for certain products that were short in size or out-of-season on Amazon. See "Business – Our Products – Our Product Portfolio" for details. The gross profit margin of our sale through other third-party e-commerce platforms decreased from 66.6% in the first half of 2021 to 64.8% in the first half of 2022, primarily as we sold certain products that were short in size or out-of-season at discount. The increase of our gross profit margin of our sale through other third-party e-commerce platforms in 2021 was primarily due to the increase of selling prices of our products to align the rising logistics service fees during the spread of COVID-19 in overseas market during the same year. The increased logistics service fees for our sale through other third-party e-commerce platforms 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 sale. The decrease of the gross profit margin of our sale of apparel and other products to corporate customers in 2021 was primarily due to our sale of furniture with relatively low profit margin, as 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 relevant inventories in the same year. The gross profit margin of our sale of apparel and other products to corporate customers decreased from 41.1% in the first half of 2021 to 23.7% in the first half of 2022, primarily due to our sale of products that have been in stock for a relatively long period for promotion purpose, such as bicycles, to corporate customers with relatively low prices.

Selling Expenses and Distribution Costs

Our selling expenses and distribution costs primarily consist of (i) freight and insurance cost; (ii) commission fee to third-party e-commerce platforms; (iii) marketing and advertising expenses; (iv) service fee to the third-party platforms; (v) employee benefit expenses; (vi) depreciation of property, plant and equipment and right-of-use assets; and (vii) labor outsourcing costs. The following table sets forth a breakdown of our selling expenses and distribution costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Freight and insurance cost	384,499	46.1	511,659	44.0	544,329	38.6	255,846	40.2	308,996	36.9
Commission fee to third-party e-commerce platforms	206,836	24.8	245,465	21.1	349,625	24.7	150,399	23.6	209,448	25.0
Marketing and advertising expenses	116,197	13.9	263,244	22.7	319,057	22.6	146,215	23.0	192,208	22.9
Service fee to the third-party platforms	50,687	6.1	65,714	5.7	99,440	7.0	41,315	6.5	65,649	7.8
Employee benefit expenses	59,224	7.1	55,177	4.7	70,974	5.0	29,798	4.7	42,029	5.0
Depreciation of property, plant and equipment and right-of-use assets	4,392	0.5	6,587	0.6	10,293	0.7	5,434	0.8	6,995	0.8
Labor outsourcing costs	4,563	0.5	6,919	0.6	7,485	0.5	2,257	0.4	4,552	0.6
Others[1]	7,212	1.0	7,452	0.6	12,502	0.9	5,158	0.8	8,378	1.0
Total	**833,610**	**100.0**	**1,162,217**	**100.0**	**1,413,705**	**100.0**	**636,422**	**100.0**	**838,255**	**100.0**

Note:

(1) Others primarily comprise consumption of ancillary supplies and packaging materials.

Freight and insurance cost primarily represents outbound shipping charges and related insurance fees incurred. The freight and insurance cost varies with the weight and the shipping destination of the products. Commission fee to third-party e-commerce platforms represents the commission fees arising from our sale through third-party e-commerce platforms in accordance with our agreements with them. Marketing and advertising expenses mainly include the expenses paid to third parties for marketing and advertising activities. Service fee to the third-party platforms comprises other service fees, online store leasing fees, and other miscellaneous fees charged by such third-party e-commerce platforms. Third-party e-commerce platforms typically remit net proceeds to us after deducting their service fee and commission fee. Such service fee varies with the sales amount of our products sold through such platforms. See "Business – Our Business Process – Sales and Marketing – Third-party E-commerce Platforms" for details of the ranges of platform service fees of different platforms. Employee benefit expenses mainly represent the salaries, bonuses, social security and housing fund and other welfare we paid to our online store operating staff and supply chain management staff. Labor outsourcing costs represent labor outsourcing fees for outsourced warehouse management works.

Our selling expenses and distribution costs increased from RMB833.6 million in 2019 to RMB1,162.2 million in 2020, and further to RMB1,413.7 million in 2021. Such increase was primarily attributable to (i) increased marketing and advertising expenses incurred in connection with more advertisement placed by us on major social media platforms, including Facebook, Instagram and Google, which was in line with the expansion of our business; and (ii) the increased commission fee to third-party e-commerce platforms, which was in line with the growth of our sale through third-party e-commerce platforms, in particular, Amazon. Our selling expenses and distribution costs increased from RMB636.4 million for the six months ended June 30, 2021 to RMB838.3 million for the six months ended June 30, 2022, primarily due to (i) increased commission fee charged by third-party e-commerce platforms in the first half of 2022, primarily caused by the increase of our sale through Amazon, which charged us for all purchase orders regardless of whether the products were subsequently returned, and the commission fee rate charged by which was relatively higher than other third-party e-commerce platforms during the same period; (ii) increased freight and insurance costs mainly in relation to the increase in outbound shipping charges under the FBA model; (iii) increased employee benefit expenses primarily caused by the increase in the number of sales and operation staff; and (iv) increased marketing and advertising expenses for promotion of our newly launched product SPUs and increased advertising prices driven by more sellers intending to place advertisements on Amazon under advertising bidding scheme.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) employee benefit expenses; (ii) [**REDACTED**]; (iii) office expenses; (iv) professional fees; (v) depreciation of right-of-use assets; (vi) depreciation of property, plant and equipment; (vii) IT server fees; (viii) short-term rental expenses; (ix) amortization of intangible assets; and (x) settlement payment. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Employee benefit expenses	44,003	63.2	46,772	65.9	53,523	49.1	26,650	47.9	32,466	51.6
[**REDACTED**]	–	–	–	–	21,546	19.8	13,332	24.0	10,781	17.1
Office expenses	5,907	8.5	6,617	9.3	6,764	6.2	3,215	5.8	4,207	6.7
Professional fees	2,903	4.2	2,678	3.8	5,812	5.3	2,427	4.4	3,302	5.3
Depreciation of right-of-use assets	4,740	6.8	4,677	6.6	4,842	4.4	2,297	4.1	2,772	4.4
Depreciation of property, plant and equipment	1,894	2.7	2,279	3.2	3,565	3.3	1,559	2.8	2,170	3.4
IT server fees	2,704	3.9	3,142	4.4	2,475	2.3	1,023	1.8	1,153	1.8
Short-term rental expenses	170	0.2	52	0.1	227	0.2	73	0.1	495	0.8
Amortization of intangible assets	275	0.4	302	0.4	325	0.3	144	0.3	324	0.5
Settlement payment	2,996	4.3	982	1.4	1,701	1.6	1,284	2.3	114	0.2
Others[(1)]	4,044	5.8	3,478	4.9	8,189	7.5	3,612	6.5	5,139	8.2
Total	**69,636**	**100.0**	**70,979**	**100.0**	**108,969**	**100.0**	**55,616**	**100.0**	**62,923**	**100.0**

Note:

(1) Others primarily comprise transportation and accommodation expenses of business travels and entertainment expenses, and labor outsourcing expenses in relation to the remuneration we paid to outsourced workers conducting supply chain management.

Employee benefit expenses primarily comprise salaries, bonuses, social security and housing fund and other welfare of our management team and administrative staff. [**REDACTED**] primarily represent the fees and charges we spent in relation to the [**REDACTED**]. For details, see "– [**REDACTED**]." Office expenses primarily comprise utilities, maintenance and other general office expenses. Professional fees primarily comprise service fees we paid to third-party professionals during our daily operations. Depreciation of right-of-use assets primarily represent depreciation of our operation leases. Depreciation of property, plant and equipment primarily represent depreciation of our office equipment. IT server fees primarily represent fees incurred in relation to the use of servers. Short-term rental expenses primarily comprise rental expenses for leasing warehouses, employees' dormitories and offices. Amortization of intangible assets primarily represent amortization of software and use right of website. Settlement payment primarily comprises settlement fees we paid to third parties for alleged infringement. For details, see "Business – Intellectual Property."

Our general and administrative expenses maintained relatively stable at RMB71.0 million in 2020 compared to that of in 2019. Our general and administrative expenses increased from RMB71.0 million in 2020 to RMB109.0 million in 2021, primarily due to (i) the [**REDACTED**] incurred in relation to the [**REDACTED**]; and (ii) the increased employee benefit expenses, primarily as we increased the remuneration paid to our employees in 2021 and the exemption of our social insurance contribution and housing provident as an employer granted by the local government during the COVID-19 pandemic did not continue in 2021. Our general and administrative expenses increased from RMB55.6 million for the six months ended June 30, 2021 to RMB62.9 million for the six months ended June 30, 2022, primarily due to the increase in employee benefit expenses caused by the increased number of our IT employees and designers and the increased level of employee benefits in the first half of 2022.

Net (Impairment Losses)/Reversal of Impairment on Financial Assets

Net impairment losses or reversal of impairment on financial assets primarily represent provisions for impairment of trade receivables, net of reversal in the ordinary course of business. We recorded net impairment losses on financial assets of RMB0.6 million, RMB0.7 million, RMB0.3 million and RMB3.1 million for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2021 and 2022, respectively, and reversed impairment of trade receivables of RMB15,000 for the year ended December 31, 2021, mainly relating to the changes in provision for impairment of trade receivables due from third-party e-commerce platforms.

Other Income

Our other income primarily consists of (i) government grants; and (ii) consulting service income. The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Government grants	1,980	45.6	7,305	81.3	11,226	70.3	701	18.7	5,179	92.5
Consulting service income	1,959	45.1	1,157	12.9	2,304	14.4	2,005	53.4	128	2.3
Others[(1)]	401	9.3	519	5.8	2,452	15.3	1,049	27.9	289	5.2
Total	**4,340**	**100.0**	**8,981**	**100.0**	**15,982**	**100.0**	**3,755**	**100.0**	**5,596**	**100.0**

Note:

(1) Others primarily comprise service fees from providing logistics services to third-party merchants.

Government grants primarily represent governmental incentives to high-tech enterprises, research and development grants and subsidies on export proceeds (出口收匯補貼) and subsidies to encourage the development of cross-border e-commerce business granted by the local government at their discretion, which are non-recurring. Consulting service income primarily comprises service fees from providing warehousing and logistics services, design services and software services to third-party platform-based sellers in China, all of whom were Independent Third Parties as of the Latest Practicable Date (including (i) Jiahe Group, which was once a related party before its disposal in May 2021; and (ii) Hangzhou Modengxian and Hangzhou Qingruxu, which were once our subsidiaries before their disposals in February 2021). See "History, Reorganization and Corporate Structure – Reorganization – Onshore Reorganization – (iii) Deregistration or Disposal of Non-operating Subsidiaries and Branch – b. Subsidiaries disposed of" for details of the disposals. After the disposals, Hangzhou Qingruxu commenced B2B export of personal care and home textiles products, while Hangzhou Modengxian commenced export of home textiles products. Both Hangzhou Modengxian and Hangzhou Qingruxu received consulting services from us since they commenced business operations in February 2021 and up to May 2021. Except for Jiahe Group, Hangzhou Modengxian and Hangzhou Qingruxu, we have not provided consulting services to companies related to us during the Track Record Period. We typically enter into agreement with a term of five years with such third-party platform-based sellers. The service fees charged by us are determined based on a percentage of the sales revenue generated by the third-party platform-based sellers in the relevant month. Such fees are generally settled on a monthly basis. Leveraging our long-term and stable relationships with reliable logistics service suppliers, we provide other small-scale third-party platform-based sellers with our warehousing and logistics service platform through which they can enjoy high quality warehousing and logistics services at prices lower than that of their own and we charge service fees for return. In addition, we have accumulated extensive database, design capabilities and experience during years of operations in cross-border e-commerce export industry, based on which we are able to provide product design recommendations to third-party platform-based sellers for them to timely identify the fashion trend and respond to customer needs. To a much lesser extent, we also utilize our IT capabilities accumulated during our operations of online seller stores to provide third-party platform-based sellers with software development and maintenance services.

The continuous increase in other income during the Track Record Period was primarily due to the increased government grants including (i) subsidies to encourage the development of participants in cross-border e-commerce business; and (ii) financial subsidies in recognition of our contribution to the local economy. This increase was partially offset by the decrease of consulting service income in 2020 and the first half of 2022, primarily as we strategically focused on sale of apparel and footwear products during the same periods. Our consulting service income increased from RMB1.2 million in 2020 to RMB2.3 million in 2021, primarily as we provided short-term consulting services to an individual industrial and commercial household in 2021.

Net Other Gains or Losses

Our net other gains or losses primarily consist of (i) net foreign exchange gains or losses; (ii) penalty and interest for late payment of taxes; (iii) net gains or losses on disposal of property, plant and equipment; (iv) net losses on disposal of right-of-use assets; and (v) fair value gains on financial assets at fair value through profit or loss. The following table sets forth a breakdown of our net other gains or losses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* *(unaudited)*	*% of total*	*RMB'000*	*% of total*
Net foreign exchange gains/(losses)	3,554	102.2	(3,874)	33.0	(8,566)	94.2	(4,637)	97.6	8,860	102.4
Penalty and interest for late payment of taxes	(169)	(4.9)	(8,223)	70.0	(475)	5.2	(214)	4.5	(246)	(2.8)
Net gains/(losses) on disposal of property, plant and equipment	(50)	(1.4)	3	(0.0)	(53)	0.6	(45)	0.9	(16)	(0.2)
Net losses on disposal of right-of-use assets	–	–	–	–	–	–	–	–	(16)	(0.2)
Fair value gains on financial assets at fair value through profit or loss	131	3.8	201	(1.7)	33	(0.3)	33	(0.7)	–	–
Others[1]	11	0.3	140	(1.3)	(31)	0.3	111	(2.3)	74	0.8
Total	**3,477**	**100.0**	**(11,753)**	**100.0**	**(9,092)**	**100.0**	**(4,752)**	**100.0**	**8,656**	**100.0**

Note:

(1) Others primarily comprise our gains from disposal of waste packaging materials.

Our net foreign exchange gains or losses primarily represent the gains or losses on the uncollected outstanding trade and other receivables denominated in foreign currency, mainly the U.S. dollar, caused by the fluctuation in the foreign exchange rates of the foreign currency against Renminbi. Penalty and interest for late payment of taxes represent the penalty and interest arise from the late payment of indirect tax for sale through our self-operated online stores. See "Business – Taxation and Related Arrangements." Our net gains or losses on disposal of property, plant and equipment mainly represent the gains or losses we recorded from disposal of office equipment and our sublease of the properties. Fair value gains on financial assets at fair value through profit or loss primarily represent our gains from our investment in wealth management products we purchased from commercial banks. See "– Selective Items from Consolidated Statements of Financial Position – Financial Assets at Fair Value through Profit or Loss" for details of our strategy, internal policies and procedures to monitor our investment in wealth management products.

We recorded net other losses in 2020, primarily due to the increase in penalty and interest for late payment of taxes in 2020, in relation to our late payment of taxes regarding our sale through self-operated online stores to the U.S. We also recorded net other losses for the six months ended June 30, 2021 and the year ended December 31, 2021, primarily due to the increase of net foreign exchange losses caused by the appreciation of Renminbi in 2021.

Net Finance Costs

Our net finance costs consist of (i) interest expenses on bank borrowings; (ii) finance charges for lease liabilities in connection with our leases; (iii) interest expenses on loans from related parties; (iv) net foreign exchange losses on cash and cash equivalents and bank borrowings; and (v) net foreign exchange gains on cash and cash equivalent and bank borrowings. The following table sets forth a breakdown of our net finance costs for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000* (unaudited)	*% of total*	*RMB'000*	*% of total*
Interest expenses on bank borrowings	4,223	50.9	3,899	58.0	6,588	66.7	2,329	60.2	5,470	99.6
Finance charges for lease liabilities	1,059	12.8	1,035	15.4	1,851	18.7	848	21.9	1,186	21.6
Interest expenses on loans from related parties	3,160	38.1	1,184	17.6	18	0.2	18	0.5	–	–

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Net foreign exchange losses on cash and cash equivalents and bank borrowings	–	–	414	6.2	1,329	13.5	664	17.1	–	–
Others	213	2.6	188	2.8	90	0.9	12	0.3	50	0.9
Total finance costs	**8,655**	**104.4**	**6,720**	**100.0**	**9,876**	**100.0**	**3,871**	**100.0**	**6,706**	**122.1**
Finance income:										
Net foreign exchange gains on cash and cash equivalent and bank borrowings	(365)	(4.4)	–	–	–	–	–	–	(1,215)	(22.1)
Total	**8,290**	**100.0**	**6,720**	**100.0**	**9,876**	**100.0**	**3,871**	**100.0**	**5,491**	**100.0**

Our interest expenses on loans from related parties decreased in 2020 primarily as we repaid loans from our shareholders in the same year, which were borrowed by us in late 2018 for working capital purpose.

Fair value changes of redeemable convertible preferred shares

Our fair value changes of redeemable convertible preferred shares represent the losses arising from change in fair value of our issued redeemable convertible preferred shares, which were recognized as financial liability at fair value through profit or loss. Such changes will no longer exist after the automatic conversion of our redeemable convertible preferred shares to ordinary shares of the Company upon the [**REDACTED**] and are non-cash in nature and are not directly related to our operating activities. Our fair value changes of redeemable convertible preferred shares amounted to RMB2.3 million, RMB0.3 million and RMB2.3 million, respectively, in 2021 and the first half of 2021 and 2022.

Income Tax Expenses

Our income tax expenses consist of (i) current income tax; and (ii) deferred income tax. The following table sets forth a breakdown of our income tax expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
			RMB'000		
				(unaudited)	
Current income tax	16,603	20,681	35,068	21,207	11,597
Deferred income tax	(4,112)	(219)	2,054	1,535	(1,563)
Total	**12,491**	**20,462**	**37,122**	**22,742**	**10,034**

We were not subject to any income or capital gains tax in the Cayman Islands pursuant to the tax rules and regulations of the Cayman Islands during the Track Record Period. During the same period, we were not subject to income or capital gains tax in the BVI.

Our subsidiaries incorporated in Hong Kong, are subject to Hong Kong profits tax rate of 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000 during the Track Record Period.

Our PRC subsidiaries are subject to the statutory EIT rate of 25%, except (i) Zhejiang Zibuyu and Hangzhou Xingzezhi, which enjoy a preferential EIT rate of 15% for their high-tech enterprises status until 2023 and 2022, respectively; and (ii) Wuxi Zibuyu, Guangzhou Zibuyu, Anhui Yueyu, Hangzhou Junbuqi, Anqing Zibuyu, Hangzhou Chengyusi, Shenzhen Zibuyu, Xiamen Zibuyu, Dongguan Zibuyu and Guangzhou Xingzezhi, with a small and micro enterprises status under the *Enterprise Income Tax Law of the PRC* (企業所得稅法), which enjoy a EIT rate of 2.5% to 10%. For details of relevant governmental policies, see "Regulatory Overview – Laws and Regulations Related to Our Business in the PRC – Regulations Related to Tax – EIT." The preferential tax treatments enjoyed by us may change. Any discontinuation or change in preferential tax treatment or government grants that currently are or may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.

Our effective income tax rate, calculated as income tax expense divided by profit before income tax multiplied by 100%, was 13.3%, 15.2%, 15.6%, 16.6% and 14.1% for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively. Our effective income tax rate during the Track Record Period was lower than our statutory EIT rate, primarily due to the above-mentioned preferential or reduced tax rate we enjoy.

The below table sets forth our income tax paid by jurisdiction for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**	
	2019	**2020**	**2021**	**2021**	**2022**
			RMB'000		
				(unaudited)	
PRC	9,856	11,908	11,165	9,067	4,109
Hong Kong	2,508	12,214	5,083	1,223	1,197
United States	22	–	–	–	–
Total	**12,386**	**24,122**	**16,248**	**10,290**	**5,306**

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our income tax payments amounted to RMB12.4 million, RMB24.1 million, RMB16.2 million, RMB10.3 million and RMB5.3 million, respectively, while our current income tax expenses amounted to RMB16.6 million, RMB20.7 million, RMB35.1 million, RMB21.2 million and RMB11.6 million, respectively, for the same periods. The difference between the income tax payments and current income tax expenses was primarily due to (i) the time difference between the time to record income tax expenses and to pay the income tax for the respective periods in the PRC; and (ii) the time difference between the time to record income tax expenses, file and pay the income tax for the respective periods, as well as the prepayment of tax in the coming year based on the taxable profits for the preceding year of our subsidiaries incorporated in Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, we paid all relevant income taxes that were due and applicable to us and had no disputes or unresolved tax issues with the relevant tax authorities.

YEAR TO YEAR/PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue increased by 16.1% to RMB1,277.5 million for the six months ended June 30, 2022 from RMB1,100.7 million for the six months ended June 30, 2021, primarily due to (i) an increase of RMB192.2 million in revenue from our sale of apparel products; and (ii) an increase of RMB28.8 million in revenue from our sale of footwear products, which is in line with the increase of our sales through third-party e-commerce platforms, especially Amazon. Such increase was partially offset by the decrease of RMB44.1 million in revenue from our sale of other products in the first half of 2022.

Sale of apparel products

Our revenue from sale of apparel products increased by 23.3% to RMB1,016.7 million for the six months ended June 30, 2022 from RMB824.5 million for the six months ended June 30, 2021, primarily due to our increased sales through Amazon, mainly as (i) we increased marketing and advertising investments on our sale through Amazon; and (ii) we increased prices of our apparel products sold through Amazon to pass the additional selling expenses and distribution costs to customers, aiming to maintain our profitability on such platform, taking in to account the rising prices for advertising services on Amazon and the rising outbound shipping charges under the FBA model.

Sale of footwear products

Our revenue from sale of footwear products increased by 12.5% to RMB258.1 million for the six months ended June 30, 2022 from RMB229.3 million for the six months ended June 30, 2021, primarily due to our increased sales of footwear products through Amazon, mainly caused by the same reason as our increased sales of apparel products through such platform during the same period.

Sale of other products

Our revenue from sale of other products decreased by 94.1% to RMB2.8 million for the six months ended June 30, 2022 from RMB46.9 million for the six months ended June 30, 2021, primarily due to the decrease of our sale of other products, 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.

Cost of Sales

Our cost of sales increased by 15.8% to RMB308.4 million for the six months ended June 30, 2022 from RMB266.2 million for the six months ended June 30, 2021, primarily due to (i) an increase of RMB26.2 million in freight and insurance cost, which is in line with our increased sales; and (ii) an increase of RMB14.0 million in impairment provision of inventories, in relation to the increase in our inventories with relatively long age in the first half of 2022.

Sale of apparel products

Our cost of sales incurred for sale of apparel products increased by 25.5% to RMB250.2 million for the six months ended June 30, 2022 from RMB199.3 million for the six months ended June 30, 2021, primarily due to the increased cost of inventories sold caused by our increased procurement of apparel products from OEM suppliers for sales through Amazon in the first half of 2022.

Sale of footwear products

Our cost of sales incurred for sale of footwear products increased by 27.3% to RMB57.1 million for the six months ended June 30, 2022 from RMB44.8 million for the six months ended June 30, 2021, primarily attributable to the increased cost of inventories sold caused by our increased procurement of footwear products from OEM suppliers for sales through third-party e-commerce platforms, especially Amazon, in the first half of 2022.

Sale of other products

Our cost of sales incurred for sale of other products decreased by 94.7% to RMB1.2 million for the six months ended June 30, 2022 from RMB22.1 million for the six months ended June 30, 2021, primarily due to the decrease of cost of inventories sold in relation to the decreased procurement from suppliers of other products, especially furniture and outdoor and sporting goods, which was in line with our business focus on apparel and footwear products.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 16.1% to RMB969.1 million for the six months ended June 30, 2022 from RMB834.5 million for the six months ended June 30, 2021. Our gross profit margin remained relatively stable at 75.9% for the six months ended June 30, 2022 compared with 75.8% for the six months ended June 30, 2021.

The gross profit margin of sale of apparel products remained relatively stable at 75.4% for the six months ended June 30, 2022 compared with 75.8% for the six months ended June 30, 2021. The gross profit margin of sale of footwear products decreased to 77.9% for the six months ended June 30, 2022 from 80.4% for the six months ended June 30, 2021, primarily as we sold certain footwear products that were short in size or out-of-season at discount aiming to promote inventory turnover. The gross profit margin of sale of other products increased to 58.3% for the six months ended June 30, 2022 from 52.9% for the six months ended June 30, 2021, primarily as we reduced sale of products with low profit margin on Wish in the first half of 2022.

Selling Expenses and Distribution Costs

Our selling expenses and distribution costs increased by 31.7% to RMB838.3 million for the six months ended June 30, 2022 from RMB636.4 million for the six months ended June 30, 2021, primarily due to (i) an increase of RMB59.0 million in commission fee to third-party e-commerce platforms, primarily due to the increase of our sale through Amazon, which charged us for all purchase orders regardless of whether the products were subsequently returned, and the commission fee rate charged by which was relatively higher than other third-party e-commerce platforms during the same period; (ii) an increase of RMB53.2 million in freight and insurance costs mainly in relation to the increase in outbound shipping charges under the FBA model; (iii) an increase of RMB12.2 million in employee benefit expenses, primarily caused by the increase in the number of sales and operation staff; and (iv) an increase of RMB46.0 million in marketing and advertising expenses caused by the increased prices for advertising services from Amazon and our increased promotion of newly launched product SPUs on Amazon. More sellers chose to place advertisements using Amazon's advertising services, under which generally advertisements with the highest bidding prices can be displayed. Therefore, the prices for Amazon's advertising services increased with the growth of advertising bid from advertisers in the first half of 2022, as confirmed by Frost & Sullivan.

General and Administrative Expenses

Our general and administrative expenses increased by 13.1% to RMB62.9 million for the six months ended June 30, 2022 from RMB55.6 million for the six months ended June 30, 2021, primarily due to an increase of RMB5.8 million in employee benefit expenses caused by the increased number of our IT employees and designers and the increased level of employee benefits in the first half of 2022. Such increase was partially offset by the decrease of RMB2.6 million in [**REDACTED**] in relation to the [**REDACTED**].

Net (Impairment Losses)/Reversal of Impairment on Financial Assets

Our net impairment losses on financial assets increased significantly to RMB3.1 million for the six months ended June 30, 2022 from RMB0.3 million for the six months ended June 30, 2021, primarily due to the increase in provision for impairment of trade receivables due from third-party e-commerce platforms, such as Wish and Amazon, as of June 30, 2022.

Other Income

Our other income increased by 49.0% to RMB5.6 million for the six months ended June 30, 2022 from RMB3.8 million for the six months ended June 30, 2021, primarily due to an increase of RMB4.5 million in government grants primarily in relation to financial subsidies in recognition of our contribution to the local economy and subsidies on cross-border e-commerce. Such increase was partially offset by a decrease of RMB1.9 million in consulting service income, primarily as we strategically focused more on sale of apparel and footwear products.

Net Other Gains or Losses

We recorded net other gains of RMB8.7 million for the six months ended June 30, 2022, primarily due to net foreign exchange gains of RMB8.9 million caused by appreciation of the U.S. dollar in the first half of 2022. We recorded net other losses of RMB4.8 million for the six months ended June 30, 2021, primarily due to net foreign exchange losses of RMB4.6 million caused by appreciation of Renminbi in the first half of 2021.

Net Finance Costs

Our net finance costs increased by 41.8% to RMB5.5 million for the six months ended June 30, 2022 from RMB3.9 million for the six months ended June 30, 2021, primarily due to an increase of RMB3.1 million in interest expenses on bank borrowings, primarily due to our increased bank borrowings to finance our capital expenditure and working capital requirements.

Income Tax Expense

Our income tax expense decreased by 55.9% to RMB10.0 million for the six months ended June 30, 2022 from RMB22.7 million for the six months ended June 30, 2021, in line with our decreased taxable income. Our effective income tax rate decreased to 14.1% for the six months ended June 30, 2022 from 16.6% for the six months ended June 30, 2021, primarily due to the decrease of preferential tax rate enjoyed by our subsidiaries which are recognized as small and micro enterprises under the EIT laws from 10% in 2021 to 5% in the first half of 2022, due to the newly released tax relief measures for small and micro enterprises in the PRC in 2022.

Profit for the Period

As a result of the foregoing, our profit decreased by 46.3% to RMB61.3 million for the six months ended June 30, 2022 from RMB114.2 million for the six months ended June 30, 2021. Our net profit margin, which represents profit for the period as a percentage of revenue, decreased from 10.4% for the six months ended June 30, 2021 to 4.8% for the six months ended June 30, 2022, primarily as the increase in our selling expenses and distribution costs outpaced the increase in our revenue. In particular, (i) the growth rate of our revenue decreased, primarily due to the conservative consumption and weakening spending power mainly caused by the slowing economic activity and the constantly rising inflation in the United States, 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 and in turn slowed down the growth of our revenue; (ii) the increase in marketing and advertising expenses was primarily due to the increased prices for advertising services on Amazon, in line with the industry trend as confirmed by Frost & Sullivan, and our increased promotion of newly launched product SPUs on Amazon; (iii) the increase in freight and insurance cost in our selling expenses and distribution costs was primarily due to the increase in outbound shipping prices under the FBA model since early 2022, in line with the industry trend as confirmed by Frost & Sullivan; and (iv) the increase in employee benefit expenses in both selling expenses and distribution costs and general and administrative expenses, mainly caused by the increased number of employees, mainly consisted of staff we recruited for our sales and operation, product designing and development and IT teams, to expand our talent reserves for future business expansion.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 23.6% to RMB2,346.5 million for the year ended December 31, 2021 from RMB1,898.1 million for the year ended December 31, 2020, primarily due to (i) an increase of RMB495.3 million in revenue from our sale of apparel products; and (ii) an increase of RMB52.5 million in revenue from our sale of footwear products, which is in line with the increase of our sales through third-party e-commerce platforms, especially Amazon. Such increase was partially offset by the decrease of RMB99.3 million in revenue from our sale of other products.

Sale of apparel products

Our revenue from sale of apparel products increased by 37.0% to RMB1,833.7 million for the year ended December 31, 2021 from RMB1,338.4 million for the year ended December 31, 2020, primarily due to our increased sales through Amazon and AliExpress in 2021.

Sale of footwear products

Our revenue from sale of footwear products increased by 13.1% to RMB453.6 million for the year ended December 31, 2021 from RMB401.1 million for the year ended December 31, 2020, primarily due to more footwear products sold through Amazon, which is in line with the development of our business on Amazon.

Sale of other products

Our revenue from sale of other products decreased by 62.6% to RMB59.3 million for the year ended December 31, 2021 from RMB158.6 million for the year ended December 31, 2020, primarily as we strategically strengthened our sale of apparel and footwear products and reduced our selling and marketing efforts on sale of other products in 2021.

Cost of Sales

Our cost of sales increased by 11.7% to RMB581.0 million for the year ended December 31, 2021 from RMB520.3 million for the year ended December 31, 2020, primarily due to an increase of RMB55.6 million in freight and insurance cost, which is in line with our increased sales volume through Amazon under the FBA model. Such increase was partially offset by a decrease of RMB8.8 million in impairment provision of inventories, primarily as the aging of most of our inventories in stock was relatively short in 2021.

Sale of apparel products

Our cost of sales incurred for sale of apparel products increased by 16.8% to RMB459.9 million for the year ended December 31, 2021 from RMB393.9 million for the year ended December 31, 2020, primarily due to our increased cost of inventories sold caused by our increased procurement of apparel products from OEM suppliers for sale on Amazon. The procurement cost of products sold on Amazon is relatively high as Amazon primarily targets mid- to high-end customers with strong spending power.

Sale of footwear products

Our cost of sales incurred for sale of footwear products increased by 5.1% to RMB91.4 million for the year ended December 31, 2021 from RMB86.9 million for the year ended December 31, 2020, primarily attributable to the increased cost of inventories sold caused by our increased procurement of footwear products, in particular, our expansion of sale through third-party e-commerce platforms.

Sale of other products

Our cost of sales incurred for sale of other products decreased by 24.7% to RMB29.7 million for the year ended December 31, 2021 from RMB39.5 million for the year ended December 31, 2020, primarily due to the decrease of cost of inventories sold caused by our decreased procurement from suppliers of other products, in line with our strategic focus on apparel and footwear products in 2021.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 28.1% to RMB1,765.5 million for the year ended December 31, 2021 from RMB1,377.8 million for the year ended December 31, 2020. Our gross profit margin increased to 75.2% for the year ended December 31, 2021 from 72.6% for the year ended December 31, 2020, primarily as we strategically focused more on our sale through Amazon, the average retail price of apparel products set by sellers on which is generally higher compared to other third-party e-commerce platforms.

The gross profit margin of sale of apparel products increased to 74.9% for the year ended December 31, 2021 from 70.6% for the year ended December 31, 2020, primarily as (i) we increased the price for products sold through Amazon in 2021 considering the increased selling expenses and distribution costs spent on such platform; and (ii) our bargaining power with OEM suppliers increased continuously, utilizing our economies of scale. Due to the same reason, the gross profit margin of sale of footwear products increased to 79.9% for the year ended December 31, 2021 from 78.3% for the year ended December 31, 2020, while the gross profit margin of sale of other products decreased to 49.8% for the year ended December 31, 2021 from 75.1% for the year ended December 31, 2020, primarily due to discounts we offered on slow-selling products, such as furniture, decoration goods and outdoor and sporting goods.

Selling Expenses and Distribution Costs

Our selling expenses and distribution costs increased by 21.6% to RMB1,413.7 million for the year ended December 31, 2021 from RMB1,162.2 million for the year ended December 31, 2020, primarily due to (i) an increase of RMB104.2 million in commission fees to the third-party e-commerce platforms, which is in line with our increased sales through such platforms; (ii) a significant increase of RMB55.8 million in marketing and advertising expenses, primarily due to more advertisement placed on major social media platforms to further promote our sale of apparel and footwear products through third-party e-commerce platforms; (iii) an increase of RMB33.7 million in service fee to the third-party platforms attributable to the increase in products sold though Amazon under the FBA model, in line with our strategic business expansion on Amazon during the same year; and (iv) an increase of RMB32.7 million in freight and insurance costs primarily due to more sales in 2021 and the reduced discount offered by our suppliers on freight charges during the outbreak of COVID-19.

General and Administrative Expenses

Our general and administrative expenses increased to RMB109.0 million for the year ended December 31, 2021 from RMB71.0 million for the year ended December 31, 2020, primarily due to (i) an increase of RMB21.5 million in [**REDACTED**]; and (ii) an increase of RMB6.8 million in employee benefit expenses, primarily due to the increase in the remuneration paid to our employees.

Net (Impairment Losses)/Reversal of Impairment on Financial Assets

We recorded reversed impairment of trade receivables of RMB15,000 for the year ended December 31, 2021, while we recorded net impairment losses on financial assets of RMB0.7 million for the year ended December 31, 2020, primarily due to the decreased trade receivables due from third-party e-commerce platforms as of the year end.

Other Income

Our other income significantly increased by 78.0% to RMB16.0 million for the year ended December 31, 2021 from RMB9.0 million for the year ended December 31, 2020, primarily due to an increase of RMB3.9 million in government grants primarily relating to financial subsidies in recognition of our contribution to the local economy and subsidies on cross-border e-commerce.

Net Other Gains or Losses

We recorded net other losses of RMB9.1 million for the year ended December 31, 2021, primarily due to net foreign exchange losses of RMB8.6 million caused by appreciation of Renminbi in 2021.

Net Finance Costs

Our net finance costs increased by 47.0% to RMB9.9 million for the year ended December 31, 2021 from RMB6.7 million for the year ended December 31, 2020, primarily due to (i) an increase of RMB2.7 million in interest expenses on bank borrowings due to our increased bank loans in 2021 for working capital purpose caused by our business growth; and (ii) an increase of RMB0.9 million in net foreign exchange losses on cash and cash equivalents and bank borrowings due to more foreign currency withdrawn by us from the third-party payment platforms and the appreciation of RMB before their conversion into RMB.

Income Tax Expense

Our income tax expense increased significantly by 81.4% to RMB37.1 million for the year ended December 31, 2021 from RMB20.5 million for the year ended December 31, 2020, in line with our increased taxable income. Our effective income tax rate remained relatively stable at 15.6% for the year ended December 31, 2021 compared to 15.2% for the year ended December 31, 2020.

Profit for the Year

As a result of the foregoing, our profit increased significantly by 75.9% to RMB200.5 million for the year ended December 31, 2021 from RMB114.0 million for the year ended December 31, 2020. Our net profit margin, which represents profit for the year as a percentage of revenue, increased from 6.0% for the year ended December 31, 2020 to 8.5% for the year ended December 31, 2021, primarily due to more sale through Amazon, where we generally achieved higher gross profit margin.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 32.8% to RMB1,898.1 million for the year ended December 31, 2020 from RMB1,428.9 million for the year ended December 31, 2019, primarily due to (i) an increase of RMB191.5 million in revenue from our sale of apparel products; (ii) an increase of RMB144.7 million in revenue from our sale of footwear products; and (iii) an increase of RMB133.0 million in revenue from our sale of other products, which is in line with the increase of our sales volume and the expansion of our product offerings.

Sale of apparel products

Our revenue from sale of apparel products increased by 16.7% to RMB1,338.4 million for the year ended December 31, 2020 from RMB1,146.9 million for the year ended December 31, 2019, primarily due to the increased sales through Amazon and Wish.

Sale of footwear products

Our revenue from sale of footwear products increased by 56.4% to RMB401.1 million for the year ended December 31, 2020 from RMB256.4 million for the year ended December 31, 2019, primarily due to the continuous development of our self-operated online stores, through which we mainly sold footwear products.

Sale of other products

Our revenue from sale of other products increased significantly by 520.5% to RMB158.6 million for the year ended December 31, 2020 from RMB25.6 million for the year ended December 31, 2019, primarily due to our efforts to expand our product offerings and diversify the product portfolio.

Cost of Sales

Our cost of sales increased by 20.7% to RMB520.3 million for the year ended December 31, 2020 from RMB430.9 million for the year ended December 31, 2019, primarily due to an increase of RMB74.5 million in cost of inventories sold, primarily due to an increase in procurement of products from OEM suppliers to support our increased sales, in line with our business expansion.

Sale of apparel products

Our cost of sales incurred for sale of apparel products increased by 8.9% to RMB393.9 million for the year ended December 31, 2020 from RMB361.7 million for the year ended December 31, 2019, primarily due to our increased procurement of apparel products from OEM suppliers.

Sale of footwear products

Our cost of sales incurred for sale of footwear products increased by 40.6% to RMB86.9 million for the year ended December 31, 2020 from RMB61.8 million for the year ended December 31, 2019, primarily attributable to the increased procurement of footwear products, in particular, our expansion of self-operated online stores.

Sale of other products

Our cost of sales incurred for sale of other products increased by 436.1% to RMB39.5 million for the year ended December 31, 2020 from RMB7.4 million for the year ended December 31, 2019, primarily due to our increased procurement of sporting goods, furniture and decoration goods and kitchenware.

Gross Profit and Gross Profit Margin

As a result of foregoing, our gross profit increased by 38.1% to RMB1,377.8 million for the year ended December 31, 2020 from RMB997.9 million for the year ended December 31, 2019. Our gross profit margin increased to 72.6% for the year ended December 31, 2020 from 69.8% for the year ended December 31, 2019, primarily as we strategically focused more on our sale through Amazon, which primarily targets mid- to high-end customers with strong spending power.

The gross profit margin of sale of apparel products increased to 70.6% for the year ended December 31, 2020 from 68.5% for the year ended December 31, 2019, primarily as our bargaining power with OEM suppliers grew stronger continuously, utilizing our economies of scale. Due to the same reason, the gross profit margin of sale of footwear products increased to 78.3% for the year ended December 31, 2020 from 75.9% for the year ended December 31, 2019, while the gross profit margin of sale of other products increased to 75.1% for the year ended December 31, 2020 from 71.2% for the year ended December 31, 2019.

Selling Expenses and Distribution Costs

Our selling expenses and distribution costs increased by 39.4% to RMB1,162.2 million for the year ended December 31, 2020 from RMB833.6 million for the year ended December 31, 2019, primarily due to (i) a significant increase of RMB147.0 million in marketing and advertising expenses, primarily due to our increased sales through self-operated online stores and more advertisement placed on major social media platforms to further increase user traffic of our self-operated online stores, mainly due to the nature that self-operated online stores rely on their own capabilities to attract customers thus having a relatively higher marketing expenses as compared with third-party e-commerce platforms; (ii) an increase of RMB127.2 million in freight and insurance costs primarily due to more sales in 2020 and the reduced discount offered by our suppliers on freight charges during the outbreak of COVID-19; (iii) an increase of RMB38.6 million in commission fees to the third-party e-commerce platforms, in line with our increased sales through such platforms; and (iv) an increase of RMB15.0 million in service fee to the third-party platforms attributable to the increase in products sold though Amazon under the FBA model, in line with our strategic business expansion on Amazon during the same period. Such increases were partially offset by a decrease of RMB4.0 million in employee benefit expenses, attributable to the exemption of our social security contribution as employers by local governments during COVID-19 pandemic.

General and Administrative Expenses

Our general and administrative expenses maintained relatively stable at RMB69.6 million and RMB71.0 million for the years ended December 31, 2019 and 2020, respectively.

Net (Impairment Losses)/Reversal of Impairment on Financial Assets

Our net impairment losses on financial assets remained relatively stable at RMB0.7 million for the year ended December 31, 2020 and RMB0.6 million for the year ended December 31, 2019, respectively.

Other Income

Our other income significantly increased by 106.9% to RMB9.0 million for the year ended December 31, 2020 from RMB4.3 million for the year ended December 31, 2019, primarily due to an increase of RMB5.3 million in government grants relating to financial subsidies in recognition of our contribution to the local economy and subsidies on export proceeds. This increase was partially offset by a decrease of RMB0.8 million in consulting service income, which is consistent with our business focus on sale of apparel and footwear products.

Net Other Gains or Losses

We recorded net other losses of RMB11.8 million for the year ended December 31, 2020, primarily due to (i) penalty and interest for the late payment of taxes of RMB8.2 million in 2020 caused by our late payment of indirect taxes primarily in relation to our sale through self-operated online stores to the U.S.; and (ii) net foreign exchange losses of RMB3.9 million caused by appreciation of Renminbi in 2020. We recorded net other gains of RMB3.5 million for the year ended December 31, 2019, primarily due to net foreign exchange gains of RMB3.6 million caused by depreciation of Renminbi in 2019.

Net Finance Costs

Our net finance costs decreased by 18.9% to RMB6.7 million for the year ended December 31, 2020 from RMB8.3 million for the year ended December 31, 2019, primarily due to (i) a decrease of RMB2.0 million in interest expenses on loans from related parties due to the repayment of loans from related parties; and (ii) a decrease of RMB0.3 million in interest expenses on bank borrowings due to the repayment of bank loans.

Income Tax Expense

Our income tax expense increased significantly by 63.8% to RMB20.5 million for the year ended December 31, 2020 from RMB12.5 million for the year ended December 31, 2019, in line with our increased taxable income. Our effective income tax rate increased to 15.2% for the year ended December 31, 2020 from 13.3% for the year ended December 31, 2019, primarily due to increased taxable income in our subsidiaries incorporated in Hong Kong.

Profit for the Year

As a result of the foregoing, our profit increased significantly by 40.5% to RMB114.0 million for the year ended December 31, 2020 from RMB81.1 million for the year ended December 31, 2019. Our net profit margin, which represents profit for the year as a percentage of revenue, increased from 5.7% for the year ended December 31, 2019 to 6.0% for the year ended December 31, 2020, primarily due to more sale through Amazon, where we generally achieved higher gross profit margin.

SELECTIVE ITEMS FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Trade Receivables

The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Accounts receivables	190,626	167,337	119,825	181,641
Less: allowance for impairment	(953)	(837)	(599)	(908)
Total	**189,673**	**166,500**	**119,226**	**180,733**

Trade receivables mainly represent outstanding balances due from third-party e-commerce platforms. All of our trade receivables during the Track Record Period were due from Independent Third Parties.

Our trade receivables decreased by 12.2% to RMB166.5 million as of December 31, 2020 from RMB189.7 million as of December 31, 2019. Our trade receivables further decreased by 28.4% to RMB119.2 million as of December 31, 2021 from RMB166.5 million as of December 31, 2020. Such continuous decrease of our trade receivables was primarily due to our increased sales through Amazon, the settlement cycle of which is relatively shorter than other third-party e-commerce platforms. Our trade receivables increased by 51.6% to RMB180.7 million as of June 30, 2022 from RMB119.2 million as of December 31, 2021, primarily due to the increase of our sales through third-party e-commerce platforms in the first half of 2022.

The following table sets forth aging analysis of trade receivables, based on invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Within three months	171,977	158,154	114,638	178,674
Between three months and six months	13,770	7,279	1,831	1,448
Between six months and one year	4,566	1,649	2,504	847
More than one year	313	255	852	672
Total	**190,626**	**167,337**	**119,825**	**181,641**

The majority of our trade receivables have credit term ranging from approximately 10 days to 90 days, which varies depending on the different platform policies. We seek to maintain strict control over our outstanding trade receivables and overdue balances are reviewed closely and regularly by our management.

As of December 31, 2019 and 2020 and June 30, 2022, we recognized impairment of trade receivables of RMB0.6 million, RMB0.7 million and RMB3.1 million, respectively, and as of December 31, 2021, we recognized reversed impairment of trade receivables of RMB15,000 mainly relating to the changes in provision for impairment of trade receivables due from third-party e-commerce platforms. We assessed the expected credit losses by considering historical default rates, existing market conditions and forward-looking information and made impairment provisions equivalent to 0.5% of our trade receivables. For details regarding the allowance for impairment of our trade receivables, see Note 21 in Appendix I to this document.

As of June 30, 2022, our trade receivables aged over three months amounted to RMB3.0 million. As of the Latest Practicable Date, RMB0.7 million of our trade receivables aged over three months as of June 30, 2022 had been subsequently settled, accounted for approximately 22.1% of our trade receivables aged over three months as of June 30, 2022. Considering that we had not experienced any material failure to collect trade receivables from the relevant customers during the Track Record Period, we believe we are able to collect the remaining trade receivables and we have made sufficient provisions for such trade receivables.

We calculate the trade receivables turnover days using the average of the opening and closing trade receivables balances for the period, divided by revenue for the relevant period, multiplied by the number of days in the relevant period (360 days for 2019, 2020 and 2021, respectively, and 180 days for the six months ended June 30, 2022). The following table sets forth our trade receivables turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade receivables turnover days	47	34	22	21

Our trade receivables turnover days decreased from 47 days for the year ended December 31, 2019 to 34 days for the year ended December 31, 2020, and further decreased to 22 days for the year ended December 31, 2021. Our trade receivables turnover days decreased slightly from 22 days for the year ended December 31, 2021 to 21 days for the six months ended June 30, 2022. Such continuous decrease during the Track Record Period was primarily due to our increased sales through Amazon, the settlement cycle of which is relatively shorter than other third-party e-commerce platforms.

As of the Latest Practicable Date, RMB177.0 million of our trade receivables as of June 30, 2022 had been subsequently settled, accounted for approximately 97.5% of our trade receivables as of June 30, 2022.

Inventories

Our inventories mainly consist of (i) finished goods produced by our OEM suppliers; and (ii) right of goods return, representing net realizable value of inventories for anticipate return based on our historical return rate. The following table sets forth our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Finished goods	231,291	277,256	694,227	802,604
Right of goods return	1,343	3,134	6,964	9,599
Less: provision for impairment	(54,490)	(24,550)	(36,868)	(51,121)
Total	**178,144**	**255,840**	**664,323**	**761,082**

The nature of our business requires us to have sufficient stocks of finished products in different designs, colors and sizes to satisfy customers' demand, especially before and during the festival season. Material supply shortage may adversely affect our ranking and marketing on third-party e-commerce platforms, especially Amazon, which may negatively impact our sales performance, such as the decrease in sales volume and sales income. We generally stock up on products in advance and with certain products in excess of our estimated sales target as buffer, considering the relatively longer life cycle and shipment period of our products sold through Amazon. Inventories of finished goods increased from RMB178.1 million as of December 31, 2019 to RMB255.8 million as of December 31, 2020, and further to RMB664.3 million as of December 31, 2021. Inventories of finished goods further increased from RMB664.3 million as of December 31, 2021 to RMB761.1 million as of June 30, 2022. The continuous increase during the Track Record Period was primarily attributable to (i) the continuous expansion of business scale and active prospect of our sale through Amazon, on which the life cycle of our products is relatively longer as compared with that on other third-party e-commerce platforms; and (ii) mass production order we placed with our OEM suppliers for prudence reasons during waves of COVID-19 recurrence, while at the same time, to satisfy the foreseeable increase of market demand in the coming season. In particular, with the continuous spread of COVID-19, over 85% of our finished products in stock for sale through Amazon were shipped to the overseas warehouses of our logistics service suppliers (including Amazon FBA warehouses) before our receipt of customer orders in 2021. In the fourth quarter of 2021, we stocked additional products for prudence, in response to any possible further waves of COVID-19 recurrence and production suspension of OEM suppliers during the Chinese New Year holiday in early 2022. As a result, our inventories of finished goods in 2021 increased significantly compared to that of 2020. In the first half of 2022, we stocked more apparel and footwear products, especially products for sale in the autumn or winter season of the fourth quarter of the year to be prepared for (i) the festival seasons in the fourth quarter of the year, such as Black Friday and Christmas; and (ii) potential shortage in production capacity or delivery capacity during further waves of COVID-19 pandemic. The average unit prices of autumn or winter collections are generally relatively high. Such increased procurement and stock also contributed to the increase of our inventories of finished goods as of June 30, 2022.

The following table sets forth aging analysis of inventories, as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Within three months	132,385	183,852	377,311	256,688
Between three months and six months	22,434	27,091	95,363	117,630
Between six months and one year	18,297	26,107	163,911	263,336
Between one year and two years	5,028	18,790	27,738	123,428
Total	**178,144**	**255,840**	**664,323**	**761,082**

As of June 30, 2022, inventories at cost aging within one year accounted for 79.6% of our total inventories. We closely monitor our inventories aging over one year.

We calculate the inventories turnover days using the average of the opening and closing inventory balances for the period, divided by cost of sales for the relevant period, multiplied by the number of days in the relevant period (360 days for 2019, 2020 and 2021, respectively, and 180 days for the six months ended June 30, 2022). The following table sets forth our inventories turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Inventories turnover days	175	177	304	442

Our inventories turnover days increased from 175 days for the year ended December 31, 2019 to 177 days for the year ended December 31, 2020, and further to 304 days for the year ended December 31, 2021. Our inventories turnover days increased from 304 days in 2021 to 442 days for the six months ended June 30, 2022. The reason for such continuous increase during the Track Record Period was that we focused more on sale through Amazon, the life cycle of products sold on which is relatively long, and increased our stocks of finished products in the overseas warehouses of Amazon under the FBA model. Under the FBA model, we ship inventories to Amazon's warehouses, which generally takes 40 to 60 days, and then Amazon fulfills the order to our customers on our behalf. The increase of our inventories turnover days, in particular, the significant increase in 2021 and the first half of 2022, was also attributable to our increased balance of inventories as of December 31, 2020 and 2021 and June 30, 2022, respectively. Such continuous increase in inventory balance was primarily due to the production order we placed with our OEM suppliers, as (i) we generally stock up on products and procure products in excess of the estimated sales target as buffer, considering the relatively longer life cycle and shipment period for our products sold through Amazon; (ii) we mitigate the potential shortage of production capacity of our OEM suppliers or delivery capacity of our logistics service suppliers during constant waves of COVID-19 pandemic under the precautionary and even regional transportation restrictions; and (iii) we expect our sale through Amazon to expand steadily in line with our growing operational scale on such platform. In addition, the increase of our procurement and stock in the first half of 2022 was also caused by the procurement of products for sale in autumn or winter season of the year, the average unit prices for which are relatively high, as we expect to receive mass orders from customers during the festival seasons in the second half year, such as Black Friday and Christmas. Moreover, to effectively control our shipping charges, we stocked products in the domestic warehouses for consolidation before inbound delivery under our "full container shipments" model and shipped more products through normal sea freight during the inbound delivery, which prolonged the stocking and shipping time, and in turn our inventories turnover days.

To timely meet the customer demand in different seasons, we place mass production order to OEM suppliers to ensure the sufficiency of products in stock, based on our analysis of sales volume of relevant products in the previous year as well as the latest sales and market trend. We generally stock sufficient autumn and winter collections from June to September each year. As for apparel and footwear products for spring, summer and autumn, as well as products that are suitable for the whole year, we generally prepare the stock from September to December each year. We believe we are able to utilize our inventories as of June 30, 2022, considering that (i) the increase in our inventories in the first half of 2022 was primarily caused by the mass production order of hot-selling products we placed with our OEM suppliers to satisfy the future market demand; (ii) approximately 92% of the inventories before impairment as of June 30, 2022 were prepared for our sale on Amazon, on which the product life cycle is generally relatively long; and (iii) we have implemented strengthened measures to manage our inventories and improve the turnover of our inventories as of the Latest Practicable Date. We closely monitor our inventories, in particular inventories aging over one year. Our management increased their emphasis on controlling the inventories in stock by encouraging frequent procurement with less procurement volume in a single order for our procurement from OEM suppliers. We had established our internal plan to manage our inventories with relatively long age, which had been implemented as of the Latest Practicable Date. For instance, we set target for the sales volume of product SPUs in the following 12 months. Our management from time to time reviews the implementation status and timely adjusts our inventory management measures as appropriate.

We assess the net realizable value of the inventories as well as the required amount of impairment of inventory provision at each balance sheet date, which involves significant judgment on determination of the estimated residual value of the inventories based on our marketing and retail pricing strategy, sales forecast of each product collection, and the price markdown necessary to sell off-season products at certain stage of the product life cycle based on the general historical pattern on a season-by-season basis. The provision for inventories is primarily calculated based on the net realizable value of the inventories, which is affected by multiple factors, including but not limited to the aging of inventories and the expected life cycle of the products. In particular, the net realizable value of the inventories decreases along with the aging of inventories and the reduction of product life cycle. We believe we have made sufficient provisions for our inventories, considering (i) our historical sales performance, in particular, during the Track Record Period, we had not encountered any material impairment loss that have materially and adversely affected our business operations caused by slow-moving inventories; (ii) our strategic business focus on expanding our sale through Amazon, the life cycle of products on which is relatively longer than other third-party e-commerce platforms; and (iii) for inventories in stock as of December 31, 2019 and 2020, we made provision for the apparel and footwear products which were primarily for sale on Wish and were estimated to have lower assessed net realizable value due to the shorter product life cycle and lower sales expectation for prudent reason. For inventories before impairment as of December 31, 2021, approximately 90% of the inventories were prepared for sale on Amazon, while only approximately 6% of the inventories were prepared for sale on Wish, implicating the relatively high net realizable value of our inventories as of December 31, 2021. For inventories before impairment as of June 30, 2022, approximately 92% of the inventories were prepared for sale on Amazon, while only approximately 5% of the inventories were prepared for sale on Wish, implicating the relatively high net realizable value of our inventories as of June 30, 2022.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, the majority of our inventories are products suitable for spring/autumn and summer. The following table sets forth the composition of our inventories before impairment by season as of the dates indicated:

	As of December 31,						As of June 30,	
	2019		2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Inventories suitable for spring/autumn	88,791	38.2	132,829	47.4	363,747	51.9	357,344	44.0
Inventories suitable for summer	61,721	26.5	50,083	17.9	150,910	21.5	227,429	28.0
Inventories suitable for winter	53,576	23.0	51,877	18.5	124,207	17.7	136,013	16.7
Inventories suitable for all seasons	28,546	12.3	45,601	16.2	62,327	8.9	91,417	11.3
Total inventories before impairment	**232,634**	**100.0**	**280,390**	**100.0**	**701,191**	**100.0**	**812,203**	**100.0**

As of the Latest Practicable Date, RMB216.8 million of our inventories as of June 30, 2022 had been subsequently utilized, accounted for approximately 26.7% of our inventories as of June 30, 2022. Such utilization rate was relatively low, primarily due to the increased inventories we prepared as of June 30, 2022 and the generally long turnover days of our inventories. We expect the subsequent utilization rate of inventories to increase significantly in the fourth quarter of 2022, as (i) we generally carry out more sales and marketing activities before and during holidays in the fourth quarter of the year, such as Black Friday and Christmas; and (ii) approximately 75% of the inventories in terms of amount as of June 30, 2022 that were still in stock as of the Latest Practicable Date were apparel and footwear products prepared for sale in both spring and autumn of the year, products for sale in the winter season in the fourth quarter or products that are suitable for the whole year. Considering the remaining approximately 25% of the inventories were primarily apparel and footwear products prepared for sale on Amazon during summer and the relatively long life cycle of products sold through Amazon, we believe that such remaining inventories were not subject to the risk of obsolescence or impairment.

Cash and Cash Equivalents

Our cash and cash equivalents represent our current deposits with banks. Our cash and cash equivalents increased to RMB83.0 million as of December 31, 2020 from RMB27.1 million as of December 31, 2019, primarily due to increased prepayments made by our customers through our self-operated online stores, which is in line with the increased sales through self-operated online stores and the rapid development of our self-operated online store business in 2020. Our cash and cash equivalents decreased to RMB80.9 million as of December 31, 2021 from RMB83.0 million as of December 31, 2020, primarily due to our accelerated settlement with certain OEM suppliers and more payment we settled in the second half of 2021. Our cash and cash equivalents increased to RMB82.9 million as of June 30, 2022 from RMB80.9 million as of December 31, 2021, primarily due to the increase in the amount we withdrew from third-party payment platforms for our sale as we conducted such withdrawal in a timely manner in the first half of 2022.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had restricted cash of RMB0.5 million, RMB1.4 million, RMB1.3 million and RMB1.3 million, respectively. Our restricted cash as of December 31, 2019 was primarily pledged for issuing credit card to our subsidiaries for the payment of operating expenses. Our restricted cash as of December 31, 2020 primarily consisted of deposit of RMB0.9 million sealed by a court for a litigation brought by a footwear OEM supplier with us for alleged delayed payment. Such deposit was subsequently released after the settlement of the litigation for which we paid a total of RMB3.3 million to such footwear OEM supplier. Our restricted cash as of December 31, 2021 and June 30, 2022 was primarily pledged for (i) our subsidiaries' application for the credit card for the payment of expenses incurred in their ordinary course of business; and (ii) our long-term bank borrowings.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss mainly included wealth management products we purchased from commercial banks. The fair value of wealth management products is determined based on discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. We recorded financial assets at fair value through profit or loss of RMB5.8 million as of December 31, 2020. We redeemed such products in January 2021.

In relation to the valuation of our financial assets categorized within the level 3 of fair value hierarchy, we adopted multiple procedures. We have established capital and investment policies, such as *Capital Management Policy* (資金管理制度), to monitor and manage our settlement activities and financing activities, and control the risks relating to the purchase of wealth management products. Before the investment, our Fund Management Department of our Finance Center (財務中心資金管理部) typically reviews the terms of the relevant wealth management products and prudently considers all information available and applies various applicable valuation in determining whether to purchase the relevant wealth management products. Our management team reviews the analysis on the details of the proposed wealth management products from the Fund Management Department of the Finance Center and consults with our accountants when necessary. We purchase wealth management products only when we have spare cash in addition to sufficient cash for our operations and our unused time deposits exceed a certain amount. We typically purchase short-term low-risk wealth management products with no fixed maturity term and are redeemable at will. We conduct periodic evaluation on the fair value of the financial assets we hold. Such evaluation generally comprises the fair value measurement assessment, profitability and risk condition of the relevant investments. Our finance employees are required to timely report the evaluation results to our chief financial officer. We did not record any financial assets at fair value through profit or loss as of December 31, 2019 and 2021 and June 30, 2022.

For details of the fair value measurement of the level 3 financial assets, particularly the fair value hierarchy, discounted cash approach and significant unobservable inputs, please see Note 3.3 to the Accountant's Report set forth in Appendix I to this document.

In respect of the valuation of the financial assets and liabilities, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 (the "**Guidance**") applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) reviewed the terms of the relevant financial assets and financial liabilities; and (ii) carefully considered all information especially those non-market related information input, such as possibilities under different scenarios, time to redeem the financial assets, which require significant management assessments and estimates. Based on the above procedures, our Directors are of the view that the valuation analysis categorized within level 3 of fair value measurement is fair and reasonable and our financial statements are properly prepared.

Details of the fair value measurement of financial assets and financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3 to the Accountant's Report in Appendix I to this document which was issued by the reporting accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The reporting accountant's opinion on the historical financial information, as a whole, of us for the Track Record Period is set out on page I-2 in Appendix I to this document. Our Directors are satisfied with the valuation work for financial assets and financial liabilities categorized within level 3 of fair value measurement in our historical financial information for the purpose of the preparation of the Accountant's Report as referred to in Appendix I to this document.

The Joint Sponsors have conducted the following due diligence work in relation to the valuation analysis performed by the Company's management on financial assets and financial liabilities at fair value through profit or loss (the "**FVTPL**"): (i) reviewed the relevant notes to the Accountant's Report set out in Appendix I to the document to understand the valuation approach and significant unobservable inputs adopted; (ii) discussed with the Company's management for the key bases and assumptions for the valuation of the FVTPL; and (iii) independently verified and assessed the key assumption adopted (i.e. the expected annual interest return of the wealth management products, the conversion, liquidation priority and redemption features of the redeemable convertible preference shares) by reviewing the purchase agreement of wealth management product, the investment agreement of each of Calor Capital (BVI) Limited and Aloe Tower Limited and the list of interest return of the wealth management product. Based on the above due diligence work and the views of and the work done by the Company's management and the Company's reporting accountants, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to have reasonable doubt on the valuation analysis performed by the Company's management on FVTPL.

Prepayments and other receivables

Prepayments and other receivables primarily consist of (i) receivables from payment platforms, mainly including the outstanding amount which we had not withdrawn from third-party payment platforms for our sales; (ii) prepayment, primarily comprising prepayment we made to our OEM suppliers and commission fees recorded as prepayment to third-party e-commerce platforms when payments from customers received and the underlying products had not been shipped; (iii) prepaid [**REDACTED**]; (iv) deposits, mainly including deposits made for leased properties and the operations of online seller stores; (v) value-added tax recoverable, mainly representing unutilized input VAT; and (vi) export tax refundable, mainly representing our export value-added tax subject to refund. The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Receivables from payment platforms	20,152	46,567	59,357	22,797
Prepayment to suppliers and platforms	10,212	36,131	20,579	9,091
Prepaid [**REDACTED**]	–	–	6,858	3,437
Deposits	194	1,319	804	2,201
Value-added tax recoverable	279	395	1,028	707
Export tax refundable	–	1,647	344	110
Others[(1)]	401	757	176	1,368
Total	**31,238**	**86,816**	**89,146**	**39,711**

Note:

(1) Others primarily comprise petty cash advanced to our employees for business purposes.

Our prepayments and other receivables increased from RMB31.2 million as of December 31, 2019 to RMB86.8 million as of December 31, 2020, and further to RMB89.1 million as of December 31, 2021. Such continuous increase was primarily attributable to the increase in receivables from third-party payment platforms caused by the increased sales. Our prepayments and other receivables decreased from RMB89.1 million as of December 31, 2021 to RMB39.7 million as of June 30, 2022, primarily due to the decrease in receivables from payment platforms caused by the increase in settlement frequency with payment platforms of our self-operated online stores.

As of the Latest Practicable Date, RMB19.8 million of our receivables from payment platforms as of June 30, 2022 had been subsequently settled, accounted for approximately 87.0% of our receivables from payment platforms as of June 30, 2022.

Trade Payables

Trade payables primarily comprise (i) trade payables due to third parties, representing the outstanding amounts due to our suppliers which are non-interest-bearing; and (ii) trade payables due to related parties.

	As of December 31,			**As of June 30,**
	2019	**2020**	**2021**	**2022**
		RMB'000		
Trade payables – due to third parties	103,316	99,528	117,751	152,564
Trade payables – due to related parties	27,727	–	–	–
Total	**131,043**	**99,528**	**117,751**	**152,564**

Our trade payables due to third parties maintained relatively stable at RMB103.3 million and RMB99.5 million as of December 31, 2019 and 2020, respectively. Our trade payables due to third parties increased to RMB117.8 million as of December 31, 2021 from RMB99.5 million as of December 31, 2020, primarily due to our increased purchase from OEM suppliers, in line with our business development. Our trade payables due to third parties increased to RMB152.6 million as of June 30, 2022 from RMB117.8 million as of December 31, 2021, primarily due to the resumption of our settlement with certain OEM suppliers and logistics service suppliers to semimonthly or monthly basis, in light of the alleviation of negative impact of COVID-19 on product supply and delivery.

Our trade payables due to related parties mainly represented certain trade payables due to Mr. Hua. We purchased inventories from Mr. Hua, the consideration of which was paid in 2019 and then settled in 2020. We did not purchase any inventories from Mr. Hua after 2019. Therefore, our trade payables due to related parties decreased from RMB27.7 million as of December 31, 2019 to nil as of December 31, 2020.

The following table sets forth an aging analysis of our trade payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Within three months	94,447	91,872	106,269	141,652
Between three months and one year	2,142	2,130	11,446	10,875
Between one year and two years	9,034	1,320	11	12
Over two years	25,420	4,206	25	25
Total	**131,043**	**99,528**	**117,751**	**152,564**

The trade payables aging within three months amounted to RMB91.9 million as of December 31, 2020 and increased to RMB106.3 million as of December 31, 2021. The trade payables aging within three months increased from RMB106.3 million as of December 31, 2021 to RMB141.7 million as June 30, 2022. Such continuous increase was primarily due to the increased production order we placed with our OEM suppliers to satisfy the foreseeable increasing market demand.

Our suppliers generally grant credit terms to us ranging from 15 days to two months. We calculate the trade payables turnover days using the average of the opening and closing trade payable balances for the period, divided by cost of sales for the relevant period, multiplied by the number of days in the relevant period (360 days for 2019, 2020 and 2021, respectively, and 180 days for the six months ended June 30, 2022). The following table sets forth our trade payables turnover days for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade payables turnover days	110	80	67	79

Our trade payables turnover days decreased from 110 days for the year ended December 31, 2019 to 80 days for the year ended December 31, 2020, and further to 67 days for the year ended December 31, 2021, primarily due to (i) the change of payment terms to payment in advance or weekly payment from the prior semimonthly or monthly settlement with our OEM suppliers and logistics service suppliers in response to their settlement request during the outbreak of COVID-19 and the estimated increase in our sales through third-party e-commerce platforms; and (ii) the prepayment arrangement with three suppliers that we newly procured from in 2020. Our trade payables turnover days increased from 67 days for the year ended December 31, 2021 to 79 days for the six months ended June 30, 2022, primarily due to the resumption of our settlement with certain OEM suppliers and logistics service suppliers to semimonthly or monthly basis, in light of the alleviation of negative impact of COVID-19 on product supply and delivery in the first half of 2022.

As of the Latest Practicable Date, RMB150.2 million of our trade payables as of June 30, 2022 had been subsequently settled, accounted for approximately 98.4% of our trade payables as of June 30, 2022.

Other Payables

Other payables primarily consist of (i) refund liabilities; (ii) payroll and social security; (iii) payables to third-party e-commerce platforms; (iv) payables for [**REDACTED**]; (v) other tax payables; (vi) interest payables; (vii) payable for acquisition of Xingzezhi BVI; and (viii) loans from related parties. The following table sets forth our other payables as of the dates indicated:

	As of December 31,			**As of June 30,**
	2019	**2020**	**2021**	**2022**
	RMB'000			
Refund liabilities	26,826	37,665	34,122	56,434
Payroll and social security	39,163	40,256	46,423	36,050
Payables to third-party e-commerce platforms	22,550	14,419	6,956	25,284
Payables for [**REDACTED**]	–	–	4,330	7,157
Other tax payables	5,524	19,127	11,800	2,387
Interest payables	128	89	292	266
Payable for acquisition of Xingzezhi BVI	–	6,250	–	–
Loans from related parties	23,956	–	–	–
Other payables(1)	17,378	18,335	10,331	3,798
Total	**135,525**	**136,141**	**114,254**	**131,376**

Note:

(1) Primarily included advertising fees payable by us to third-party advertising agencies.

Refund liabilities represent expected returns payable to our customers in relation to sales made. Payables to third-party e-commerce platforms primarily comprise commission fees to the third-party e-commerce platforms and service fees we paid to Amazon for FBA services. Other tax payables primarily represent our provisions to sales tax. Payable for acquisition of Xingzezhi BVI represent the consideration payable for the acquisition of the total issued share capital of Xingzezhi BVI. See "History, Reorganization and Corporate Structure – Reorganization – Offshore Reorganization." Loans from related parties represent loans from our shareholders. See "– Related Party Transactions."

Our other payables remained relatively stable at RMB136.1 million as of December 31, 2020, compared to that of December 31, 2019. Our other payables decreased from RMB136.1 million as of December 31, 2020 to RMB114.3 million as of December 31, 2021, primarily due to (i) the decrease of RMB7.5 million in payables to third-party e-commerce platforms, primarily due to the increase of our sales through Amazon, the settlement period with which is relatively short; (ii) the decrease of RMB7.3 million in other tax payables, primarily due to our payment in 2021 for the previously unpaid indirect taxes primarily in relation to our sale through self-operated online stores to the U.S.; and (iii) the decrease of RMB6.3 million in payable for business combination under common control. Our other payables increased from RMB114.3 million as of December 31, 2021 to RMB131.4 million as of June 30, 2022, primarily due to the increase in refund liabilities, mainly caused by the increased expected returns payable to our customers on Amazon.

As of the Latest Practicable Date, RMB106.2 million of our other payables as of June 30, 2022 had been subsequently settled, accounted for approximately 80.9% of our other payables as of June 30, 2022.

Contract Liabilities

Our contract liabilities represent advanced payments from our customers on our self-operated online stores and certain third-party e-commerce platforms while the underlying products are yet to be delivered. The table below sets forth contract liabilities we recognized as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Contract liabilities	24,741	132,576	29,650	11,225
Total	**24,741**	**132,576**	**29,650**	**11,225**

Our contract liabilities increased from RMB24.7 million as of December 31, 2019 to RMB132.6 million as of December 31, 2020, primarily attributable to (i) the increased advances received from overseas customers through our self-operated online stores, in line with the rapid expansion of our self-operated online stores in 2020; and (ii) the delivery of our sale through third-party e-commerce platforms experienced delay during the outbreak of COVID-19. See "Business – Outbreak and Spread of COVID-19." Our contract liabilities decreased significantly from RMB132.6 million as of December 31, 2020 to RMB29.7 million as of December 31, 2021, and further decreased to RMB11.2 million as of June 30, 2022. Such continuous decrease was primarily attributable to (i) our resumed shipment of products in line with the gradual alleviation of COVID-19 pandemic; and (ii) the increase of efficiency of our supply chain, which enabled us to deliver products to customers more efficiently.

As of the Latest Practicable Date, RMB10.6 million of our contract liabilities as of June 30, 2022 had been subsequently settled, accounted for approximately 94.3% of our contract liabilities as of June 30, 2022.

Lease Liabilities

We lease certain properties as our offices, employees' dormitories and warehouses for our operations. Leases of properties generally have lease terms of three to five years. For any lease with a term of more than 12 months, unless the underlying asset is of low value, we recognize a right-of-use asset representing our right to use the underlying leased asset and a lease liability representing our obligation to make lease payments.

The table below sets forth the carrying amount of our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Carrying amount of lease liabilities				
Non-current lease liability	13,374	8,381	25,335	28,452
Current lease liability	12,326	12,366	14,506	19,461
Total	**25,700**	**20,747**	**39,841**	**47,913**

Our lease liabilities decreased from RMB25.7 million as of December 31, 2019 to RMB20.7 million as of December 31, 2020, primarily due to a decrease of RMB5.0 million in non-current lease liabilities as we paid the rent to lessor in 2020. Our lease liabilities increased from RMB20.7 million as of December 31, 2020 to RMB39.8 million as of December 31, 2021, primarily due to the increase in non-current lease liabilities in relation to our newly leased properties with long lease terms, such as warehouses. Our lease liabilities increased from RMB39.8 million as of December 31, 2021 to RMB47.9 million as of June 30, 2022, primarily due to (i) the increase in current lease liabilities as there left less than one year for the expiration of certain of our lease; and (ii) the increase in non-current lease liabilities in relation to our newly leased properties with long lease terms, such as premises leased for offices and warehouses.

Redeemable convertible preferred shares

Our redeemable convertible preferred shares represent redeemable convertible preferred shares issued by us arising from our [**REDACTED**] financing in May 2021. Our redeemable convertible preferred shares amounted to RMB106.1 million and RMB108.4 million, respectively, as of December 31, 2021 and June 30, 2022. For details of changes in the fair value of redeemable convertible preferred shares, see "– Description of Key Items of Consolidated Statement of Comprehensive Income – Fair value changes of redeemable convertible preferred shares."

Although our redeemable convertible preferred shares will be automatically converted to the ordinary shares upon the [**REDACTED**], to the extent we need to revalue the preferred shares prior to the [**REDACTED**], any changes in fair value of such redeemable convertible preferred shares will affect our financial positions and results of operations.

We do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future after the conversion of our redeemable convertible preferred shares into the ordinary shares upon the [**REDACTED**].

For key terms of the above-mentioned preferred shares, see Note 31 to the Accountant's Report set forth in Appendix I to this document.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) property, plant and equipment, comprising office equipment and warehouse facilities; and (ii) intangible assets. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Property, plant and equipment	3,675	2,461	6,653	5,231
Intangible assets	248	–	495	3,101
Total	**3,923**	**2,461**	**7,148**	**8,332**

We expect to incur approximately RMB18.4 million in the year ending December 31, 2022, primarily related to equipment and facilities used in our warehouses and offices. We intend to fund our planned capital expenditures through a combination of the [**REDACTED**] from the [**REDACTED**] as well as cash generated from operations.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us and changes in the regulatory environment in the PRC. In addition, we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our business.

NET CURRENT ASSETS OR LIABILITIES

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current liabilities or assets:

	As of December 31,			As of June 30,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
			RMB'000		
					(Unaudited)
Current assets:					
Inventories	178,144	255,840	664,323	761,082	752,078
Trade receivables	189,673	166,500	119,226	180,733	227,981
Prepayment and other receivables	31,238	86,816	89,146	39,711	46,784
Financial assets at fair value through profit or loss	–	5,800	–	–	–
Restricted cash	523	1,380	1,260	1,299	986
Cash and cash equivalents	27,097	83,000	80,855	82,913	66,550
Total current assets	**426,675**	**599,336**	**954,810**	**1,065,738**	**1,094,379**
Current liabilities:					
Lease liabilities	12,326	12,366	14,506	19,461	24,204
Trade and other payables	266,568	235,669	232,005	283,940	287,142
Contract liabilities	24,741	132,576	29,650	11,225	12,864
Current income tax liabilities	13,612	10,053	28,873	35,471	20,669
Borrowings	79,518	71,000	209,939	224,309	242,311
Redeemable convertible preferred shares	–	–	106,091	108,365	108,365
Total current liabilities	**396,765**	**461,664**	**621,064**	**682,771**	**695,555**
Net current assets	**29,910**	**137,672**	**333,746**	**382,967**	**398,824**

We had net current assets of RMB398.8 million as of September 30, 2022, consisting of current assets of RMB1,094.4 million and current liabilities of RMB695.6 million, which represented an increase of RMB15.9 million from our net current assets of RMB383.0 million as of June 30, 2022. This was primarily due to (i) an increase of RMB47.2 million in trade receivables, primarily resulting from the increase of our sales through third-party e-commerce platforms; and (ii) a decrease of RMB14.8 million in current income tax liabilities caused by our payment of income tax. The increase was partially offset by (i) a decrease of RMB16.4 million in our cash and cash equivalents, primarily due to our settlement with certain OEM suppliers and logistics service suppliers; and (ii) an increase of RMB18.0 million in borrowings, due to the increase of our bank borrowings to meet our working capital requirements for daily operations.

We had net current assets of RMB383.0 million as of June 30, 2022, consisting of current assets of RMB1,065.7 million and current liabilities of RMB682.8 million, which represented an increase of RMB49.2 million from our net current assets of RMB333.7 million as of December 31, 2021. This was primarily due to (i) an increase of RMB96.8 million in inventories due to our increased procurement from the OEM suppliers, which was in line with the development of our business; (ii) an increase of RMB61.5 million in trade receivables, primarily due to the increase of our sales through third-party e-commerce platforms; (iii) a decrease of RMB18.4 million in contract liabilities, primarily due to resumed shipment of products with the gradual alleviation of COVID-19 pandemic and the increased efficiency of our supply chain, enabling us to deliver products to customers more efficiently; and (iv) an increase of RMB2.0 million in cash and cash equivalents. This was partially offset by (i) an increase of RMB51.9 million in trade and other payables, primarily due to the resumption of our settlement with certain OEM suppliers and logistics service suppliers to semimonthly or monthly basis, in light of the alleviation of negative impact of COVID-19 on product supply and delivery; (ii) a decrease of RMB49.4 million in prepayments and other receivables, primarily due to the decrease in receivables from payment platforms caused by the increase in settlement frequency with payment platforms of our self-operated online stores; (iii) an increase of RMB14.4 million in borrowings, primarily due to the increase in bank borrowings; and (iv) an increase of RMB6.6 million in current income tax liabilities, primarily due to the increase in charge of current income tax.

We had net current assets of RMB333.7 million as of December 31, 2021, consisting of current assets of RMB954.8 million and current liabilities of RMB621.1 million, which represented an increase of RMB196.1 million from our net current assets of RMB137.7 million as of December 31, 2020. This was primarily due to (i) an increase of RMB408.5 million in inventories due to our increased procurement from the OEM suppliers to meet the foreseeable increase of our customers' demand, which was in line with the development of our business; and (ii) a decrease of RMB102.9 million in contract liabilities, primarily due to our resumed shipment of products in line with the gradual alleviation of COVID-19 pandemic and the increase of efficiency of our supply chain, which enabled us to deliver products to customers more efficiently. This was partially offset by (i) an increase of RMB138.9 million in borrowings primarily due to the increase of our bank borrowings; (ii) an increase of RMB106.1 million in redeemable convertible preferred shares; (iii) a decrease of RMB47.3 million in trade receivables primarily due to our increased sales through Amazon, the settlement cycle of which is relatively shorter than other third-party e-commerce platforms; and (iv) an increase of RMB18.8 million in current income tax liabilities primarily due to the increase of our profit before income tax.

We had net current assets of RMB137.7 million as of December 31, 2020, consisting of current assets of RMB599.3 million and current liabilities of RMB461.7 million, which represented an increase of RMB107.8 million from our net current assets of RMB29.9 million as of December 31, 2019. This was primarily due to (i) an increase of RMB77.7 million in our inventories mainly due to our increased procurement to satisfy the foreseeable increase of our sales, in line with the development of our business; (ii) an increase of RMB55.9 million in cash and cash equivalents mainly due to the increase of RMB56.8 million in cash at bank primarily due to increased sales through our self-operated online stores, in line with the rapid development of our self-operated online stores; (iii) an increase of RMB55.6 million in prepayments and other receivables mainly attributable to increased receivables from payment platforms in line with our increased sales and increased prepayment to suppliers and platforms, as we adjusted our prepayment policy to be more favorable to suppliers in order to maintain stable supplies and logistics during the outbreak of COVID-19; and (iv) a decrease of RMB30.9 million in trade and other payables, primarily due to decreased amount due to a related party upon settlement. This was partially offset by (i) a decrease of RMB23.2 million in trade receivables due to the increase in our sales through Amazon, the settlement cycle of which is relatively shorter than other third-party e-commerce platforms; and (ii) an increase of RMB107.8 million in contract liabilities, primarily attributable to the delivery of our sale through third-party e-commerce platforms experienced delay during the outbreak of COVID-19.

We had net current assets of RMB29.9 million as of December 31, 2019, consisting of current assets of RMB426.7 million and current liabilities of RMB396.8 million. Our current assets as of December 31, 2019 primarily comprise (i) trade receivables of RMB189.7 million; (ii) inventories of RMB178.1 million; (iii) prepayment and other receivables of RMB31.2 million; and (iv) cash and cash equivalents of RMB27.1 million. Our current liabilities as of December 31, 2019 primarily comprise (i) trade and other payables of RMB266.6 million; (ii) borrowings of RMB79.5 million; (iii) contract liabilities of RMB24.7 million; (iv) current income tax liabilities of RMB13.6 million; and (v) lease liabilities of RMB12.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including cash and cash equivalents as well as other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank borrowings and capital contributions from Shareholders. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents of RMB27.1 million, RMB83.0 million, RMB80.9 million and RMB82.9 million, respectively, consisting of cash at bank and in hand.

Cash Flows

The following table sets forth a summary of our cash flows during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
			RMB'000		
				(unaudited)	
Operating profit before changes in working capital	136,013	185,347	288,685	156,473	115,067
Changes in working capital	(41,765)	(47,193)	(479,553)	(249,524)	(97,756)
Interest received	99	86	67	38	33
Income taxes paid	(12,385)	(24,122)	(16,248)	(10,290)	(5,306)
Net cash generated from/(used in) operating activities	81,962	114,118	(207,049)	(103,303)	12,038
Net cash (used in)/generated from investing activities	(3,642)	(8,000)	(764)	1,567	(8,325)
Net cash (used in)/generated from financing activities	(100,221)	(48,069)	206,997	133,639	(3,710)
Net (decrease)/increase in cash and cash equivalents	(21,901)	58,049	(816)	31,903	3
Cash and cash equivalents at the beginning of the year/period	48,603	27,097	83,000	83,000	80,855
Effects of exchange rate changes on cash and cash equivalents	395	(2,146)	(1,329)	(663)	2,055
Cash and cash equivalents at the end of the year/period	**27,097**	**83,000**	**80,855**	**114,240**	**82,913**

Net cash (used in)/generated from operating activities

We derive our cash inflow from operating activities primarily through sale of apparel, footwear and other products. Cash from operating activities primarily reflects our profit before taxation, adjusted for non-cash or non-operating items, such as depreciation of right-of-use assets, depreciation of property, plant, and equipment, amortization of intangible assets, losses or gains on disposal of property, plant and equipment, interests received on financial assets at fair value through profit or loss, interest expenses, interest income, net impairment losses or reversal of impairment on financial assets, net impairment losses on inventories, net exchange differences and the changes in working capital, including increase in restricted cash, inventories, trade receivables, prepayment and other receivables, trade and other payables and contract liabilities.

Our net cash generated from operating activities was RMB12.0 million for the six months ended June 30, 2022. This net cash inflow was primarily due to (i) our profit before tax of RMB71.3 million, as adjusted to reflect non-cash or non-operating items of RMB43.7 million, which primarily included net impairment losses on inventories of RMB20.3 million, depreciation of right-of-use assets of RMB9.8 million, interest expenses of RMB6.7 million and net impairment losses on financial assets of RMB3.1 million; (ii) an increase in trade and other payables of RMB52.6 million, primarily due to the resumption of our settlement with certain OEM suppliers and logistics service suppliers to semimonthly or monthly basis, in light of the alleviation of negative impact of COVID-19 on product supply and delivery; and (iii) a decrease in prepayment and other receivables of RMB49.8 million, primarily due to the decrease in receivables from payment platforms caused by the increase in settlement frequency with payment platforms of self-operated online stores. This net cash inflow was partially offset by (i) an increase in inventories of RMB117.1 million, primarily due to our increased procurement from the OEM suppliers, which was in line with the development of our business; and (ii) an increase in trade receivables of RMB64.6 million, primarily due to the increase of sales through third-party e-commerce platforms.

Our net cash used in operating activities was RMB207.0 million for the year ended December 31, 2021. This net cash outflow was primarily due to (i) our profit before tax of RMB237.6 million, as adjusted to reflect non-cash or non-operating items of RMB51.1 million, which primarily included net impairment losses on inventories of RMB21.2 million, depreciation of right-of-use assets of RMB15.1 million and interest expenses of RMB8.5 million; (ii) an increase in inventories of RMB429.6 million, primarily due to the active prospect of our sales and mass production order we placed with our OEM suppliers; and (iii) a decrease in contract liabilities of RMB102.9 million primarily due to our resumed shipment of products in line with the alleviation of COVID-19 and the increase of efficiency of our supply chain, which enabled us to deliver products to customers more efficiently. This net cash outflow was partially offset by a decrease of trade receivables of RMB47.3 million caused by our increased sales through Amazon, the settlement cycle of which is relatively shorter than other third-party e-commerce platforms.

Our net cash generated from operating activities was RMB114.1 million for the year ended December 31, 2020. This net cash inflow was primarily due to (i) our profit before tax of RMB134.4 million, as adjusted to reflect non-cash or non-operating items of RMB50.9 million, which primarily included net impairment losses on inventories of RMB30.0 million, depreciation of right-of-use assets of RMB11.3 million and interest expenses of RMB6.3 million; and (ii) an increase in contract liabilities of RMB107.8 million attributable to the increased advances received from overseas customers through our self-operated online stores and the delayed delivery of our sale through third-party e-commerce platforms during the outbreak of COVID-19. This net cash inflow was partially offset by (i) an increase in inventories of RMB107.6 million caused by the continuous expansion of business scale and active prospect of our sales and mass production order we placed with our OEM suppliers to satisfy the foreseeable increase of market demand; (ii) a decrease in prepayment and other receivables of RMB55.7 million caused by the increase in receivables from third-party payment platforms caused by the increased sales; and the increase in prepayment we made to certain logistics service suppliers and certain OEM suppliers of our new products mainly due to the impact of COVID-19; and (iii) a decrease in trade and other payables of RMB13.3 million due to decreased trade payables due to related parties in line with our settlement and the decreased loan from related parties in line with repayment.

Our net cash generated from operating activities was RMB82.0 million for the year ended December 31, 2019. This net cash inflow was primarily due to (i) our profit before tax of RMB93.6 million, as adjusted to reflect non-cash or non-operating items of RMB42.4 million, which primarily included net impairment losses on inventories of RMB22.4 million, depreciation of right-of-use assets of RMB9.1 million, and interest expenses of RMB8.7 million; (ii) an increase in contract liabilities of RMB15.9 million primarily due to the increased advances received from overseas customers through our self-operated online stores; and (iii) an increase in trade and other payables of RMB29.6 million caused by the increase in receivables from third-party payment platforms caused by the increased sales. This net cash inflow was partially offset by (i) an increase in inventories of RMB60.1 million; (ii) an increase in prepayment and other receivables of RMB14.2 million; and (iii) an increase in trade receivables of RMB12.4 million.

Net cash (used in)/generated from investing activities

Our cash used in investing activities mainly reflects our cash used in payment of property, plant and equipment, payment of intangible assets and payment of financial assets at fair value through profit or loss. Our cash generated from investing activities primarily reflects proceeds from sale of financial assets at fair value through profit or loss, proceeds from disposals of property, plant and equipment.

Our net cash used in investing activities was RMB8.3 million for the six months ended June 30, 2022. This net cash outflow was primarily due to (i) payments of property, plant and equipment of RMB5.2 million, primarily in relation to our payments of warehousing facilities, fire safety facilities for our warehouses and electronic equipments; and (ii) payments of intangible assets of RMB3.1 million.

Our net cash used in investing activities was RMB0.8 million for the year ended December 31, 2021. This net cash outflow was primarily due to (i) payments of financial assets at fair value through profit or loss of RMB14.8 million; and (ii) payments of property, plant and equipment of RMB6.7 million. This net cash outflow was partially offset by proceeds from sale of financial assets at fair value through profit or loss of RMB20.6 million.

Our net cash used in investing activities was RMB8.0 million for the year ended December 31, 2020. This net cash outflow was primarily due to payments of financial assets at fair value of through profit or loss of RMB175.3 million, partially offset by the proceeds from sale of financial assets at fair value through profit or loss of RMB169.7 million, in connection with the purchase and redemption of wealth management products. See "– Selective Items from Consolidated Statements of Financial Position – Financial Assets at Fair Value through Profit or Loss."

Our net cash used in investing activities was RMB3.6 million for the year ended December 31, 2019. This net cash outflow was primarily due to payments of financial assets at fair value through profit or loss of RMB207.0 million. This net cash outflow was partially offset by the proceeds from sale of financial assets at fair value through profit or loss of RMB207.1 million, in connection with the purchase and redemption of wealth management products.

Net cash generated from/(used in) financing activities

Cash inflow generated from financing activities mainly comprises proceeds from bank borrowings, proceeds from related parties' loans and proceeds from third parties' loans. Our cash flow used in financing activities mainly comprises repayment of bank borrowings, repayment of borrowings from related parties, repayment of borrowings from third parties, principal elements of lease payments, contributions from shareholders, dividend paid to shareholders, deemed distributions to shareholders in relation to reorganization and interest paid.

Our net cash used in financing activities was RMB3.7 million for the six months ended June 30, 2022. This net cash outflow was primarily due to (i) repayment of bank borrowings of RMB126.4 million; (ii) principal elements of lease payments of RMB10.2 million; and (iii) interest paid of RMB6.7 million. This net cash outflow was partially offset by proceeds from bank borrowings of RMB139.9 million.

Our net cash generated from financing activities was RMB207.0 million for the year ended December 31, 2021. This net cash inflow was primarily due to (i) proceeds from bank borrowings of RMB245.2 million; (ii) proceeds from issue of redeemable preference shares of RMB103.8 million; and (iii) loans from related parties of RMB22.0 million. This net cash inflow was partially offset by (i) repayment of bank borrowings of RMB106.0 million; (ii) repayment of loans from related parties of RMB21.9 million; and (iii) principal elements of lease payments of RMB15.4 million.

Our net cash used in financing activities was RMB48.1 million for the year ended December 31, 2020. This net cash outflow was primarily due to (i) repayment of bank borrowings of RMB98.8 million; (ii) repayment of borrowings from related parties of RMB67.0 million; and (iii) principal elements of lease payments of RMB10.9 million. This net cash outflow was partially offset by (i) proceeds from bank borrowings of RMB92.0 million; and (ii) proceeds from related parties' loans of RMB43.0 million.

Our net cash used in financing activities was RMB100.2 million for the year ended December 31, 2019. This net cash outflow was primarily due to (i) repayment of borrowings from related parties of RMB120.0 million; (ii) repayment of bank borrowings of RMB97.9 million; and (iii) dividend paid to shareholders of RMB64.8 million. This net cash outflow was partially offset by (i) proceeds from related parties' loans of RMB122.9 million; and (ii) proceeds from bank borrowings of RMB102.3 million.

WORKING CAPITAL SUFFICIENCY

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations and bank borrowings.

Taking into account the financial resources available to us, including cash flow from operating activities and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view and the Joint Sponsors concur that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

During the Track Record Period, our indebtedness mainly consisted of (i) bank borrowings; (ii) other payables; (iii) lease liabilities; and (iv) redeemable convertible preferred shares.

The following table sets forth a breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2019	**2020**	**2021**	**2022**	**2022**
			RMB'000		
					(Unaudited)
Included in current liabilities					
Bank borrowings					
– Secured borrowings[(1)]	47,800	56,000	130,139	152,109	160,121
– Unsecured borrowings	31,718	15,000	79,800	72,200	82,190
Redeemable convertible preferred shares	–	–	106,091	108,365	108,365
Loans from related parties	23,956	–	–	–	–
Current portion of lease liabilities	12,326	12,366	14,506	19,461	24,204
Sub-total	**115,800**	**83,366**	**330,536**	**352,135**	**374,880**
Included in non-current liabilities					
Non-current portion of lease liabilities	13,374	8,381	25,335	28,452	50,743
Bank borrowings					
– Secured borrowings	–	–	300	300	–
Total	**129,174**	**91,747**	**356,171**	**380,887**	**425,623**

Note:

(1) Such bank borrowings were guaranteed by our related parties, pledge of property and pledge of deposits.

Our bank borrowings during the Track Record Period were denominated in Renminbi, except for our borrowings from the Hongkong and Shanghai Banking Corporation Limited of USD2.5 million. Our bank borrowings during the Track Record Period were used to finance our capital expenditure and working capital requirements. Our current bank borrowings increased from RMB71.0 million as of December 31, 2020 to RMB209.9 million as of December 31, 2021, primarily due to our increased working capital need in 2021 with the expansion of our business. Due to the same reason, our current bank borrowings further increased from RMB209.9 million as of December 31, 2021 to RMB224.3 million as of June 30, 2022 and further to RMB242.3 million as of September 30, 2022.

During the Track Record Period, we did not have any material default on our short-term bank borrowings.

All guarantees and pledges of properties provided to us by our Controlling Shareholders and related parties for our bank borrowings during the Track Record Period will be released upon the [**REDACTED**]. See "Relationship with Controlling Shareholders – Independence from Our Controlling Shareholders – Financial Independence" for details.

Except as discussed above, we had no outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of September 30, 2022, being our indebtedness statement date. After due and careful consideration, our Directors confirm that there had been no material adverse change in our indebtedness since September 30, 2022 and up to the Latest Practicable Date.

As of September 30, 2022, we had unutilized credit facilities of RMB34.0 million. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Contingent Liabilities

We did not have, as of September 30, 2022, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interest and classified as owners' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

Transactions with Related Parties

Loans from Related Parties

During the Track Record Period, we had loans from related parties, including our shareholders, directors, senior management of our subsidiaries and/or their family members. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we had loans from related parties of RMB122.9 million, RMB43.0 million, RMB22.0 million and nil, respectively, primarily due to our growing capital demands for payment to our OEM suppliers and logistics service suppliers caused by our business expansion. We had repayment of loans from related parties of RMB120.0 million, RMB67.0 million, RMB21.9 million and nil, respectively, during the same periods. These loans were all denominated in Renminbi and repayable in one year. Certain of the loans were interest free while the remaining bear an interest rate with reference to the bank interest rate during the same period. The interest rate was determined with reference to the interest rate of bank loans under similar terms. In 2019, 2020 and 2021 and the first half of 2022, we paid interest expenses of RMB3.2 million, RMB1.2 million, RMB18,000 and nil, respectively. Our Directors believe that our liquidity and working capital would not be affected after the discontinuance of such related party loans after the [**REDACTED**], taking into account (i) our cash and cash equivalents as of June 30, 2022; (ii) our inventories as of June 30, 2022; (iii) our trade receivables as of June 30, 2022; (iv) prepayment and other receivables as of June 30, 2022; (v) the operating cash inflow we expected to receive from June 30, 2022 to the [**REDACTED**]; and (vi) our estimated net cash used in operating activities, including estimated staff costs, office expenses and other related expenses.

Upon the completion of this [**REDACTED**], we will comply with the relevant Listing Rules and adopt a more prudent approach when reviewing and engaging related party transactions.

Purchase of Advertising Services

Jiahe Group primarily engaged in the advertising agency business when we established and maintained business relationship with Jiahe Group. Jiahe Group had built business relationship with an Independent Third Party advertising reseller, which is authorized by multiple overseas social media platforms to place advertisements on such platforms. Jiahe Group was controlled by a family relative of Ms. Yu, who has experience in agency services accumulated from previous work experience. Jiahe Group was disposed (the "**Disposal**") to an Independent Third Party who is our former employee in May 2021. As confirmed by Frost & Sullivan, it is the industry practice that advertising customers may either choose authorized advertising resellers or advertising agencies that have business relationship with the authorized advertising resellers, to place advertisements on social media platforms, depending on factors such as the terms they offer, the social media platforms covered and any other restrictions on placing advertisements. We chose to cooperate with Jiahe Group in June 2020 to place advertisements on certain major social media platforms, as it was able to provide us with commercially reasonable terms that are comparable to those provided by other authorized advertising resellers or advertising agencies engaged by us. Since June 2020 and up to May 2021, Jiahe Group provided us advertising agency services mainly including targeted advertising services of our self-operated online stores on certain social media platforms. Our consideration to Jiahe Group, including the advertising fees for advertisement placement on social media platforms, net off the rebate provided by Jiahe Group, was RMB54.9 million in 2020 and RMB5.8 million in 2021. Such amount was trade in nature, and fully settled as of the Latest Practicable Date. Our consideration to Jiahe Group after deducting the rebate decreased from RMB54.9 million for the year ended December 31, 2020 to RMB5.8 million for the year ended December 31, 2021, primarily as we started to cooperate with some new advertising agencies to place advertisements on social media platforms since late 2020. Along with our increased bargaining power with the rapid business expansion, more Independent Third Party advertising agencies approached us seeking for cooperation and offered attractive terms, some of which offered us rebate that could reduce our overall marketing and advertising expenses if we fulfill certain criteria, such as the amount of effective advertisement placement. We started to cooperate with them to place advertisements on social media platforms and expect to place advertisements with a lower price and reduce our marketing and advertising expenses. Taking into account the commercial terms provided by other advertising agencies and authorized advertising resellers during the Track Record Period, our Directors are of the view that the terms provided by Jiahe Group and relevant advertising fees paid by us are comparable to the market level and commercially reasonable. We ceased to procure online marketing advertising services from Jiahe Group in May 2021 when our contract with Jiahe Group expired upon mutual consent. We did not renew the contract with Jiahe Group in respect of advertising agency services after its expiry, and will not continue to procure advertising services from Jiahe Group, primarily as the new owner of Jiahe Group intends to focus on its other business after the Disposal, instead of further developing advertising agency services.

Sales and Services to Related Parties

From early 2021, to our best knowledge, Jiahe Group has diversified its business to sale of furniture and outdoor and sporting goods through third-party e-commerce platforms to improve profitability. Therefore, Jiahe Group started to procure from multiple furniture and outdoor and sporting goods suppliers, including us and other independent suppliers, in order to develop its sales business. To our best knowledge, the customers who procured the furniture and outdoor and sports goods from Jiahe Group are mainly retail customers of third-party e-commerce platforms, who are Independent Third Parties. In February 2021, we sold certain furniture and outdoor and sporting goods to Jiahe Group for a consideration of RMB14.2 million, which was trade in nature, primarily as we intended to focus more on sale of apparel and footwear products going forward and ceased to explore sale of furniture through e-commerce platforms thereby disposing the inventories we hold in a one-off transaction. Further, we also provided warehousing and logistics services to facilitate Jiahe Group's sale of products procured from us and other third-party suppliers during its e-commerce business operations. Such services are regarded as other income and amounted to RMB1.5 million. To our best knowledge after making reasonable enquiries, since its disposal in May 2021 and up to the Latest Practicable Date, Jiahe Group operated as an e-commerce platform-based seller and focused primarily on sale of furniture and outdoor and sporting goods through third-party e-commerce platforms.

Save for the related party transactions disclosed above, we had no other transactions with Jiahe Group during the Track Record Period and up to the Latest Practicable Date.

Balances with Related Parties

Trade and Other Payables

As of December 31, 2019, 2020 and 2021 and June 30, 2022, trade payables to Mr. Hua, which were trade in nature, amounted to RMB27.7 million, nil, nil and nil, respectively. For details of trade payables to Mr. Hua, see "– Selective Items from Consolidated Statements of Financial Position – Trade Payables."

As of December 31, 2019, 2020 and 2021 and June 30, 2022, other payables to Jiahe Group, which were trade in nature, amounted to nil, RMB1.5 million, nil and nil, respectively. For details of other payables with Jiahe Group, see "– Transactions with Related Parties – Purchase of Advertising Services" above.

We have petty cash and advanced payments made by our related parties during the daily operations, which were trade in nature. As of December 31, 2019, 2020 and 2021 and June 30, 2022, other payables to a shareholder of our Company amounted to RMB0.1 million, RMB9,000, nil and nil, respectively.

Other Receivables

We have petty cash and advanced payments made to our related parties during the daily operations, which were trade in nature. As of December 31, 2019, 2020 and 2021 and June 30, 2022, other receivables from a shareholder of our Company amounted to RMB50,000, nil, nil and nil, respectively.

Payables to Related Parties

During the Track Record Period, we also have payables to related parties which were non-trade in nature. Such amount was interest free and repayable upon demand. As of December 31, 2019, 2020 and 2021 and June 30, 2022, payables to related parties of non-trade nature amounted to RMB24.0 million, RMB6.3 million, nil and nil, respectively.

As of the Latest Practicable Date, we had settled all non-trade amounts due from/to related parties. We will not conduct non-trade related party transactions after the [**REDACTED**], except as in compliance with the Listing Rules.

It is the view of our Directors that each of the related party transactions set out in Note 34 of the Accountant's Report in Appendix I to this document (i) were conducted on normal and arm-length commercial terms, which are considered fair, reasonable and in the interest of our Shareholders as a whole; and (ii) do not distort our Track Record Period results or make our historical results not reflective of future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Profitability ratios				
Gross profit margin(1)	69.8%	72.6%	75.2%	75.9%
Net profit margin(2)	5.7%	6.0%	8.5%	4.8%
Return on equity(3)	125.3%	66.1%	53.8%	N/A
Return on assets(4)	17.1%	17.7%	19.7%	N/A

	As of December 31,			As of June 30,
	2019	2020	2021	2022
Liquidity ratios				
Current ratio(5)	1.1x	1.3x	1.5x	1.6x
Quick ratio(6)	0.6x	0.7x	0.5x	0.4x
Capital adequacy ratios				
Gearing ratio(7)	199.5%	53.2%	95.5%	87.7%
Debt to equity ratio(8)	157.6%	5.1%	73.8%	68.6%
Liabilities to assets ratio(9)	86.4%	73.2%	63.4%	62.1%

Notes:

(1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.

(2) Net profit margin is calculated based on profit for the period divided by revenue and multiplied by 100%.

(3) Return on equity is calculated based on profit for the year divided by the total equity at the end of the year and multiplied by 100%.

(4) Return on assets is calculated based on profit for the year divided by total assets at the end of the year and multiplied by 100%.

(5) Current ratio is calculated based on total current assets divided by total current liabilities.

(6) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(7) Gearing ratio is calculated based on total interest-bearing borrowings (including bank borrowings, loans from related parties, lease liabilities and redeemable convertible preferred shares) divided by total equity multiplied by 100%.

(8) Debt to equity ratio is calculated based on total interest-bearing borrowings (including bank borrowings, loans from related parties, lease liabilities and redeemable convertible preferred shares) less cash and cash equivalents divided by total equity multiplied by 100%.

(9) Liabilities to assets ratio is calculated based on total liabilities divided by total assets multiplied by 100%.

Gross Profit Margin and Net Profit Margin

See "– Year to Year/Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the respective periods.

Return on Equity

Our return on equity decreased from 125.3% in 2019 to 66.1% in 2020 and further to 53.8% in 2021, primarily due to significant increase in our equity caused by the increase of our net profit.

Return on Assets

Our return on assets increased from 17.1% in 2019 to 17.7% in 2020, and further to 19.7% in 2021, primarily due to the increase of our net profit.

Current Ratio

Our current ratio increased from 1.1 as of December 31, 2019 to 1.3 as of December 31, 2020, and further to 1.5 in 2021. Our current ratio increased from 1.5 as of December 31, 2021 to 1.6 as of June 30, 2022. Such increase was primarily due to continuous increase in our inventories during the Track Record Period.

Quick Ratio

Our quick ratio increased from 0.6 as of December 31, 2019 to 0.7 as of December 31, 2020, primarily due to the increase in cash and cash equivalents. Our quick ratio decreased from 0.7 as of December 31, 2020 to 0.5 as of December 31, 2021, primarily due to the increase in our total current liabilities caused by the increase of bank borrowings and redeemable convertible preferred shares. Our quick ratio decreased from 0.5 as of December 31, 2021 to 0.4 as of June 30, 2022, primarily due to the increase in total current liabilities mainly caused by the increase of trade and other payables.

Gearing Ratio

Our gearing ratio decreased from 199.5% as of December 31, 2019 to 53.2% as of December 31, 2020, primarily due to (i) increase in cash and cash equivalents; and (ii) our prepayment of loans from related parties in 2020. Our gearing ratio increased from 53.2% as of December 31, 2020 to 95.5% as of December 31, 2021, primarily due to the increase in bank borrowings, lease liabilities and redeemable convertible preferred shares. Our gearing ratio decreased from 95.5% as of December 31, 2021 to 87.7% as of June 30, 2022, primarily due to the increase in total equity as of June 30, 2022.

Debt to Equity Ratio

Our debt to equity ratio decreased from 157.6% as of December 31, 2019 to 5.1% as of December 31, 2020, primarily due to the decrease of bank borrowings and the increase in total equity as a result of increase in the net profit earned in 2020. Our debt to equity ratio increased significantly from 5.1% as of December 31, 2020 to 73.8% as of December 31, 2021, primarily due to the increase in bank borrowings, lease liabilities and redeemable convertible preferred shares. Our debt to equity ratio decreased from 73.8% as of December 31, 2021 to 68.6% as of June 30, 2022, primarily due to the increase in total equity as of June 30, 2022.

Liabilities to assets ratio

Our liabilities to assets ratio decreased from 86.4% as of December 31, 2019 to 73.2% as of December 31, 2020, and further to 63.4% as of December 31, 2021. Our liabilities to assets ratio decreased from 63.4% as of December 31, 2021 to 62.1% as of June 30, 2022. Such continuous decrease was primarily due to the continuous increase of our total assets during the Track Record Period.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk and liquidity risk, as set out below. Our overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We had not used any derivative financial instruments to hedge certain risk exposures during the Track Record Period. For further details, see Note 3 in the Accountant's Report set out in Appendix I to this document.

Foreign exchange risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures. Our subsidiaries collect most of the revenue and incur most of the expenditures in respect of their functional currencies. Foreign exchange risk arises from various currency exposures primarily through proceeds received from customers and shareholders, and payments to the suppliers that are denominated in a currency other than our subsidiaries' functional currency. The currencies giving rise to this risk are primarily the U.S. dollar, the Euro and the Hong Kong dollar, as most of our sales and certain purchase are denominated in the U.S. dollar, the Euro and the Hong Kong dollar. Our management considers that our exposure to foreign currency exchange risk is not significant due to most of the functional currency of our subsidiaries is the same as the transaction currency.

We do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, if Renminbi had strengthened or weakened by 5% against the U.S. dollar, the Euro and the Hong Kong dollar with all other variables held constant, the total profit for the year or period would have been RMB1.5 million, RMB4.0 million, RMB2.5 million lower or higher and RMB1.6 million higher or lower, respectively, mainly as a result of foreign exchange losses or gains on translation of the U.S. dollar, the Euro and the Hong Kong dollar denominated cash and cash equivalents, trade and other receivables and trade and other payables.

Cash flow and fair value interest rate risk

Our interest rate risk arises from bank deposits and borrowings. Borrowings obtained at variable rates expose us to cash flow interest rate risk which is partially offset by cash at bank with variable interest rates. Borrowings obtained at fixed rates expose us to fair value interest rate risk. During the Track Record Period, our borrowings bore interest both at variable rates and fixed rates. Bank deposits carried at prevailing market interest rate expose us to cash flow interest rate risk. We closely monitor trend of interest rate and its impact on our interest rate risk exposure to ensure it is within an acceptable level. We currently do not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

During the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, if interest rate on borrowings had been increased or decreased by 50 basis points of current interest rate, with other variables held constant, post tax profit for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB166,000 lower or higher, RMB155,000 lower or higher, RMB329,000 lower or higher, RMB92,000 lower or higher and RMB221,000 lower or higher, respectively.

Credit risk

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash and trade and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

Credit risk of cash and cash equivalents and restricted cash

To manage this risk, cash deposits at banks are mainly placed with state-owned and reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are immaterial.

Credit risk of trade receivables

We have policies in place to ensure that trade receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties.

We apply the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the aging.

Credit risk of other receivables

For other receivables, our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and experience. We believe that there is no material credit risk inherent in our outstanding balance of other receivables.

See Note 3 in the Accountant's Report set out in Appendix I to this document for details on credit risk.

Liquidity risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

See Note 3 in the Accountant's Report set out in Appendix I to this document for details on liquidity risk.

DIVIDENDS

No dividend had been paid or declared by us during the Track Record Period. We do not currently have a pre-determined dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time pay interim dividends as our Board believes to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as it deems fit. We cannot guarantee in what form dividends will be paid in the future. In accordance with the Cayman Companies Act and our Articles of Association, dividends may be declared and paid out of our profits and reserves lawfully available for distribution.

As we are a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit for the year calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

Our distributable reserves comprise retained earnings. As of June 30, 2022, we had distributable reserves of RMB149.1 million.

[**REDACTED**]

Our [**REDACTED**] mainly include [**REDACTED**], legal and professional fees paid to the professional parties and other expenses for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] (based on the mid-point of our indicative [**REDACTED**] for the [**REDACTED**]) for the [**REDACTED**] are approximately HK$[**REDACTED**] (including (i) [**REDACTED**], SFC transaction levy, Stock Exchange trading fees and AFRC transaction levy for all [**REDACTED**] of approximately HK$[**REDACTED**], and (ii) non-[**REDACTED**] related expenses of approximately HK$[**REDACTED**], which consist of (a) fees and expenses of legal advisors and accountants of approximately HK$[**REDACTED**], and (b) sponsor fee and other fees and expenses of approximately HK$[**REDACTED**]), representing approximately [**REDACTED**]% of the gross [**REDACTED**] based on the same assumptions. During the Track Record Period, we incurred [**REDACTED**] in aggregate of HK$[**REDACTED**], of which (i) HK$[**REDACTED**] was charged to the consolidated statements of profit or loss as general and administrative expenses; and (ii) HK$[**REDACTED**] was directly attributable to the issuance of shares and will be recognized as a deduction in equity directly upon the [**REDACTED**]. We expect approximately HK$[**REDACTED**] to be recognized as general and administrative expenses and approximately HK$[**REDACTED**] to be recognized as a deduction in equity directly upon the [**REDACTED**].

Our Directors do not expect that such expenses will have a material adverse effect on our results of operations for the year ending December 31, 2022.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to show the effect of the [**REDACTED**] on our net tangible assets as of June 30, 2022, as if the [**REDACTED**] had taken place on June 30, 2022.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets had the [**REDACTED**] been completed as of June 30, 2022 or at any future date. The unaudited pro forma statement of adjusted net tangible assets is based on the unaudited consolidated total net tangible assets of our Group attributable to the owners of the Company as of June 30, 2022 derived from the Accountant's Report as set out in Appendix I to this document, and adjusted as follows:

	Audited consolidated net tangible assets of our Group attributable to the owners of the Company as of June 30, 2022	**Estimated impact to the consolidated net tangible assets upon the conversion of the redeemable convertible preferred shares**	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company as of June 30, 2022**	**Unaudited pro forma adjusted net tangible assets per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$ equivalent*
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	430,818	108,365	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	430,818	108,365	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The audited consolidated net tangible assets attributable to owners of the Company as of June 30, 2022 is extracted from the historical financial information contained in the Accountant's Report set forth in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to the owners of the Company as of June 30, 2022 of approximately RMB434,290,000 with an adjustment for the intangible assets attributable to owners of the Company as of June 30, 2022 of approximately RMB3,472,000.

(2) The Company's redeemable convertible preferred shares are all converted into the ordinary shares of the Company upon [**REDACTED**]. The adjustment represents the impact of the conversion of the redeemable convertible preferred shares into the ordinary shares of the Company, issued up to the date of this document, on the net tangible assets of the Group attributable to owners of the Company. The estimated impact is RMB108,365,000, being the carrying amount of the Company's redeemable convertible preferred shares as of June 30, 2022.

(3) The estimated [**REDACTED**] from the [**REDACTED**] are based on the [**REDACTED**] of HK$[**REDACTED**] per Share and HK$[**REDACTED**] per Share, respectively after deduction of the [**REDACTED**] and other related expenses paid/payable by the Company, excluding [**REDACTED**] of approximately RMB37,531,000 which has been accounted for in the consolidated statements of comprehensive income up to June 30, 2022. It does not take account of any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document.

(4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that [**REDACTED**] Shares were in issue assuming that the conversion of the redeemable convertible preferred shares, the share subdivision, the Capitalization Issue and the [**REDACTED**] had been completed on June 30, 2022 without taking into account of any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.90689 to HK$1.00, as set out in "Information about this Document and the [**REDACTED**]" to this document. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets of our Group to reflect any trading results or other transactions of our Group entered into subsequent to June 30, 2022.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the [**REDACTED**] of the Shares on the Stock Exchange.

RECENT DEVELOPMENT

Recent Business Development

In 2022, the economic growth in the United States is slowing. According to the Bureau of Economic Analysis of the United States, the real GDP of the United States decreased at an annual rate of 0.6% in the second quarter of 2022, following a decrease of 1.6% in the first quarter. In addition, since early 2022, there has been an increasing global inflation, especially in the United States. The Federal Reserve of the United States raised the interest rates in the United States several times since March 2022 and up to the Latest Practicable Date. According to Frost & Sullivan, the slowing economic activity, the inflation and the corresponding economic uncertainty adversely affected the spending power and the purchasing habits of customers, resulting in more conservative consumption among customers in the United States. Such high inflation and increasing interest rates were continuing since July 2022 and up to the Latest Practicable Date, according to Frost & Sullivan. Under such circumstance, our Directors expect the high inflation and increasing interest rates in the United States may continue affecting the spending power and the purchasing habits of our customers, which in turn could negatively affect the growth rate of our results of operations during the remaining time of 2022. Considering that (i) our revenue growth rate is adversely affected by more conservative consumption and weakening spending power as a result of the slowing economic activity, the high inflation and the increasing interest rates in the United States; and (ii) we do not plan to reduce our investments in marketing and advertising activities aiming to maintain and strengthen our competitive position, thus we expect to continue to incur substantial marketing and advertising expenses in the second half of 2022, we expect to record decreased net profit for the year ending December 31, 2022, compared with that for the year ended December 31, 2021.

During the Track Record Period and up to the Latest Practicable Date, the United States was our largest market and will continue to be one of our major markets in the foreseeable future. Our operating results are heavily dependent on the macro-economic situations of the United States. The Federal Reserve of the United States expects the Personal Consumption Expenditures (the "**PCE**") inflation rate to peak in 2022 at 5.4%, then largely decrease to 2.8% in 2023, reach 2.3% in 2024 and further decrease to 2.0% in 2025, compared to the ideal median longer-term rate of 2.0%. Moreover, according to Frost & Sullivan, the Federal Reserve of the United States may further raise the interest rates in the second half of 2022 and 2023, and may continue to raise the interest rate in 2024, depending on the economy of 2023. As a result, the negative impact on the customers' purchasing power may continue in the near future, which may in turn continue to adversely affect our sale to the United States. Our business, results of operations and financial condition could be adversely affected if the inflation and raise of interest rates continue or any other negative macroeconomic factor arises in the United States. See "Risk Factors – Risks relating to Our Business and Industry – Our business and financial position may be adversely affected if we are not able to continue servicing the United States market effectively or if there is any adverse change in the macroeconomic situation, such as further raise of interest rates by the Federal Reserve of the United States, or economic downturn in the United States."

Since July 2022, there have been further waves of recurrence of COVID-19 cases in certain parts of the PRC, including Shanghai and Sanya. The PRC government has also imposed temporary regional control measures in cities where confirmed cases are reported. However, neither our OEM suppliers nor we were subject to any regional control measures which would materially and adversely affect our business, results of operations and financial conditions, as our procurement from OEM suppliers had not experienced any material interruption and none of our OEM suppliers informed us of any material impact caused by regional control measures. As of the Latest Practicable Date, none of our OEM suppliers were located in Shanghai or Sanya, which were the cities mostly affected by the recent recurrence of COVID-19 and thus subject to strict regional control measures. To our best knowledge after making reasonable inquiries with our major OEM suppliers, our OEM suppliers proactively adopt measures to mitigate the impact of COVID-19 pandemic. For example, some OEM suppliers require their employees to live and stay in their workshop and avoid unnecessary cross-regional traveling to meet the timing requirement of products supply during the pandemic. Therefore, our procurement, sales and delivery maintained stable subsequent to the Track Record Period and up to the Latest Practicable Date. We closely monitor the indicators for any further waves of COVID-19 outbreaks and proactively take precautionary measures to minimize the risk of spreading and contracting COVID-19 in our office premises.

The Impact of Recent Electricity Restriction Policies

Since September 2021, the PRC government has imposed power restriction policies across China, including the regions where we and certain of our OEM suppliers locate. During the Track Record Period and up to the Latest Practicable Date, our electricity consumption and daily operations had not been suspended or restricted at the request of the local government authority. To our best knowledge, a small number of our OEM suppliers had received notice on the restriction on the usage of electricity after September 2021. However, they managed to resume normal manufacturing through the deployment of electric generators. Up to the Latest Practicable Date, we had not experienced any material delay in product delivery by our OEM suppliers due to the impact of electricity restriction policies. See "Risk Factors – Risks Relating to Our Business and Industry – Our operations may be subject to risks brought by the power restriction policies of the PRC government from time to time."

No Material Adverse Change

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2022, being the date of the latest audited consolidated financial position of our Group as set out in the Accountant's Report in Appendix I to this document.