

La Chapelle

Xinjiang La Chapelle Fashion Co., Ltd.



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

ANNUAL REPORT 2022

(Stock Code: 06116)

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Corporate Profile



Xinjiang La Chapelle Fashion Co., Ltd. (the “**Company**”) was incorporated in the People’s Republic of China (the “**PRC**” or “**China**”) as a joint stock company on 23 May 2011 converting from its predecessor, Shanghai Xuhui La Chapelle Fashion Limited that was founded in 1998. The H shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) since 9 October 2014 (the “**Hong Kong Listing Date**”).

The Company and its subsidiaries (collectively the “**Group**”) are a multi-brand and omni-channel operated fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market casualwear. Since its establishment, the Group has kept its focus on the apparel sector and adhered to the brand’s core development concept of “designing for a better life”. The Group has been committed to providing consumers with fashionable, high-quality and cost-effective apparel products and is an important participant in the mass casual apparel market.

The Group now owns multiple brands such as La Chapelle, Puella and USHGEE which have different but complementary styles. They are mass-market women fashion brands that have interwoven and extensive customer positioning which satisfy the diverse needs of a wide range of female consumers.

During the Reporting Period, the major activities of the Group include apparel selling, brand-integrated services and property. It is a diversified Group including apparel products and brand-integrated services.

Corporate Profile











Corporate Information

REGISTERED CHINESE NAME

新疆拉夏貝爾服飾股份有限公司

ENGLISH NAME

Xinjiang La Chapelle Fashion Co., Ltd.

HEADQUARTERS

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

REGISTERED OFFICE IN THE PRC

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

PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTORS

Executive Directors

Mr. Zhao Jinwen (*Chairman*)
Ms. Zhang Ying (*President*)
Mr. Zhu Fengwei

Non-executive Director

Ms. Wang Yan

Independent Non-executive Directors

Mr. Xing Jiangze
Ms. Chow Yue Hwa Jade
Ms. Yang Linyan

AUDIT COMMITTEE

Mr. Xing Jiangze (*Chairman*)
Ms. Wang Yan
Ms. Chow Yue Hwa Jade

NOMINATION COMMITTEE

Ms. Yang Linyan (*Chairman*)
Ms. Zhang Ying
Mr. Xing Jiangze

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Xing Jiangze (*Chairman*)
Mr. Zhao Jinwen
Ms. Yang Linyan

BUDGET COMMITTEE

Ms. Zhang Ying (*Chairman*)
Mr. Zhao Jinwen
Mr. Zhu Fengwei
Mr. Xing Jiangze
Ms. Chow Yue Hwa Jade

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Zhao Jinwen (*Chairman*)
Ms. Zhang Ying
Mr. Zhu Fengwei
Ms. Wang Yan
Ms. Chow Yue Hwa Jade
Ms. Yang Linyan

SUPERVISORS

Mr. Gu Zhenguang (*Chairman*)
Mr. Sun Bin
Mr. Wang Jiajie

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

Mr. Zhao Jinwen (appointed on 20 April 2022)
Mr. Zhang Xin (appointed on 10 June 2021,
and resigned with effect from 20 April 2022)
Ms. Wong Wai Ling

LEGAL ADVISERS

Grandall Law Firm (Shanghai) (*as to PRC Law*)
Herbert Smith Freehills (*as to Hong Kong Law*)

AUDITOR

Da Hua Certified Public Accountants (Special General Partnership)

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Everbright Bank Co., Ltd.
Bank of Communications Co., Ltd.

STOCK CODE

6116

Financial Highlights

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	197,841	430,128	1,819,317	7,666,229	10,175,853
Gross profit	136,080	210,762	885,596	4,423,450	6,647,516
Gross profit margin	68.78%	49.00%	48.68%	57.70%	65.33%
Operating (loss)/profit	(942,023)	(724,598)	(1,498,037)	(2,266,447)	(151,681)
Operating (loss)/profit margin	(476.15%)	(168.46%)	(82.34%)	(29.56%)	(1.49%)
(Loss)/profit for the year	(1,073,774)	(822,762)	(1,876,936)	(2,252,279)	(199,182)
(Loss)/profit attributable to equity owners of the Company	(1,071,973)	(821,280)	(1,839,543)	(2,166,306)	(159,513)
Non-controlling interests	(1,801)	(1,482)	(37,393)	(85,973)	(39,669)

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	926,084	1,998,777	2,293,936	4,811,602	3,473,479
Current assets	230,107	408,086	1,191,844	3,199,921	5,216,019
Total assets	1,156,191	2,406,863	3,485,780	8,011,523	8,689,498
EQUITY AND LIABILITIES					
Total equity	(2,573,209)	(1,509,570)	(686,648)	1,126,196	3,561,957
Non-current liabilities	501,565	429,938	408,909	1,400,240	407,752
Current liabilities	3,227,835	3,486,495	3,763,519	5,485,087	4,719,789
Total liabilities	3,729,400	3,916,433	4,172,428	6,885,327	5,127,541
TOTAL EQUITY AND LIABILITIES	1,156,191	2,406,863	3,485,780	8,011,523	8,689,498

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

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present to you the annual report of the Group for the year ended 31 December 2022.

In 2022, in face of the impact of the pandemic on its business, the Company followed the general principle of "maintaining the stability of its main business and promoting transformation and innovation" and took remedial measures to address the affected business chains and market areas, thus maintaining the stability of its basic production and operation and core business. At the same time, the Company continued to implement changes in the areas of brand rebranding, product innovation and pipeline optimization to promote brand connotation, brand image enhancement and quality and efficiency improvement in its end-of-line retail business. In addition, the Company further rationalized its internal management system and organizational structure in accordance with the changes in its business model and its practical circumstances, and established a lean and efficient operation and management organization system by adjusting the structure, reducing the number of levels and flattening the hierarchy, thereby laying a solid foundation for returning to a healthy growth path. The main measures to be taken in 2023 are as follows:

1. Plan and facilitate the bankruptcy restructuring process and strive to eliminate the debt burden through a comprehensive package.

Currently, the Company has been ruled by the court to enter into the bankruptcy liquidation procedure and is cooperating with the administrator to start the work of creditors declaration, debt and asset verification in an orderly manner in accordance with the applicable laws. With the objective of protecting the legitimate rights and interests of creditors and safeguarding the overall value of La Chapelle, the Company will conduct

in-depth analysis and discussions with shareholders and creditors on the feasibility of debt restructuring to decrease its debt levels, actively recruit and select restructuring investors to obtain new funding, and discuss with relevant parties to resolve the Company's debts and future operational development, with a view to resolving the Company's debt problems, and thereby enhancing the Company's main business scale and sustainable profitability, and promoting the Company's early return to a positive growth path.

2. Promote the restructuring of the group structure and corresponding disposal to optimize the asset and liability structure of the Company.

As at the date of this report, two of the Company's subsidiaries (or former subsidiaries) holding core properties, Shanghai Weile and La Chapelle Taicang, have entered into insolvency proceedings and restructuring proceedings, respectively, and the Company expects that by going through the insolvency or restructuring proceedings for these two entities, this would be a means for the Company to indirectly dispose of the Company's property assets and obtain funding, reduce the pressure of overdue debts and deferred interest payments, and improve the Company's assets and liabilities structure. In the future, the Company will further sort out the Group's holding and controlling subsidiaries and optimize the group structure and internal management accordingly through means such as disposing of subsidiaries with no substantive business, revitalizing subsidiaries holding assets in their names, divesting subsidiaries engaging in non-core business, and properly resolve arrangements for the business, assets and personnel, so as to realise the value in the Company's various property assets and equity investments and significantly enhance the efficiency of asset utilization.

Chairman's Statement

3. **Build an online brand to empower the next ecosystem to achieve scale breakthrough and better performance.**

The Company will continue to increase its business development efforts in brand empowerment, further explore distributors and pipelines with quality industry resources and rich operational experience for cooperation, expand the brands, categories of goods and platform pipelines covered by its online business, and accelerate the transformation to a light-asset, high-margin, fast turnaround business model. At the same time, the Company will extend its business chain to provide comprehensive services such as brand culture, image visualization, supply chain integration, data analysis and operation and maintenance enhancement to online customers, establishing a mutually beneficial cooperation and long-term sustainable win-win mechanism. In addition, the Company has been exploring self-operated live-streaming business in the form of self-operated online core shops in combination with live-streaming in offline shops, integrating offline retail outlets with online new retail business, empowering the terminal retail shops to attract consumer traffic and achieve multi-level access to consumers, facilitating the Company's scale breakthrough and performance realization.

4. **Focus on refining offline management capabilities and improving business profitability.**

At this stage, the Company has basically reached its lowest level of offline pipeline outlet numbers. The Company will continue to adhere to its strategy of "opening new shops and opening good shops" and fully focus on the more profitable southwest, northwest and northern regions in China, with shops in the core business areas being directly operated by the Company

and shops in the remaining business areas operated through both franchises and associates model to achieve the effect of reducing the management radius and operating capital investment. At the same time, the Company will focus on improving the level of refinement of management, adopting the management mindset of "headquarters management reaches stores and management responsibility reaches individual staff", actively adjusting the product strategy and staff structure, using singlestore approach as a gateway to clear the remaining problems and improving the shop efficiency and profitability of the offline network.

5. **Strengthen comprehensive budget management and cost control to ensure a stable balance of funds for operations.**

The Company will further strengthen its overall budget management and cost control and improve the profitability of its main business through strict focus on "cost reduction and efficiency enhancement" measures. During the Reporting Period, the Company has taken measures to optimize the structure of its functional departments and streamline redundant staff in line with the business restructuring process, so as to significantly reduce fixed costs such as labor costs and fees and enhance management efficiency. In the future, the Company will pay more attention to the preparation, control and execution of comprehensive budget, focus on strengthening cost control at source, strictly control various costs and expenses, conduct input and output analysis of key expenses, and form a closed-loop management of important expenses and project expenditures. The Company will also strengthen the management of payments and receipts for supply chain and for brand empowerment, and monitor and supervise the overall budgeting process to ensure a stable balance of funds for the Company's operations.

Chairman's Statement

6. Strengthen internal control management and regulate operation to improve and finetune the internal control system.

The Company will continue to strengthen its internal control management and standard of operation, pay more attention to "standardize, streamline and refine" management, and ensure the continuous standardization of the Company's operation by improving the internal control system, strengthening the internal approval process, delineating the financial approval authority and improving the internal audit system. At the same time, the Company will endeavour to maintain a stable management team that can adapt to the development of its business at this stage. With the core objectives of improving operational quality and enhancing profitability, the Company will adapt to the development needs of its business activities at this stage and enhance the standard of internal control and operational efficiency by narrowing the focus on core resources, innovating the mode of operation and management and improving workflow.

In 2023, the Company will continue to pursue the theme of "Transformation", striving to eliminate its debt burden through bankruptcy restructuring, improve its going concern capability and operating conditions, and achieve quantitative and qualitative transformation. On behalf of the Board, I would like to express sincere gratitude to the Group's shareholders, business partners, customers and employees for their unstinting support.

Chairman
Mr. Zhao Jinwen

27 April 2023

Management Discussion and Analysis

INDUSTRY REVIEW AND BUSINESS OPERATIONS

In 2022, the domestic consumer market was under significant pressure due to the repeated waves of the COVID-19 pandemic. According to the National Bureau of Statistics, total retail sales of consumer goods in 2022 amounted to RMB43,973.3 billion, down by 0.2% over the previous year. The retail sales of apparel, footwear, hats and knitted textile products in the consumer goods category above the designated size amounted to RMB1,300.3 billion, down by 6.5% year-on-year. Although the consumer market was hit hard by the pandemic in 2022, consumer market showed recovery with the full release of the pandemic prevention and control policy in December 2022. In December 2022, the total retail sales of apparel, footwear, hats and knitted textiles products in the consumer goods category above the designated size increased by 3.53% as compared with November 2022. With the implementation of the national policy to promote consumption and the continuous improvement of the consumer environment, the domestic consumer market continued to recover and improve.

In 2022, in face of the impact of the pandemic on its business, the Company followed the general principle of “maintaining the stability of its main business and promoting transformation and innovation” and took remedial measures to address the affected business chains and market areas, thus maintaining the stability of its basic production and operation and core business. At the same time, the Company continued to implement changes in the areas of brand rebranding, product innovation and pipeline optimization to promote brand connotation, brand image enhancement and quality and efficiency improvement in its end-of-line retail business. In addition, the Company further rationalized its internal management system and organizational structure in accordance with the changes in its business model and its practical circumstances, and established a lean and efficient operation and management organization system by adjusting the structure, reducing the number of levels and flattening the hierarchy, thereby laying a solid foundation for returning to a healthy growth path.

During the Reporting Period, the Company achieved operating income of approximately RMB200 million, a decrease compared to last year, mainly due to the decrease in the number of offline stores and customer acquisition resulting from the adverse impact of the COVID-19 pandemic in the domestic market. During the Reporting Period, the Company's net loss attributable to shareholders amounted to approximately RMB1.074 billion, an increase of approximately RMB2.51 billion in net loss compared to the last year. The main reasons for the loss during the Reporting Period are: (1) the Company still faces a high level of overdue debts, which resulted in accumulation in interests on debts, overdue penalty interests, litigation expenses, and fines relating to tax arrears totaling approximately RMB0.311 billion; (2) as Shanghai Weile and Shanghai Le'ou, the former subsidiaries of the Company, respectively entered into bankruptcy liquidation procedure in July 2022, the Company lost control over them, resulting in investment losses of approximately RMB5.96 billion; (3) the Company's operating income for the year 2022 decreased by approximately 54.00% compared to the previous year, and the total operating costs, sales expenses, and administrative expenses also decreased by approximately 54.15%, and not with standing the Company's sales revenue declined, it still bears fixed costs such as the provision for asset depreciation and impairment, with an amount of approximately RMB0.075 billion; and (4) the investment loss resulting from the equity method accounting for loss-making investee companies during the Reporting Period amounted to approximately RMB0.038 billion.



Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2022, the Group's revenue and operating loss reached RMB197.8 million and RMB942.0 million respectively, representing a decrease of 54% and an increase of 30% respectively, as compared with the last year. The net loss for the year ended 31 December 2022 amounted to RMB1,073.8 million, representing an increase of 30.5% as compared with the last year.

Revenue

The revenue of the Group for the year ended 31 December 2022 decreased from RMB430.1 million for 2021 to RMB197.8 million, representing a decrease of 54.0%.

The decrease in revenue was mainly because (1) in the first half of the year, due to the impact of the COVID-19 pandemic, the number of customers in offline stores decreased, and especially during the period from March to May when the COVID-19 pandemic raged, the Company's revenue from offline channel fell by more than 70% as compared with the corresponding period last year; (2) the number of the Company's existing stores decreased as at the end of the Reporting Period compared with the end of the previous year, whereby the number of retail points of the Group decreased by 82 from 300 as at 31 December 2021 to 218 as at 31 December 2022, representing a decrease of 27.3%; and (3) during the Reporting Period, revenue from brand-integrated services (i.e. brand licensing in the corresponding period of last year) recorded approximately RMB28.3 million, representing a decrease of 53.1% compared with the previous year, mainly due to factors such as fluctuations in settlement cycle and sales collection resulted from the impact of the COVID-19 pandemic.

Management Discussion and Analysis

Revenue by distribution channel

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

	Year ended 31 December					
	2022			2021		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
Concessionaire counters	49,116	24.8	75.6	103,023	23.8	26.2
Standalone retail outlets	31,593	16.0	79.1	99,260	23.1	37.5
Online platform	2,867	1.4	33.8	16,142	3.8	(45.4)
Franchise/Associates	18,946	9.6	52.8	50,033	11.6	0.9
Wholesale	4,943	2.5	99.3	34,230	8.0	134.8
Brand-integrated services	28,336	14.3	100.0	60,448	14.1	–
Others	62,040	31.4	48.0	66,992	15.6	1.0
Total	197,841	100.0	68.8	430,128	100.0	19.8

As the number of offline stores and the customer traffic both decreased due to the impact of COVID-19 pandemic, the revenue from concessionaire counters decreased from RMB103.0 million for the year ended 31 December 2021 to RMB49.1 million for the year ended 31 December 2022, representing a decrease of 52.3%. The revenue from standalone retail outlets decreased from RMB99.3 million for the year ended 31 December 2021 to RMB31.6 million for the year ended 31 December 2022, representing a decrease of 68.2%. The revenue from franchise/associates decreased from RMB50.0 million for the year ended 31 December 2021 to RMB18.9 million for the year ended 2022, representing a decrease of 62.1%. Due to the factors such as the fluctuations in the settlement cycle and sales collection which were resulted from the impact of the COVID-19 pandemic, the revenue from brand-integrated services for the year ended 31 December 2022 was RMB28.3 million, representing a significant decrease from the same period last year.

Note: “Brand-integrated services” refer to brand licensing in the previous year; “Others” mainly refers to the revenue from the Company’s leasing business of RMB50.24 million and other revenue, amounting to a sum of RMB62.04 million in total.

Management Discussion and Analysis

Revenue by brand

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

	Year ended 31 December					
	2022			2021		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
La Chapelle	61,157	30.9	74.2	130,146	30.3	27.3
Puella	18,892	9.5	77.7	54,520	12.7	31.5
7 Modifier	9,719	4.9	82.1	42,246	9.8	29.4
La Babilité	10,644	5.4	91.0	46,590	10.8	48.7
Candie's	4,177	2.1	91.2	33,544	7.8	39.3
USHGEE	10,031	5.1	49.0	3,430	0.8	13.8
Menswear brands	13,611	6.9	98.5	34,170	7.9	37.6
8ém	4,140	2.1	97.6	5,532	1.3	41.3
Other brands	3,355	1.7	80.7	12,958	3.0	14.8
Others	62,115	31.4	47.5	66,992	15.6	0.5
Total	197,841	100.0	68.8	430,128	100.0	19.8

Notes:

1. "Menswear brands" comprise JACK WALK, Pote and MARC ECKÓ brands; "Other brands" comprise brands including UlifeStyle, Siastella, and EYEH; "Others" mainly refers to the revenue from the leasing business of RMB50.24 million and other revenue.
2. As the number of offline stores and the customer traffic both decreased due to the impact of the COVID-19 pandemic, except for USHGE brand, which was established in the second half year of 2021, and Candie's brand, (Shanghai Candie's, the company that operated Candie's brand, entered bankruptcy liquidation procedure in July 2022), the revenue from other brands recorded a decrease.
3. Due to the adoption of brand-integrated services (i.e. brand licensing in the corresponding period of last year) with a higher gross profit during the Reporting Period and the Company's increased efforts to sell aged inventories at a value higher than the net value, the gross profit of certain brands of the Company recorded an increase.

Management Discussion and Analysis

As affected by the decrease in the number of retail outlets and the decrease in same store revenue, the revenue of the Group for the year ended 31 December 2022 had an overall decrease of 54.0%. The revenue from each of the major brands decreased, and in particular, the revenue from womenswear brands decreased by 63.1%, and that from menswear brands decreased by 60.2%. At the same time, due to the increase in the proportion of revenue from brand-integrated serves in the total revenue and the increase in the effort to sell aged inventories at a value higher than the net value, the overall gross profit margin of the Group recorded an increase.

Revenue by tier of cities

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

	Year ended 31 December			2021		Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
	2022			Revenue	% of total	
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	
First-tier cities	39,761	20.1	73.1	61,836	14.3	54.4
Second-tier cities	45,388	22.9	75.0	161,576	37.6	37.8
Third-tier cities	72,602	36.7	51.4	98,568	22.9	0.6
Other cities	11,754	5.9	62.3	47,700	11.1	2.4
Brand-integrated services	28,336	14.4	100.0	60,448	14.1	-
Total	197,841	100.0	68.8	430,128	100.0	19.8

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

In 2022, the Group's revenue in all tiers of cities decreased, mainly because the number of offline stores and the customer traffic both decreased which were resulted from the impact of the COVID-19 pandemic. The decline in revenue varies by tier of cities, mainly due to the substantial changes in the allocation of offline retail points in different tiers of cities.

Management Discussion and Analysis

Revenue by product type

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

	Year ended 31 December					
	2022			2021		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
Tops	69,463	35.1	75.5	209,337	48.7	40.0
Bottoms	13,232	6.7	74.4	29,193	6.8	25.7
Dresses	24,167	12.2	63.0	60,228	14.0	17.2
Accessories	603	0.3	83.1	3,930	0.9	14.8
Brand-integrated services	28,336	14.3	100.0	60,448	14.1	–
Others	62,040	31.4	48.0	66,992	15.5	0.9
Total	197,841	100.0	68.8	430,128	100.0	19.8

Note: "Others" mainly refers to the revenue from the leasing business of RMB50.24 million and other revenue.

In 2022, revenue of the Group from sales recorded a significant decrease across tops, bottoms, and dresses, which was partly attributable to the year-on-year decrease in the number of existing stores of the Group, the impact of COVID-19 pandemic, and the decrease in product purchases during the Reporting Period. In respect of the revenue contribution of each product type as compared with the same period of last year, revenue contribution from sales of tops decreased by 13.6 percentage points, that from sales of bottoms decreased by 0.1 percentage point and that from sales of dresses decreased by 1.8 percentage points.

Cost of Sales

The cost of sales of the Group decreased by 71.8% from RMB219.4 million for the year ended 31 December 2021 to RMB61.8 million for the year ended 31 December 2022. The decrease in cost of sales was mainly due to the year-on-year decrease in revenue, which resulted in a decrease in the corresponding cost carryforward.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB210.8 million for the year ended 31 December 2021 to RMB136.1 million for the year ended 31 December 2022, representing a decrease of 35.4%, mainly attributable to a period-on-period decrease in revenue.

The overall gross profit margin of the Group increased to 68.8% for the year ended 31 December 2022 from 49.0% for the year ended 31 December 2021, mainly due to the high proportion of aged inventory sold at a price higher than net value, resulting in a slight period-on-period increase in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses for the year ended 31 December 2022 amounted to RMB81.2 million (2021: RMB215.4 million), consisting primarily of depreciation of fixed assets, sales staff salaries and benefits, concessionaire expenses relating to retail points and online stores, amortisation of store decoration expenses and depreciation of right-of-use assets. Expressed as a percentage, selling and distribution expenses for the year ended 31 December 2022 as a percentage of total revenue for the year ended 31 December 2022 was 41.0% (2021: 50.1%), representing a significant decrease compared with the same period last year, which was mainly due to the Company's closure of loss-making and inefficient stores, resulting in a significant drop in rental fees. However, on the whole, the ratio of selling and distribution expenses to revenue was still at a high level. General and administrative expenses for the year ended 31 December 2022 amounted to RMB129.0 million (2021: RMB158.5 million), consisting primarily of administrative employee salaries and benefit expenses, consulting service fees and depreciation of fixed assets. Expressed as a percentage, general and administrative expenses as a percentage of total revenue for the year ended 31 December 2022 were 65.2% (2021: 36.8%). The contribution of administrative staff salaries and benefits and that of depreciation of fixed assets to our revenue for the year ended 31 December 2022 increased from the corresponding period of last year.

Asset Impairment Loss

The asset impairment loss for the year ended 31 December 2022 was RMB22.6 million (2021: RMB310.2 million), which was mainly due to a decrease in the provision for impairment of inventories.

Credit Impairment Loss

Credit impairment losses recorded RMB27.9 for the year ended 31 December 2022 (2021: RMB186.5 million), mainly due to the decrease in the provision for expected credit losses on accounts receivable and other receivables compared to last year.

Investment Loss

Investment income for the year ended 31 December 2022 was RMB-629.5 million (2021: RMB31.8 million), mainly due to the loss on derecognition resulting from the former subsidiaries of the Company's entering bankruptcy liquidation procedure.

Other Income – Net

The Group's other income amounted to RMB17.7 million for the year ended 31 December 2022 (2021: RMB108.4 million), mainly due to the debt restructuring income generated by the settlement of debts with goods in the Reporting Period.

Finance Expenses/Income – Net

The Group's net finance expenses were RMB181.7 million for the year ended 31 December 2022 (2021: RMB199.7 million). The increase in the net financial expenses was mainly a result of the interest and penalty interest arising from overdue debts charged by financial institutions.

Loss before Income Tax

Loss before income tax of the Group increased from RMB835.7 million for the year ended 31 December 2021 to a loss before income tax of RMB1,074.2 million for the year ended 31 December 2022, representing an increase of 28.5% from the corresponding period of last year. The increase in loss before income tax was mainly due to the loss on derecognition resulting from the former subsidiaries of the Company's entering bankruptcy liquidation procedure.

Management Discussion and Analysis

Income Tax Expense/Waiver

Income tax credit amounted to RMB-0.5 million for the year ended 31 December 2022 (2021: RMB-12.9 million). The effective income tax rate for the year ended 31 December 2022 was 0.04% (2021: 1.5%).

Net Loss and Net Loss Margin for the Reporting Period

As a result of the foregoing, net loss of the Group for the year ended 31 December 2022 amounted to RMB1,073.8 million, representing an increase by 30.5% from the net loss of RMB822.8 million for the year ended 31 December 2021. In particular, net loss for the Reporting Period attributable to the shareholders of the Company was RMB1,072.0 million, representing a increase by 30.5% from the net loss of RMB821.3 million for the year ended 31 December 2021. Loss margin for the period of the Group was 542.7% in 2022, compared to a loss margin of 191.3% in 2021.

Capital Expenditure

Capital expenditure of the Group primarily consisted of capital expenditure related to retail stores. In 2022, the capital expenditure incurred by the Group was RMB6.7 million (2021: RMB4.9 million).

Cash and Cash Flow

In 2022, net cash generated from operating activities amounted to an inflow of RMB16.0 million (2021: net inflow of RMB37.9 million). The decrease in net cash generated from operating activities was mainly due to the Company having to bear the fixed costs in relation to operating activities despite a revenue decrease caused by the COVID-19 pandemic.

In 2022, net cash used in investing activities amounted to a net cash outflow of RMB7.0 million (2021: net inflow of RMB13.3 million). In 2022, the major net cash outflow in investing activities amounted to RMB6.7 million in relation to the acquisition of fixed assets, intangible assets and other long-term assets.

In 2022, net cash used in financing activities amounted to an outflow of RMB2.3 million (2021: net outflow of RMB14.2 million). Major financing activity in 2022 was payment relating to other financing activities resulting in a net cash outflow of RMB2.3 million.

As at 31 December 2022, the Group held cash and cash equivalents in the total amount of RMB36.1 million (31 December 2021: RMB61.4 million). In 2022, the net increase in cash and cash equivalents is RMB-25.3 million (2021: RMB37.0 million), the reason of which was the decrease in net cash flow from the operating activities, resulting from the impact of the COVID-19 pandemic.

In 2022, the average inventory turnover (based on principal business revenue) of the Group was 133 days (2021: 251 days), and the average receivables turnover was 121 days for 2022 (2021: 152 days). The period-on-period increase in inventory turnover rate was mainly due to the higher proportion of aged inventories and the increase in the provision for impairment of inventories.

As at 31 December 2022, current liabilities of the Group amounted to RMB3,227.8 million (31 December 2021: current liabilities of the Group amounted to RMB3,486.5 million). Total assets less current liabilities amounted to RMB-2,071.6 million (31 December 2021: total assets less current liabilities amounted to RMB-1,079.6 million). The gearing ratio (formula used: total liabilities/total assets) was 322.6% (31 December 2021: 162.7%).

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

Total equity attributable to shareholders of the Company

As at 31 December 2022, total equity attributable to shareholders of the Company was RMB-2,505.8 million (31 December 2021: RMB-1,431.3 million).

Management Discussion and Analysis

Bank loans and other borrowings

As at 31 December 2022, bank borrowings of the Group amounted to RMB1,147.7 million (31 December 2021: outstanding loan balance amounted to RMB1,497.0 million), which mainly included mortgages, pledges and guaranteed loans due within one year.

Pledge of assets

- (a) As at 31 December 2022, the book value of properties and buildings used as mortgage for bank loans was RMB513.6 million (31 December 2021: RMB1,493.5 million).
- (b) As at 31 December 2022, the book value of projects under construction was 70.0 million (31 December 2021: 75.0 million) were used as mortgage to obtain bank loans.
- (c) As at 31 December 2022, the land use right book value was RMB86.8 million (31 December 2021: RMB144.1 million) was used to support a mortgage to obtain bank loans; the amortization amount of the land use right in 2022 was RMB2.8 million (2021: RMB3.4 million)

Litigation and Contingent liabilities

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

On 25 February 2020, Gemstone Advantage took over LaCha Fashion I. As a result, the Company was unable to control or exert any influence on it, and therefore lost actual control of it, thereby also losing control over LaCha Fashion I's subsidiaries, i.e. APPAREL I, APPAREL II and Naf Naf SAS. Gemstone Advantage has commenced proceedings in order that the Company and its subsidiaries be ordered to be jointly and severally liable for the repayment of the loan. Afterwards, Gemstone Advantage withdrawn the case and then filed a new case. For details, please refer to the Company's announcements dated 25 September 2020, 31 August 2022, 16 January 2023 and 17 January 2023.

As the Company may be jointly and severally liable for repayment of the loan, an estimated liability of RMB407.2 million was provided for.

Management Discussion and Analysis

- (b) As a result of the Group's involvement in litigation and arbitration cases, some of the Group's bank accounts have been frozen. As at 31 December 2022, an aggregate of 127 bank accounts of the Group have been frozen, involving an aggregate frozen amount of approximately 54 million. As at 31 December 2022 as a result of factors such as the Group's involvement in litigation cases, the Company's equity interest in 12 of its subsidiaries have been frozen, involving an aggregate frozen amount of approximately RMB0.22 billion. The freezing of the Company's equity interest mentioned above has not substantively affected the normal operation of the Company and the relevant subsidiaries. However, there is a risk that the equity interest may be judicially disposed of. The Company will proactively communicate with the relevant courts and creditors in order to properly resolve the freezing of the equity interest and maintain the stability of the Company's business. For details, please refer to the announcement of the Company dated 3 January 2023.

As at 31 December 2022, as a result of the Company's involvement in a total of 11 litigation cases arising from disputes such as disputes over loan agreements and construction agreements, 2 real properties of the Company (with an aggregate book value of approximately RMB0.33 billion as at 30 November 2022) have been seized. The seizure has caused restriction to rights and there is a risk that the real properties may be judicially auctioned for debt repayment. The Company will proactively engage with the relevant parties in order to properly resolve the seizure of the real properties, and actively negotiate and conciliate with the applicants for the freezing order to release the real properties from right restrictions and restore them to normal conditions as soon as possible. For details, please refer to the announcement dated 3 January 2023.

For the details of the update announcement after the Reporting Period, please refer to the announcement of the administrator of the Company dated 3 April 2023.

Human Resources

As at 31 December 2022, the Group had 421 full-time employees in total (31 December 2021: 519). The Group offers competitive compensation package for its employees, including statutory social insurance, housing fund, holiday benefits and other benefits, etc. Meanwhile, the Group is dedicated to building itself a learning organization by emphasizing employee training, individual development and team spirit.

Significant investments held

Please refer to notes V(8) to the consolidated financial statements of the Group for the year ended 31 December 2022 for details of the investments held by the Group.

Management Discussion and Analysis

BUSINESS REVIEW

Retail Network

For the year ended 31 December 2022, the number of domestic retail outlets of the Group was 218, decreasing from 300 as at 31 December 2021, which were situated at approximately 117 physical locations. The number of retail points was counted on the basis used for that as at 31 December 2015.

The table below sets out the distribution of the Group's retail points as at 31 December 2022 and as at 31 December 2021 by tier of cities in the PRC:

	As at 31 December			
	2022	2021		
	Number of retail points	Percentage of total (%)	Number of retail points	Percentage of total (%)
First-tier cities	35	16.1	23	7.7
Second-tier cities	97	44.5	128	42.7
Third-tier cities	40	18.3	58	19.3
Other cities	46	21.1	91	30.3
Total	218	100.0	300	100.0

Note: In respect of the classification of the tier of cities, please refer to the prospectus of the Company dated 24 September 2014.

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2022 and as at 31 December 2021 by type of the retail points:

	As at 31 December			
	2022	2021		
	Number of retail points	Percentage of total (%)	Number of retail points	Percentage of total (%)
Concessionaire counters	87	39.9	117	39.0
Standalone retail outlets	27	12.4	32	10.7
Franchise/Associate	104	47.7	151	50.3
Total	218	100.0	300	100.0

Management Discussion and Analysis

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2022 and as at 31 December 2021 by brands:

	As at 31 December			
	2022		2021	
	Number of retail points	Percentage of total (%)	Number of retail points	Percentage of total (%)
La Chapelle	95	43.5	150	50.1
Puella	42	19.3	43	14.3
7 Modifier	31	14.2	45	15.0
La Babité	20	9.2	25	8.3
Candie's	–	–	25	8.3
USHGEE	25	11.5	12	4.0
Menswear	4	1.8	–	–
8ém	1	0.5	–	–
Other brands	–	–	–	–
Total	218	100.0	300	100.0

Notes:

1. The number of stores of the Company is calculated based on the number of retail points, that is, if multiple brands are included in the same collection store, the collection store is counted as multiple terminal retail points. During the Reporting Period, continuously streamlined its offline terminal channel and further closed and made adjustments in some loss-making and inefficient stores.
2. As at 31 December 2022, "Other brands" include EYEHJ; as at 31 December 2021, "Other brands" include UlifeStyle and Siastella.

Management Discussion and Analysis

The table below sets out the distribution of the Group's net retail points open/(closure) in the PRC in as at 31 December 2022 and as at 31 December 2021 by brands:

	For the year ended 31 December			
	2022		2021	
	Number of Net retail points open/ (closure)	Percentage of total (%)	Number of retail points points open/ (closure)	Percentage of total (%)
La Chapelle	(55)	67.1	(103)	(15.5)
Puella	(1)	1.2	(159)	(24.1)
7 Modifier	(14)	17.1	(131)	(19.9)
La Babité	(5)	6.1	(129)	(19.6)
Candie's	(25)	30.5	(117)	(17.8)
USHGEE	13	(15.9)	12	1.8
Menswear	4	(4.9)	(21)	(3.2)
8ém	1	(1.2)	(5)	(0.8)
Other brands	-	-	(6)	(0.9)
Total	(82)	100.0	(659)	100.0

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

Same store sales

Due to the adjustments in market structure, the Company has seen the migration of certain customers from department stores and shopping centers to online shopping platforms, causing reduction in same store sales of traditional clothing enterprises that relied on department stores as their primary distribution channels. On the other hand, due to the insignificant recovery of the consumption market, same store sales of retail shops in 2022 decreased by 36.0%, compared to that of 2021.

Management Discussion and Analysis

FUTURE OUTLOOK

In 2023, the Company will continue to pursue the theme of “Transformation”, striving to eliminate its debt burden through bankruptcy restructuring, improve its going concern capability and operating conditions, and achieve quantitative and qualitative transformation.

1. Plan and facilitate the bankruptcy restructuring process and strive to eliminate the debt burden through a comprehensive package.

Currently, the Company has been ruled by the court to enter into the bankruptcy liquidation procedure and is cooperating with the administrator to start the work of creditors declaration, debt and asset verification in an orderly manner in accordance with the applicable laws. With the objective of protecting the legitimate rights and interests of creditors and safeguarding the overall value of La Chapelle, the Company will conduct in-depth analysis and discussions with shareholders and creditors on the feasibility of debt restructuring to decrease its debt levels, actively recruit and select restructuring investors to obtain new funding, and discuss with relevant parties to resolve the Company's debts and future operational development, with a view to resolving the Company's debt problems, and thereby enhancing the Company's main business scale and sustainable profitability, and promoting the Company's early return to a positive growth path.

2. Promote the restructuring of the group structure and corresponding disposal to optimize the asset and liability structure of the Company.

As at the date of this report, two of the Company's subsidiaries (or former subsidiaries) holding core properties, Shanghai Weile and La Chapelle Taicang, have respectively entered into insolvency proceedings and restructuring proceedings, respectively, and the Company expects that by going through the insolvency or restructuring proceedings for these two entities, this would be a means for the Company to indirectly dispose of the Company's property assets and obtain funding, reduce the pressure of overdue debts and deferred interest payments, and improve the Company's assets and liabilities structure. In the future, the Company will further sort out the Group's holding and controlling subsidiaries and optimize the group structure and internal management accordingly through means such as disposing of subsidiaries with no substantive business, revitalizing subsidiaries holding assets in their names, divesting subsidiaries engaging in non-core business, and properly resolve arrangements for the business, assets and personnel, so as to realise the value in the Company's various property assets and equity investments and significantly enhance the efficiency of asset utilization.

Management Discussion and Analysis

3. Build an online brand to empower the next ecosystem to achieve scale breakthrough and better performance.

The Company will continue to increase its business development efforts in brand empowerment, further explore distributors and pipelines with quality industry resources and rich operational experience for cooperation, expand the brands, categories of goods and platform pipelines covered by its online business, and accelerate the transformation to a light-asset, high-margin, fast-turnaround business model. At the same time, the Company will extend its business chain to provide comprehensive services such as brand culture, image visualization, supply chain integration, data analysis and operation and maintenance enhancement to online customers, establishing a mutually beneficial cooperation and long-term sustainable win-win mechanism. In addition, the Company has been exploring self-operated live-streaming business in the form of self-operated online core shops in combination with live-streaming in offline shops, integrating offline retail outlets with online new retail business, empowering the terminal retail shops to attract consumer traffic and achieve multi-level access to consumers, facilitating the Company's scale breakthrough and performance realization.

4. Focus on refining offline management capabilities and improving business profitability.

At this stage, the Company has basically reached its lowest level of offline pipeline outlet numbers. The Company will continue to adhere to its strategy of "opening new shops and opening good shops" and fully focus on the more profitable southwest, northwest and northern regions in China, with shops in the core business areas being directly operated by the Company and shops in the remaining business areas operated through both franchises and associates model to achieve the effect of reducing the management radius and operating capital investment. At the same time, the Company will focus on improving the level of refinement of management, adopting the management mindset of "headquarters management reaches stores and management responsibility reaches individual staff", actively adjusting the product strategy and staff structure, using single-store approach as a gateway to clear the remaining problems and improving the shop efficiency and profitability of the offline network.

Management Discussion and Analysis

5. Strengthen comprehensive budget management and cost control to ensure a stable balance of funds for operations.

The Company will further strengthen its overall budget management and cost control and improve the profitability of its main business through strict focus on “cost reduction and efficiency enhancement” measures. During the Reporting Period, the Company has taken measures to optimize the structure of its functional departments and streamline redundant staff in line with the business restructuring process, so as to significantly reduce fixed costs such as labor costs and fees and enhance management efficiency. In the future, the Company will pay more attention to the preparation, control and execution of comprehensive budget, focus on strengthening cost control at source, strictly control various costs and expenses, conduct input and output analysis of key expenses, and form a closed-loop management of important expenses and project expenditures. The Company will also strengthen the management of payments and receipts for supply chain and for brand empowerment, and monitor and supervise the overall budgeting process to ensure a stable balance of funds for the Company’s operations.

6. Strengthen internal control management and regulate operation to improve and finetune the internal control system.

The Company will continue to strengthen its internal control management and standard of operation, pay more attention to “standardize, streamline and refine” management, and ensure the continuous standardization of the Company’s operation by improving the internal control system, strengthening the internal approval process, delineating the financial approval authority and improving the internal audit system. At the same time, the Company will endeavour to maintain a stable management team that can adapt to the development of its business at this stage. With the core objectives of improving operational quality and enhancing profitability, the Company will adapt to the development needs of its business activities at this stage and enhance the standard of internal control and operational efficiency by narrowing the focus on core resources, innovating the mode of operation and management and improving workflow.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS OF THE FIFTH SESSION OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Zhao Jinwen (趙錦文), aged 30, has been an executive director, chairman of the Board, a member of the Remuneration and Appraisal Committee, a member of the Budget Committee, and the chairman of the Strategy and Development Committee of the Board since 20 April 2022. He was a non-executive director and a member of Audit Committee of the Company from 10 June 2021 to 20 April 2022. He obtained a master's degree in finance from Tsinghua University (清華大學) in July 2016. Mr. Zhao served as a manager at China Orient Asset Management Co., Ltd.* (中國東方資產管理股份有限公司) from July 2016 to July 2020, and has been a manager of the president's office of Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ("Shanghai Wensheng") since July 2020.

For the details of Shanghai Wensheng's interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

Ms. Zhang Ying (張瑩), aged 44, is an executive director of the Company (with effect from 11 January 2021), the president of the Company (with effect from 9 December 2020), the chairman of the Budget Committee of the Company (with effect from 22 February 2021), a member of the Strategy and Development Committee of the Company (with effect from 22 February 2021) and a member of Nomination Committee of the Company (with effect from 22 February 2021). She was the chairman of the Board, the chairman of the Nomination Committee, the chairman of the Strategy and Development Committee, a member of the Budget Committee of the Company from 11 January 2021 to 22 February 2021 and a member of Audit Committee of the Company from 11 January 2021 to 10 June 2021.

She obtained an EMBA degree from Xiamen University (廈門大學) in June 2022. Since 2003, she has worked as a designer, associate supervisor of brands, a supervisor of brands, general manager of brand department, general manager of business department, vice president, and president of the Company.

Mr. Zhu Fengwei (朱風偉), aged 34, has been an executive director of the Company, a member of each of the Budget Committee and Strategy and Development Committee of the Company since 17 April 2023 and a secretary of board of directors of the Company since June 2021. He obtained a bachelor's degree in finance and had served as the investor relations manager at Shanghai Aoyun Management Consulting Co., Ltd.* (上海翺贊管理諮詢有限公司) and the investment manager at Shanghai Feile Intelligence Technology Co., Ltd.* (上海飛樂智能技術有限公司). He joined the office of the board of directors of the Company in November 2017 and served as the security affairs representative and the head of the office of the Board.

NON-EXECUTIVE DIRECTOR

Ms. Wang Yan (王艷), aged 32, is a non-executive director of the Company (with effect from 30 December 2022), a member of Audit Committee of the Company (with effect from 17 April 2023) and a member of the Strategy and Development Committee of the Company (with effect from 30 December 2022). She was a member of the Budget Committee of the Company from 30 December 2022 to 17 April 2023. Ms. Wang obtained a master's degree in economic law from East China University of Political Science and Law (華東政法大學) in June 2017 and she holds a Chinese legal professional qualification certificate. Ms. Wang served as a project manager of the business department at Shanghai Wensheng from July 2017 to December 2017, a practicing lawyer at Shanghai Haworth & Lexon Law Firm* (上海和華利盛律師事務所) from January 2018 to September 2020, and has been an investment manager at the president's office at Shanghai Wensheng since October 2020.

For the details of Shanghai Wensheng's interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

Profiles of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xing Jiangze (邢江澤), aged 56, has been an independent non-executive Director, the chairman of the Audit Committee and Remuneration and Appraisal Committee and a member of the Budget Committee and Nomination Committee of the Company since 8 May 2020.

Mr. Xing Jiangze is a certified public accountant, certified tax agent and senior accountant in China. He has a practicing certificate for Asset Management Association of China and has nearly 30 years' experience in finance, accounting and auditing. From January 1992 to November 1998, he served as a director and financial manager of Lingbao Wuhua Fuel Co., Ltd.* (靈寶物華燃料有限公司). From December 1998 to January 2000, he served as a chief accountant of Henan Lingye Group Co., Ltd.* (河南凌冶集團有限公司). From February 2000 to November 2002, he served as a project manager and a manager of the first auditing division of Henan Zhengyong Accounting Firm* (河南正永會計師事務所). From November 2002 to April 2007, he served as a financial director of Lingbao Shuangxin Mining Co., Ltd.* (靈寶雙鑫礦業有限公司). From April 2007 to June 2018, he served as a deputy financial director and manager of the finance department, financial director, investment director, secretary of the board, deputy general manager and executive director of Lingbao Gold Group Company Ltd. (stock code: 03330). He has served as a vice chairman, secretary of the board and senior executive vice president of Lingbao Gold Group Company Ltd. from June 2018 to May 2021, and he has served as a vice chairman and secretary of the board of Lingbao Gold Group Company Ltd. from May 2021.

Mr. Xing graduated from Henan Radio and Television University (河南廣播電視大學) with a college diploma in accounting in July 1988. Mr. Xing attended the PLA Information Engineering University (解放軍信息工程大學) from September 2006 to June 2009 specializing in computer science and technology, and obtained a bachelor's degree in engineering.

Ms. Chow Yue Hwa Jade (周玉華), aged 60, has been an independent non-executive Director, a member of the Audit Committee, Budget Committee, and Strategy and Development Committee of the Company since 10 June 2021. She obtained a master's degree in business administration from the University of Southern California in May 1985 and a bachelor's degree in science from University of California, Los Angeles in August 1983. Ms. Chow acted as the general manager and a director of Elegance Textiles (Hong Kong) Limited from 1990 to 1998, an associate director of PricewaterhouseCoopers (Hong Kong) from 1999 to 2003, and the managing director of Marbridge Holdings LLC (United States) since November 2003.

Ms. Yang Linyan (楊林岩), aged 59, has been an independent non-executive Director, the chairman of Nomination Committee, a member of each of Remuneration and Appraisal Committee and the Strategy and Development Committee of the Company since 17 April 2023. She has a doctoral degree in applied economics from Xi'an Jiaotong University (西安交通大學). Since July 1986, she has been a teaching assistant, lecturer, associate professor in Xi'an Jiaotong University. She was an exchange scholar in Nanyang Technological University in Singapore, invited scholar in Gunma University in Japan, and a visiting scholar in the University of Maryland in the United States of America and in University of Alberta in Canada.

SUPERVISORS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Gu Zhenguang (顧振光), aged 42, is the chairman of the Supervisory Committee (appointed since 10 June 2021). He has been a shareholder representative Supervisor since 22 February 2021. Mr. Gu obtained a diploma in financial accounting from the Shanghai Open University (上海電視大學) in March 2008. Mr. Gu currently serves as a director of the accounting management department of the Company. Mr. Gu has served as a financial commissioner, financial supervisor, financial manager, and senior financial manager and director of the accounting management department of the Company since November 2003.

Profiles of Directors, Supervisors and Senior Management

Mr. Sun Bin (孫斌), aged 42, has been an employee representative Supervisor since 15 January 2021. Mr. Sun obtained a diploma in administration and management from Shanghai Normal University in March 2006. Mr. Sun Bin served as an executive officer of Shanghai Datun Energy Company Limited (上海大屯能源股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code:600508)) from December 2000 to December 2010 and has served as an executive officer of the Company since December 2010.

Mr. Wang Jiajie (王佳杰), aged 33, has been an employee representative Supervisor since 10 June 2021. He is an intermediate accountant and is currently the director of the supply chain management department of the Company. Since July 2011, Mr. Wang has served as a financial specialist, a supervisor of the finance department, a deputy financial manager of the accounting management department, a manager of the accounting management department, a senior manager of the accounting management department, and the director of the supply chain department of the Company. Mr. Wang obtained a bachelor's degree in management from Shanghai University of Finance and Economics (上海財經大學) in 2015.

CURRENT SENIOR MANAGEMENT

Ms. Zhang Ying (張瑩), aged 44, is the executive director and the president of the Company. Please refer to her biography under the sub-section headed "Executive Directors".

Mr. Hu Zhiguo (虎治國), aged 40, has been the chief financial officer of the Company since 30 March 2020. Mr. Hu served as an accountant of cost of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司) from July 2008 to May 2010. He also served various positions, including as general ledger accountant of the finance department manager of accounting and auditing department and deputy head of the finance department, at Zhejiang Semir Garment Co., Ltd. (浙江森馬服飾股份有限公司) from June 2010 to April 2017. He joined the Company in April 2017 and served as the financial director at the regional finance management department, as general manager of the finance department and as the chief financial officer of the Company. Mr. Hu obtained an EMBA degree at the School of Management in Bocconi University (博科尼大學商學院) in October 2022.

Mr. Zhu Fengwei (朱風偉), aged 34, is the executive director and the secretary of board of directors of the Company. Please refer to his biography under the sub-section headed "Executive Directors".

RETIRED DIRECTORS

Mr. Yang Heng (楊恆), aged 39, was the non-executive director and a member of Strategy and Development Committee of the Company from 6 July 2021 to 17 April 2023, and a member of Audit Committee of the Company from 20 April 2022 to 17 April 2023. He was a member of Budget Committee of the Company from 6 July 2021 to 20 April 2022. He obtained a master's degree of Laws from Renmin University of China (中國人民大學) in 2009. Mr. Yang has worked for Hainan Jianxin Investment Management Co., Ltd.* (海南建信投資管理股份有限公司) since March 2010, and is currently a deputy general manager. He has also served as a director of Beijing Sande Environmental Engineering Co., Ltd.* (北京桑德環境工程有限公司) from May 2019 to present, the chairman of the supervisory committee of Shoutai Jinxin (Beijing) Equity Investment Fund Management Co., Ltd.* (首泰金信(北京)股權投資基金管理股份有限公司) from February 2021 to present.

For the details of Hainan Jianxin Investment Management Co., Ltd.'s interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

Mr. Zhu Xiaozhe (朱曉喆), aged 48, was an independent non-executive director and a member of the Remuneration and Appraisal Committee and Strategy and Development Committee of the Company from 8 May 2020 to 17 April 2023 and the chairman of the Nomination Committee from 22 February 2021 to 17 April 2023. He was a member of the Nomination Committee from 8 May 2020 to 22 February 2021. He has a doctoral degree of History of Law in the East China University of Political Science* (華東政法大學) and is a professor of the School of Law in Shanghai University of Finance and Economics* (上海財經大學法學院).

Profiles of Directors, Supervisors and Senior Management

Mr. Zhu was an associate professor and a master's degree candidate advisor at the Civil and Commercial Law Research Institute in East China University of Political Science and Law* (華東政法大學民商法教研室) from September 2005 to January 2014. He has been a professor and a doctoral degree candidate supervisor of the School of Law in Shanghai University of Finance and Economics* (上海財經大學法學院) since January 2014. He also served as a council member of the Civil Law Research Institute of China Law Association* (中國法學會民法學研究會) from July 2014 to July 2017. He has served as the director of the Trust Law Research Institute of Shanghai University of Finance and Economics* (上海財經大學法學院「信託法研究中心」) since January 2017, an executive council member of the Civil Law Research Institute of China Law Association* (中國法學會民法學研究會) since 2017, an arbitrator of the Shanghai Arbitration Commission* (上海仲裁委員會) since June 2018, a legal consultant of the Chinese Communist Party's Baoshan District Committee of Shanghai* (中國共產黨上海市寶山區) and a legal consultant of the Education Development Fund of Shanghai University of Finance and Economics* (上海財經大學教育發展基金會) since January 2018, a consultant of the Shanghai Judicial Think Tank Association* (上海司法智庫學會) since June 2018, the vice president of the Civil Law Research Institute of Shanghai Law Association* (上海市法學會民法研究會) since December 2019, an independent director of Anhui Jiaxian Functional Additives Co., Ltd.* (安徽佳先功能助劑股份有限公司) (Beijing Stock Exchange Stock Code: 430489) from March 2020 to February 2023, an independent-director of Hangzhou Bioer Technology Co., Ltd.* (杭州博日科技股份有限公司) since September 2020, and an independent-director of Horizon Holdings Group Inc* (地平線控股(蘇州)股份有限公司) from January 2021 to July 2022, and a director of Anhui Jiren Pharmaceutical Co., Ltd* (安徽濟人藥業股份有限公司) since November 2021.

RESIGNED DIRECTORS

Mr. Fu Feng (付鋒), aged 36, was the non-executive director of the Company, a member of Budget Committee and Strategy and Development Committee of the Company from 29 June 2022 to 1 December 2022. He obtained a master's degree in law from Peking University (北京大學) in July 2014 and he also holds a Chinese legal professional qualification certificate. Mr. Fu served as a practicing lawyer at Beijing Kangda (Hangzhou) Law Firm* (北京康達(杭州)律師事務所) from July 2014 to July 2018, a practicing lawyer at Shanghai Chen & Partners Attorney at Law* (上海友林律師事務所) from August 2018 to July 2020, and has been a deputy general manager of the equity investment department of Shanghai Wensheng since August 2020.

For the details of Shanghai Wensheng's interests and short positions in shares and underlying shares of the company, please refer to the section of "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of "Directors' Report".

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲), is the Company's Company Secretary. She is also a vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. She has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has approximately 14 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Group designs, markets and sells apparel products with a focus on mass-market ladies' casual wear in the PRC. Principal activities and other particulars of the Company's subsidiaries are set out in note VII(I) of the consolidated financial statements.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the section headed "Management Discussion and Analysis" on pages 13 to 29 of this report. The descriptions of the financial risk management of the Group are set out in note VIII to the consolidated financial statements. Five-year financial summary of the Group is set out on page 9 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 45 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2022 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements of this report.

A discussion and analysis of the Group's performance during the year and material factors underlying its results and financial position are set out in the section headed "Management Discussion and Analysis" of this report.

RESERVES AND RESERVES AVAILABLE FOR DISTRIBUTION

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2022 are set out in Consolidated Statement of Changes in Shareholders' Equity to the consolidated financial statements.

As at 31 December 2022, the Company did not have any reserves available for distribution.

SHARE CAPITAL

Details of movements of the share capital of the Company are set out in note V(33) to the consolidated financial statements.

FINAL DIVIDENDS

As the distributable profit of the Company as at the end of 2022 was negative, pursuant to the requirements of the Articles of Association and taking into consideration the Company's current actual operation and development conditions and for securing the need of cash for future development, the Board of Directors recommended no payment of cash dividends or stock dividends and no transfer from capital surplus to share capital or other form of distribution for the year ended 31 December 2022.

DIVIDEND POLICY

The Company adopts continuous and stable profit distribution policies, aiming to bring reasonable returns to investors while ensuring the sustainable development of the Company and establishing a continuous and stable distribution mechanism based on the profitability and actual needs arising from the future development strategy of the Company. Specific details of the dividend distribution plan are as follow:

1. Profit distribution shall not exceed the accumulated distributable profit of the Company and shall not adversely affect the subsequent continuing operation of the Company;

Directors' Report

2. The Company may distribute profits in cash, shares and/or by a combination of cash and shares or otherwise as permitted by laws and regulations. However, where the conditions for cash dividend are satisfied, profit distribution in the form of cash dividend shall take priority;
3. Where the Company intends to implement cash dividend distribution, all the following conditions shall be satisfied:
 - (1) the distributable profit (i.e. after-tax profit after making up for losses and making appropriation to the statutory reserve fund) of the Company for the year is positive;
 - (2) the auditing firm issued a standard audit report with unqualified opinions on the financial report for the year.
4. When the above conditions for cash dividend distribution are satisfied, the Company will actively distribute profits in the form of cash dividends once per year in principle. The Board may also propose distributing interim cash dividends after taking into account the profitability and capital demand of the Company;
5. The Company shall maintain the continuity and stability of its profit distribution policies. The total profit to be distributed in cash shall not be less than twenty percent (20%) of the distributable profit realised in such year. The Board shall comprehensively consider factors such as the characteristics of the industry in which the Company operates, the stage of development, operation model and profitability of the Company and whether there is any arrangement for significant capital expenditure to differentiate between the following situations, and put forward differentiated policies for cash dividend distribution according to the procedures stipulated in the Articles of Associations:
 - (1) cash dividend distribution should at least account for 80% of the profit distribution if the Company reaches a mature stage in its development and there is no arrangement for significant capital expenditure;
 - (2) cash dividend distribution should at least account for 40% of the profit distribution if the Company reaches a mature stage in its development and there is an arrangement for significant capital expenditure;
 - (3) cash dividend distribution should at least account for 20% of the profit distribution if the Company is in a stage of growth and there is an arrangement for significant capital expenditure; the stipulations in the preceding paragraph shall prevail if it is difficult to differentiate the stages of development of the Company.
6. If the profit of the company grows substantially and the Board is of the opinion that there is a mismatch between the share price of the Company and the scale of its share capital, a preliminary dividend distribution plan may also be proposed and implemented after satisfying the above cash dividend distribution.
6. If the Board does not put forth a cash dividend distribution plan, the reasons shall be disclosed in the annual report and independent Directors shall express independent opinions thereon;
7. If there is illegal misappropriation of funds of the Company by a Shareholder, the Company has the right to deduct that Shareholder's cash dividend during profit distribution to reimburse the misappropriated funds.

Directors' Report

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES

On 31 May 2023, the Company will hold the 2022 annual general meeting of the Company (the "2022 AGM") for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2022 AGM. The Company will publish the circular and notice of the 2022 AGM as and when appropriate.

In order to determine the H shareholders who are entitled to attend the 2022 AGM, the register of members of the Company for H shares will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023 (both days inclusive), during which period no transfer of H shares of the Company can be registered. In order to be qualified to attend and vote at the 2022 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 24 May 2023.

H Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 24 May 2023 are entitled to attend and vote at the 2022 AGM. Please refer to the announcement published on the National Equities Exchange and Quotations for the information for Domestic Shareholders who are entitled to attend the 2022 AGM.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note V(11) to the consolidated financial statements.

INFORMATION ON THE GROUP'S MATERIAL PROPERTIES

The following table sets out the Group's material properties held for investment as at 31 December 2022:

Location	Existing use	Freehold
No. 116 Guangzhou East Road, Taicang, Jiangsu Province, PRC	Storage and lease	The Group
No. 24, Xinghua West Branch Road, Dasi Town, Xiqing District, Tianjin, PRC	Storage and lease	The Group
Group 2 and 3 of Guangming Community, Jinma Town, Wenjiang District, Chengdu, Sichuan Province, PRC	Storage and lease	The Group

Notes:

- As at 31 December 2022, the property located at No. 116 Guangzhou East Road, Taicang, Jiangsu Province, PRC was held by La Chapelle Fashion (Taicang) Co., Ltd., a former wholly-owned subsidiary of the Group. In February 2023, as La Chapelle Fashion (Taicang) Co., Ltd. entered into the reorganization procedure and the Court has already designated the administrator, the Company loses its control over La Chapelle Taicang, which will no longer be consolidated into the consolidated financial statements of the Company. For details, please refer to the announcement of the administrator of the Company dated 15 February 2023.
- The industrial properties located at No. 24, Xinghua West Branch Road, Dasi Town, Xiqing District, Tianjin, the PRC* (天津市西青區大寺鎮興華西支路24號) held by La Chapelle (Tianjin) Co., Ltd. * (拉夏貝爾服飾(天津)有限公司), a wholly-owned subsidiary of the Company, were put up for the first online judicial auction in February 2023, and the auction has failed to find any buyers, and the second online judicial auction will be held in May 2023. For details, please refer to the announcement of the administrator of the Company dated 17 February 2023 and 22 March 2023.

Directors' Report

BANK LOANS AND BORROWINGS

Details of the bank loans and borrowings of the Group as at 31 December 2022 are set out in note V(20) (26) (27) (29) (31) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date before printing this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2022.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2022 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Zhao Jinwen (趙錦文) ¹	Chairman and Executive Director	Board management, strategic planning and decision making	10 June 2021	June 2021
Ms. Zhang Ying (張瑩) ²	President and Executive Director	Overall management of the Group, strategic planning and decision making	11 January 2021	March 2003
Mr. Zhu Fengwei (朱風偉)	Executive Director	Corporate governance and administration operation management	17 April 2023	November 2017
Ms. Wang Yan (王艷) ³	Non-executive Director	As a non-executive Director	30 December 2022	December 2022
Mr. Yang Heng (楊恆) ⁴	Non-executive Director (retired)	As a non-executive Director	6 July 2021	July 2021
Mr. Xing Jiangze (邢江澤)	Independent non-executive Director	As an Independent non-executive Director	8 May 2020	May 2020
Ms. Chow Yue Hwa Jade (周玉華)	Independent non-executive Director	As an Independent non-executive Director	10 June 2021	June 2021
Yang Linyan (楊林岩)	Independent non-executive Director	As an Independent non-executive Director	17 April 2023	April 2023
Mr. Zhu Xiaozhe (朱曉喆)	Independent non-executive Director (retired)	As an Independent non-executive Director	8 May 2020	May 2020
Mr. Fu Feng (付鋒) ⁵	Non-executive Director (resigned)	As a non-executive Director	29 June 2022	June 2022
Mr. Zhang Xin (張鑫) ⁶	Chairman and Executive Director (resigned)	Board management, strategic planning and decision making	10 June 2021	June 2021

Directors' Report

1. Mr. Zhao Jinwen has been an executive director, chairman of the Board, a member of the Remuneration and Appraisal Committee, a member of the Budget Committee, and the chairman of the Strategy and Development Committee of the Board since 20 April 2022. He was a non-executive director and a member of Audit Committee of the Company from 10 June 2021 to 20 April 2022.
 2. Ms. Zhang Ying was the chairman of the Board, the chairman of the Nomination Committee, the chairman of the Strategy and Development Committee, a member of the Budget Committee of the Company from 11 January 2021 to 22 February 2021 and a member of Audit Committee of the Company from 11 January 2021 to 10 June 2021.
 3. Ms. Wang Yan has been a member of Audit Committee of the Company since 17 April 2023 and the non-executive director and a member of Strategy and Development Committee of the Company since 30 December 2022. She was a member of Budget Committee of the Company from 30 December 2022 to 17 April 2023.
 4. Mr. Yang Heng was the non-executive director and a member of Strategy and Development Committee of the Company from 6 July 2021 to 17 April 2023, a member of Audit Committee of the Company from 20 April 2022 to 17 April 2023. He was a member of Budget Committee of the Company from 6 July 2021 to 20 April 2022.
 5. Mr. Fu Feng was appointed as the non-executive director of the Company, a member of Budget Committee and Strategy and Development Committee of the Company on 29 June 2022. He resigned with effect from 1 December 2022.
 6. Mr. Zhang Xin was appointed as an executive director of the Company, the chairman of the Company, the chairman of Strategy and Development Committee, and a member of Remuneration and Appraisal Committee and Budget Committee of the Company with effect from 10 June 2021, and resigned with effect from 20 April 2022.
- The Supervisors during the year ended 31 December 2022 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Mr. Gu Zhenguang (顧振光)	Chairman of the Supervisory Committee and director of the accounting management department	Supervision of the Board and Senior Management	22 February 2021	November 2003
Mr. Sun Bin (孫斌)	Supervisor and executive officer	Supervision of the Board and Senior Management	15 January 2021	December 2010
Mr. Wang Jiajie (王佳杰)	Supervisor and director of the supply chain management department	Supervision of the Board and Senior Management	10 June 2021	July 2011

Biographical details of the Directors, Supervisors and senior management are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

Directors' Report

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director has entered into a service contract with the Company while all Supervisors do not have a service contract with the Company. The terms of the Directors and Supervisors do not exceed three years and will expire upon conclusion of the general meeting at which members of a new session of the Board and Supervisory Committee are elected.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of the Directors or Supervisors, or any entity connected with the Directors or Supervisors, had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2022.

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

As at 31 December 2022, none of the Directors, Supervisors and the chief executives of the Company have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code").

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2022, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of interest and capacity	Number of Shares interested ⁶	Approximate percentage shareholding in the relevant class of Shares as at 31 December 2022	Approximate percentage shareholding in the total issued Shares at 31 December 2022
Shanghai Qijin Enterprise Management Partnership LLP* (上海其錦企業管理合夥企業(有限合夥)) ¹	Beneficial owner	85,200,000 Domestic Shares (L)	25.59%	15.56%
Hangzhou Wensheng Lijin Asset Management Co., Ltd.* (杭州文盛勵錦資產管理有限公司) ¹	Interest in controlled corporation	85,200,000 Domestic Shares (L)	25.59%	15.56%
Hangzhou Wensheng Xiangwen Asset Management Co., Ltd.* (杭州文盛祥文資產管理有限公司) ¹	Interest in controlled corporation	85,200,000 Domestic Shares (L)	25.59%	15.56%
Shanghai Wensheng Asset Management Co., Ltd.* (上海文盛資產管理股份有限公司) ¹	Interest in controlled corporation	85,200,000 Domestic Shares (L)	25.59%	15.56%
	Beneficial owner	21,600,000 Domestic Shares (L)	6.49%	3.94%
Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of the Series Supporting Private Enterprises on behalf of the Securities Industry* (證券行業支持民企系列之海通證券資管1號FOF單一資產管理計劃) ²	Beneficial owner	80,000,000 Domestic Shares (L)	24.03%	14.61%
China Merchants Asset Management, Construction and Investment Overseas No. 1 Overseas Single Asset Management Plan* (招商資管建投海外1號海外單一資產管理計劃)	Others	11,400,000 H Shares (L)	5.31%	2.08%
China Cinda Asset Management Co., Ltd. ³	Interest in controlled corporation	49,597,132 H Shares (L)	23.09%	9.06%

Directors' Report

Name of Shareholder	Nature of interest and capacity	Number of Shares interested ⁶	Approximate percentage shareholding in the relevant class of Shares as at 31 December 2022	Approximate percentage shareholding in the total issued Shares at 31 December 2022
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)* (寧波梅山保稅港區金信昌泰投資(有限合夥)) ⁴	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%
Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司) ⁵	Interest in controlled corporation	22,236,800 H Shares (L)	10.35%	4.06%
Senda International Capital Limited ⁵	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%

Notes:

- Shanghai Wensheng was beneficially interested in 21,600,000 Domestic Shares and deemed to be interested in 85,200,000 Domestic Shares held by Shanghai Qijin. Shanghai Wensheng indirectly holds 100% of Shanghai Qijin's shares through its wholly-owned subsidiaries of Hangzhou Wensheng Xiangwen Asset Management Co., Ltd. and Hangzhou Wensheng Lijin Asset Management Co., Ltd..
- Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of the Series Supporting Private Enterprises on behalf of the Securities Industry* (證券行業支持民企系列) managed by Haitong Securities Asset Management Co., Ltd.* (上海海通證券資產管理有限公司) directly holds 80,000,000 Domestic Shares.
- China Cinda Asset Management Co., Ltd. was deemed to be interested in an aggregate of 49,597,132 H shares of the Company by virtue of the SFO. Those interests are held through Cinda Investment Co., Ltd., Hainan Jianxin Investment Management Co., Ltd. and Jinxin Changtai Investment Partnership in Meishan Bonded Port Area, Ningbo (Limited Partnership).
- Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership) invested in H Shares of the Company as an asset principal through China Merchants Asset Management, Construction and Investment Overseas No. 1 Single Asset Management Plan.
- These H Shares were held by Senda International Capital Limited and Well Prospering Limited, being wholly-owned subsidiaries of Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司), which held 16,630,800 H Shares and 5,606,000 H Shares respectively.
- The letter "L" denotes the person's or entity's long position in Shares.

Other than as disclosed above, as at 31 December 2022, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2022, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

The Directors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments and the five highest paid individuals are set out in note X(V)7 to the consolidated financial statements respectively.

EMOLUMENT POLICY

The Remuneration and Appraisal Committee was set up to develop the Group's emolument policy and structure for remuneration of the Directors, Supervisors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors, Supervisors and senior management and comparable market practices.

For the year ended 31 December 2022, Mr. Yang Heng and Mr. Fu Feng (resigned on 1 December 2022) agreed not to receive remuneration for acting as non-executive Directors of the Company. Save as disclosed above, none of the Directors waived remuneration for the year ended 31 December 2022.

PENSION SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "**Schemes**") organized by the local authorities whereby the subsidiaries are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries. Contributions to these Schemes vest to employees immediately. Under these Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2022 were RMB6,353 thousand.

There were no forfeited contributions (by employers on behalf of employees who leave the Schemes prior to vesting fully in such contributions) which were used or may be used to reduce the level of contributions for the year ended 31 December 2022 and no forfeited contribution was available as at 31 December 2022 to reduce future years' contributions. The Group does not operate any defined benefit plan.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2022.

PERMITTED INDEMNITY PROVISION

The Company has not arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/ then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2022, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases; and the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of

Directors' Report

the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to promoting the sustainable development of the environment and society. We recognize the inevitable impacts of the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificate in compliance with the national and international environmental standards, safety standards and health for workers. The Group conducts performance assessment of its suppliers on environment and social responsibility regularly. Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2022" (the "ESG Report 2022").

The Chinese and English versions of ESG report 2022 is available in the Investor Relations (Corporate Reports) section of the website of the Company (www.lachapelle.cn), the HKEX news website (www.hkexnews.hk), and the National Equities Exchange and Quotations (www.neeq.com.cn). If the shareholders of the Company wish to receive the Company's ESG report 2022, they may submit their request to the Company by email to ir@lachapelle.cn.

RELATIONSHIP WITH STAKEHOLDERS

The Group fully understands that employees, customers and partners are the key to our sustainable and steady development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our partners and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group values our staff as the most important resource. Hence, the Group has been endeavouring to provide our staff with equal opportunities and humane workplace. We offer a competitive remuneration package and great opportunities for promotion based on employees' performance. The Group also provides our staff with regular training, including internal training and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market and industry as well as to upgrade their job skills.

The Group upholds its initial aspiration and development concept of "designing for a better life", bears in mind its corporate mission of "creating a better life", guards the bottom line for quality, and establishes the corporate image of La Chapelle through continuous innovation.

The Group intends to achieve mutual growth with partners in the brand value chain with reference to international standards and leading practices of the industry. In 2022, we followed a series of internal systems such as the Administrative Measures on the Appraisal and Rating of Garment Suppliers and the Administrative Measures for New Supplier Admission to impose requirements on the work process, evaluation standards and targets of supply chain management. As a result, the goal of a responsible supply chain can be attained for driving its sustainable development. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2022.

CONNECTED TRANSACTIONS

For the year ended 31 December 2022, the Group did not enter into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2022 or as at the date of this report.

Directors' Report

MATERIAL LITIGATION

During the year ended 31 December 2022, the Company or at least one of its subsidiaries was involved in the following material litigation or arbitration:

As a result of a dispute over a guarantee agreement, Gemstone Advantage Limited (previously under the name of HTI ADVISORY COMPANY LIMITED) claimed against the Company and its subsidiaries. For details, please refer to the announcement of the Company dated 25 September 2020, 31 August 2022, 16 January 2023 and 17 January 2023.

As a result of a dispute over a construction agreement, Shanghai Construction No. 2 (Group) Co., Ltd. (上海建工二建集團有限公司) ("**Shanghai Construction**") claimed against the Company and its subsidiary. Since the Company's wholly-owned subsidiary, Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) did not pay the first instalment of the construction price of RMB5 million to Shanghai Construction, Shanghai Construction has applied to the Shanghai No. 1 Intermediate People's Court for compulsory enforcement, and the said case has entered into the stage of application for compulsory enforcement. For details, please refer to the announcements of the Company dated 9 December 2020, 29 April 2021, 17 May 2021, 9 June 2021, 30 June 2021, 3 July 2022 and 22 July 2022.

As a result of a dispute over a property lease agreement, Nanbu County Mei Hao Jia Yuan Real Estate Development Co., Ltd. (南部縣美好家園房地產開發有限公司) applied for a retrial of its claim against the Company and its subsidiaries, and the Company received second retrial judgement. For details, please refer to the announcements of the Company dated 17 June 2019, 15 October 2019, 7 November 2019, 10 March 2020, 12 January 2021, 18 March 2021, 27 May 2021, 22 October 2021 and 24 June 2022.

As a result of a dispute over an entrusted loan agreement, Urumqi High-tech Investment Development Group Co., Ltd. (烏魯木齊高新投資發展集團有限公司) claimed against the Company and its subsidiaries, and the first instance judgement, Enforcement Notice* (《執行裁定書》), and "Notice of Assessment and Auction"* (《評估拍賣通知書》) were received in 2021. In February 2023, the Company received the Enforcement Notice* (《執行裁定書》), which ruled to auction the real estate under the name of La Chapelle Taicang, the Company's former wholly-owned subsidiary, which is located at No. 116 Guangzhou East Road, Taicang* (太倉市廣州東路116號) and the structures thereon. As La Chapelle Taicang has entered into a bankruptcy reorganization procedure, and the above-mentioned auction has been withdrawn. For details, please refer to the announcements of the Company dated 27 November 2019, 7 December 2020, 12 January 2021, 19 January 2021, 23 April 2021, 16 August 2021, 20 December 2021 and 2 February 2023, and the announcement of the administrator of the Company dated 15 February 2023 and 8 March 2023.

As a result of a dispute over a clothing sale and purchase agreement, Xinjiang Hengding International Supply Chain Technology Co., Ltd. (新疆恒鼎國際供應鏈科技有限公司) sued the Company and its subsidiaries. As at the last practical date, the first instance judgement from the court was received, and the judgement sum is approximately RMB14 million. For details, please refer to the announcements of the Company dated 27 November 2019, 7 December 2020, 12 January 2021, 19 January 2021, 28 January 2021, 9 March 2021, 28 January 2021, 23 February 2021, 24 February 2021, and 7 December 2021.

As a result of disputes over financial borrowing agreements, Shanghai Caohejing Hi-tech Park Sub-branch of China Everbright Bank Co., Ltd.* (中國光大銀行股份有限公司上海漕河涇開發區支行) sue the Company and its subsidiaries. As at the last practical date, the case is at the stage of enforcement. For details, please refer to the announcements of the Company dated 25 January 2021, 29 April 2021, 25 June 2021 and 31 December 2021.

Directors' Report

As a result of disputes over financial loan agreements, China CITIC Bank Corporation Limited Shanghai Branch* (中信銀行股份有限公司上海分行) (“**CITIC Bank**”) sued the Company and its subsidiaries. As at the last practical date, CITIC Bank has applied for compulsory enforcement. For details, please refer to the announcements of the Company dated 5 March 2021, 6 August 2021 and 25 April 2022.

During the year ended 31 December 2022, the Company and its subsidiaries were also involved in other non-material litigation or arbitration. For details, please refer to the announcement of the Company dated 3 January 2023.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 31 December 2022.

AUDIT COMMITTEE

During the year ended 31 December 2022, the Audit Committee met six times to review the annual financial results in respect of the year ended 31 December 2021, the first quarter results for the three months ended 31 March 2022, the interim financial results in respect of the six months ended 30 June 2022 and the third quarter financial results in respect of the nine months ended 30 September 2022, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2022.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2022 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2022, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, and review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

NOMINATION COMMITTEE

During the year ended 31 December 2022, the Nomination Committee met twice to nominate directors and senior management members for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

Ernst & Young Hua Ming LLP (“**EY**”) was re-appointed as the domestic and international auditor of the Company at the annual general meeting of the Company held on 30 July 2020 (the “**2019 AGM**”) to hold office until the conclusion of the next annual general meeting of the Company.

Subsequent to the 2019 AGM, the Company could not reach a consensus with EY on the audit fee for the year ended 31 December 2020. With a view to reasonably controlling the audit costs and to reducing expenses of the Company, and in consideration of the Company's 2020 audit schedule, after careful consideration, in December 2020 the Company appointed Da Hua Certified Public Accountants (Special General Partnership) (“**Da Hua**”) as the Company's auditor for the year ended 31 December 2020.

Directors' Report

Da Hua was re-appointed as the domestic and international auditor of the Company at the 2021 third extraordinary general meeting of the Company held on 6 July 2021 to hold office until the conclusion of the next annual general meeting of the Company.

Da Hua was re-appointed as the domestic and international auditor of the Company at 2021 annual general meeting of the Company held on 29 June 2022 to hold office until the conclusion of the next annual general meeting of the Company.

The resolution regarding the re-appointment of the auditor for the year ending 31 December 2023 will be tabled at the 2022 annual general meeting.

The remuneration paid to Da Hua was RMB228 million (tax excluded) in respect of the audit services rendered for the year ended 31 December 2022.

POST REPORTING PERIOD EVENTS

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2022 interim report of the Company.

THE BOARD'S AND THE AUDIT COMMITTEE'S VIEWS ON THE DISCLAIMER OF OPINION FOR THE YEAR END 31 DECEMBER 2022

Da Hua issued a disclaimer of opinion on the Company's financial statements for the year ended 31 December 2022. The bases for the qualified opinion objectively reflect the actual situation of the Company and reveal the risks faced

by it. The Board and the audit committee respect the independent judgment of Da Hua in issuing a disclaimer of opinion, and attach great importance to the impact of the matters forming the bases for such an opinion on the Company. The Company will take active measures to eliminate the impact of such matters as soon as possible, and safeguard the interests of its investors.

MAJOR ACTIONS PROPOSED TO BE TAKEN BY THE COMPANY

- (I) For actions proposed to be taken by the Company in respect of the material uncertainties, the Company plans to take proactive measures to improve the Company's ability to sustain and operate, and to put the Company back on the growth track, please refer to the section "Future Outlook" under "Management Discussion and Analysis" of this report.
- (II) the Company's involvement in a relatively large number of litigation cases involving a relatively high amount of monetary claims.

During the Reporting Period, the Company proactively negotiated with the court, creditors and financial institutions in order to reach agreements in relation to debt compromise or payment by instalments. In the meantime, the Company has made timely and reasonable adjustments and provisions to the liabilities recorded on the Company's financial accounts based on the progress of the outstanding litigation cases; and has been continuously updating the cumulative litigation statistical ledger to collate and verify the relevant data and figures of all litigation cases that have not yet been adjudicated, adjudicated but not yet enforced, and adjudicated and enforced. However, as (1) the adjudication and enforcement of litigation cases are affected by various factors, and (2) the Company and its subsidiaries have mutual guarantee obligations or undertake joint and several liability obligations with the Company's two subsidiaries that entered bankruptcy liquidation procedures (Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) and Candie's Shanghai Fashion Co., Ltd.* (上海樂歐

Directors' Report

服飾有限公司) entered into bankruptcy liquidation procedures in July 2022), if the debts of the above-mentioned two companies are not fully repaid, their creditors will seek to recover the outstanding portion from the Company and its subsidiaries. As at the date of the audit report, the Company is unable to estimate the amount of the adjustment to the liabilities and the amount of the estimated loss and is unable to produce the best estimate of the expenses required for the Group to meet the related current obligations. Taking into account the above factors, the auditors considered that due to the complexity of litigation matters and the uncertainty of the outcome of litigation matters, the auditors were unable to obtain sufficient and appropriate audit evidence to determine the possible losses arising from litigation matters and the accuracy and completeness of the estimated liabilities related to litigation and arbitration, and therefore issued a disclaimer of opinion.

In response to the litigation case faced by the Company and the related matters of litigation cases, the Company intends to eliminate the related effects by the following aspects:

- (1) the litigations cases related to the Company and its subsidiaries

On the one hand, the Company expects that the Company's payment obligations will be clarified after the creditors' meeting of the Company. Currently, the Company entered into the bankruptcy liquidation procedure, the Company and relevant parties have been proactively cooperating with the administrator to promote the bankruptcy liquidation work in an orderly manner. The first creditors' meeting of the Company is scheduled to be held in May 2023. As at the date of this annual report, the administrator is carrying out the work of creditors' filing of claims and verification of debts and assets in an orderly manner. In view

of this, the Company expects that after the first creditors' meeting of the Company, the amount of debts to be assumed by the Company will be preliminarily confirmed and reviewed, which will be eventually decided by the court. The payment obligation to be assumed by the Company will also be clarified accordingly.

On the other hand, the Group will continue to negotiate with the court, creditors and financial institutions to obtain a certain percentage of debt discount or payment by instalments conditions to avoid the uncertainty brought to the Group by new litigation cases. Meanwhile, the Company will proactively explore overall solutions to its debt problems, including but not limited to exploring the viability of overall debt restructuring, reaching settlement agreements, judicial reorganisation and creditors' arrangements, with a view to eliminating the debt burden of the Company through a packaged solution and promoting the Company's return to a sound development track.

- (2) the mutual guarantee obligations or joint and several liability obligations related to Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) and Candie's Shanghai Fashion Co., Ltd.* (上海樂歐服飾有限公司)

As at the latest practical date, the first creditors' meetings of Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) and Candie's Shanghai Fashion Co., Ltd.* (上海樂歐服飾有限公司) have already been held respectively, and the second creditors' meetings of them are expected to be held in 2023. At the second creditors' meetings of them, if the abovementioned companies are still in bankruptcy liquidation procedures, their creditors may consider and resolve management

Directors' Report

plan of debtor's properties, price adjustment plan for bankruptcy properties, and distribution plan of bankruptcy properties; if the above-mentioned companies have moved from bankruptcy liquidation procedures to bankruptcy reorganization procedures, their creditors will review and decide on the debtor's reorganization plan at the meetings respectively. Therefore, after the second creditors' meetings of the above-mentioned companies, the Company expects that the debt repayment plan of the above-mentioned companies will be clarified. The obligation to pay by the Company will also be clarified accordingly. The relevant review procedures and rulings will also provide strong support for the auditors to determine the accuracy and completeness of the estimated liabilities.

For and on behalf of the Board

Zhao Jinwen (趙錦文)

Chairman

Shanghai, PRC, 27 April 2023

Report of the Supervisory Committee

In 2022, the Supervisory Committee of the Company fulfilled diligently its duties and conscientiously discharged its responsibilities and obligations, and implemented various oversight functions in accordance with the Company Law, the Securities Law, the Articles of Association, and the Rules of Procedure of the Supervisory Committee and other relevant laws and regulations of the PRC. The Supervisory Committee inspected and supervised the Company's legal operation, production and operation, financial condition, and performance of duty of the Company's directors and senior management, providing a strong protection for the Company's standardized operation and development. The report of the Supervisory Committee of the Company for this year is as follows:

1. WORK PERFORMED BY THE SUPERVISORY COMMITTEE

During the Reporting Period, the Company convened six meetings of the Supervisory Committee, including five formal meetings and one discussion session, in which 20 resolutions were considered and approved and one special discussion session on governance issues was convened. Members of the Supervisory Committee attended all the Board meetings and shareholders' general meetings. During the Reporting Period, the meetings of the Supervisory Committee were as follows:

(I) The seventeenth meeting of the fourth session of the Supervisory Committee

On 30 March 2022, the Company convened the seventeenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Report of the Supervisory Committee of the Company for the Year 2021", the "Report on the Company's Financial Accounts for the Year 2021", the "Resolution in Relation to the Provision for Asset Impairment", the "Annual Report and Summary of the Company for the Year 2021", the "Opinion on Specific Explanation of the Board on Matters Involving Non-Standard Audit Opinions", the

"Internal Control Evaluation Report of the Company for the Year 2021", the "Proposal on the Unrecovered Losses Amounting to One-Third of the Total Paid-Up Share Capital", the "2021 Environmental, Social and Governance Report" and the "2021 Social Responsibility Report", the "Proposal on the Determination of the Remuneration of Supervisors of the Company for the Year 2021", the "Proposal on the Company's 2021 Plan on Non-distribution of Profit", the "Special Report on the Deposit and Actual Use of the Funds Raised by the Company for the Year 2021", the "Report on the Company's Financial Budget for the Year 2022", the "Resolution on Determination of the Auditors' Remuneration for the Year 2021 and Re-Appointment of the Auditor for the Year 2022", the "Resolution in Relation to the Application to Financial Institution(s) Including Bank(s) for Credit Facilities by the Company", the "Resolution in Relation to Providing Guarantees for Wholly-owned Subsidiaries of the Company".

(II) The eighteenth meeting of the fourth session of the Supervisory Committee

On 28 April 2022, the Company convened the eighteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the First Quarterly Report of the Company in 2022".

(III) The special discussion session the fourth session of the Supervisory Committee

On 10 June 2022, as the Company was publicly criticized by the Shanghai Stock Exchange, the Company convened a special discussion session in Shanghai in relation to the implementation of the rectification and supervision of the regularization of governance.

Report of the Supervisory Committee

(IV) The nineteenth meeting of the fourth session of the Supervisory Committee

On 29 August 2022, the Company convened the nineteenth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Company Interim Report and Interim Results Announcement of 2022" and "Special Report on the Deposit and Actual Use of Funds Raised for the First Half Year of 2022".

(V) The twentieth meeting of the fourth session of the Supervisory Committee

On 28 October 2022, the Company convened the twentieth meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in Relation to the Third Quarterly Report of the Company in 2022".

(VI) The twenty-first meeting of the fourth session of the Supervisory Committee

On 21 December 2022, the Company convened the twenty-first meeting of the fourth session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution in relation to Cancellation of Repurchased Shares and Reduction of Registered Capital and Amendments to the Articles of Association".

By attending Board meetings and shareholders' general meetings, members of the Supervisory Committee participated in the Company's important work, conducted effective supervision over meeting agendas, voting procedures and voting results, and made recommendations on the Company's business activities and standardized operation. The Supervisory Committee also conducted effective supervision over the decisions made to ensure that such decisions are in compliance with national laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings, and that they are in the interests of the shareholders of the Company.

2. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

During the Reporting Period, the Supervisory Committee inspected and supervised the Company's financial condition, operations and the performance of duty by senior management in accordance with the Company Law and other relevant laws and regulations, the Articles of Association and relevant requirements of the Rules of Procedures for the Supervisory Committee. The Supervisory Committee is of the view that in 2022, the Company operated normatively in strict compliance with the Company Law, the Articles of Association and other relevant regulations and systems. Operating decisions were reasonable and effective, and the decision-making procedures complied with the requirements of laws and regulations. None of the directors and senior management of the Company had violated laws and regulations or caused any prejudice to the interests of the Company and various investors in performing their duties.

Report of the Supervisory Committee

3. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON FINANCIAL POSITION OF THE COMPANY

During the Reporting Period, the Supervisory Committee of the Company supervised and inspected the Company's financial condition by receiving reports from the Company's chief financial officer, reviewing the Company's periodic reports, and reviewing audited reports issued by an accounting firm. The Supervisory Committee is of the view that the financial operations of the Company are made normatively during the year. The 2022 audited financial statements of the Company truly reflected the Company's operating condition, and there are no false records, misleading statements or major omissions.

4. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON THE UTILIZATION OF THE PROCEEDS RAISED BY THE COMPANY

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

Owing to factors such as the COVID-19 pandemic and the closure of a number of stores, the Company was under intense cash pressure to repay debts that were due. The funds available to the Company are insufficient to repay the proceeds raised, and as the bank account where the Company placed its proceeds raised has been frozen, there is a risk that the proceeds repaid into such bank account would either be frozen or transferred. As such, as at the date of this report, the Company is unable to repay RMB50 million of the

proceeds that were used to temporarily supplement its liquidity into its specific bank account for such proceeds. The Supervisory Committee would urge the Board of Directors and management of the Company to actively seek solutions for repaying the proceeds used to temporarily supplement its liquidity as soon as possible.

5. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON REVIEW OF THE COMPANY'S EXTERNAL GUARANTEE

During the Reporting Period, the Company had no violation of its external guarantees. The Supervisory Committee has not identified any circumstances that would impair the interests of the Company's shareholders or cause loss to the Company's assets.

6. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON APPROPRIATION OF FUNDS OF THE COMPANY

In 2021, through internal investigation of the Company, it was discovered that Shanghai Hexia Investment Co., Ltd.* (上海合夏投資有限公司), a person acting in concert with the former de facto controller of the Company, has accumulatively appropriated RMB9.5 million from the Company in 2019. During the Reporting Period, the Company has proactively urged the relevant parties for repayment and has proactively taken judicial action to urge for repayment. As at the latest practical date, the defendant has been ordered by the court in the first instance to repay the principal amount of RMB9.5 million and the corresponding interest. In the future, the Supervisory Committee will follow up, understand and monitor the progress of the appropriation of funds in a timely manner and strictly supervise the Company to implement the effective enforcement of the internal control system to prevent the recurrence of similar situations.

Report of the Supervisory Committee

7. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON INSPECTING THE IMPLEMENTATION OF INFORMATION INSIDER MANAGEMENT OF THE COMPANY

During the Reporting Period, in accordance with the relevant requirements of the Securities Law and the Management Policy for Registration of Persons with Inside Information* (《内幕信息知情人登記管理制度》), the Company implemented insider information confidentiality and insider information registration for matters such as periodic reports and significant matters, effectively preventing the disclosure and utilization of insider information for trading. Upon verification, the Supervisory Committee is of the view that, during the Reporting Period, the Company's directors, supervisors, senior management and other insider information personnel did not use any insider information or to trade any stocks of the Company through others.

8. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON INSPECTING THE COMPANY'S INTERNAL CONTROL SELF-EVALUATION REPORT

The Supervisory Committee reviewed the structure and operation of the Company's internal control system and the Company's Internal Control Evaluation Report for 2022, and is of the view that the Company's Internal Control Evaluation Report truly and objectively reflects the structure and operation of the Company's internal control system.

9. INSPECTION OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S PERIODIC REPORT

The preparation and review procedures for the Company's 2022 annual report are in compliance with relevant provisions of laws, regulations and the Articles of Association of the Company. Its substance and form are in compliance with the requirements of the China Securities Regulatory Commission and the National Equities Exchange and Quotations. The information contained therein truly reflected the Company's operational management and financial condition in 2022. No violation of confidentiality requirements was found among those involved in the preparation and review of the annual report.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2022.

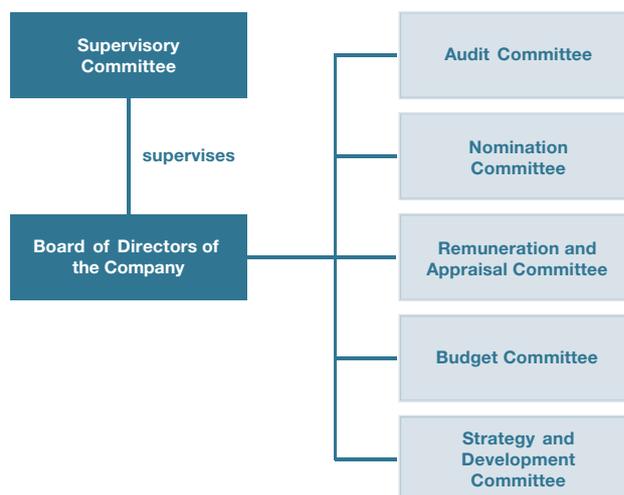
For the year ended 31 December 2022 and as at the date of this report, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below. Corporate governance rules and recommendations with respect to matters including Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Company Secretary, and communication between the Company and Shareholders were made by the Company.

In particular, the Chairman assumes the major responsibility for ensuring sound corporate governance practices and procedures of the Company. The Company has adopted a corporate governance policy, which sets out the terms of reference for the Board to perform, including but not limited to: formulation and review of the corporate governance policy and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and Senior Management; review and monitoring of the policies and practices of the Company in relation to compliance with laws and regulatory requirements; formulation, review and monitoring of the compliance by staff and Directors with the code of conduct and compliance manual; and review of the compliance of the Company with the CG Code.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. The Group has prudently reviewed the relevant regulations pursuant to the guidelines as stipulated in the Listing Rules, and introduced corporate governance practices appropriate to the conduct and growth of the business.

As of 31 December 2022, the governance structure of the Company is as follows:



The H shares of the Company were listed on the Hong Kong Stock Exchange with effect from the Hong Kong Listing Date, therefore, the CG Code has been applicable to the Company since the Hong Kong Listing Date.

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value.

In the opinion of the Board, the Company has been in compliance with the Code Provisions of the CG Code set out in Appendix 14 of the Listing Rules for the year ended 31 December 2022, save as to the deviation from the Code Provision C.1.8 of Part 2.

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

Corporate Governance Report

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the overall management and control of the Company. The Board's main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. In the meantime, the Board strives to oversee the implementation of the corporate culture, business objectives and strategies for achieving those objectives, in order to ensure that they are consistent with the long-term interests and viability of the Group. All Directors carry out their duties in good faith and in compliance with the applicable laws and regulations, and act in the interest of the Company and its shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and Senior Management, with a view to ensuring that Board procedures and all applicable laws and regulations are followed.

The Board is responsible for making decisions on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Directors have full and timely access to independent consultation with the Senior Management. Upon making reasonable request to the Board, a Director or a Board professional committee may seek independent professional advice in appropriate circumstances at the Company's expense.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the management of the Group. The respective functions of the Board and the management of the Company are established and will be reviewed from time to time as appropriate. To oversee particular aspects of the Company's affairs, the Board has established five Board professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, the Budget

Committee and the Strategy and Development Committee (altogether the "**Board Professional Committees**"). The Board has delegated to the Board Professional Committees responsibilities as set out in their respective terms of reference.

Board Composition

As at the date of this report, the Directors of the fifth session of the Board are as follows:

Executive Directors

Mr. Zhao Jinwen (*Chairman*)

Ms. Zhang Ying (*President*)

Mr. Zhu Fengwei

Non-executive Director

Ms. Wang Yan

Independent Non-executive Directors

Mr. Xing Jiangze

Ms. Chow Yue Hwa Jade

Ms. Yang Linyan

Biographical details of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

There are no relationships among the Directors, Supervisors and Senior Management, including financial, business, family or other material/relevant relationships.

For the year ended 31 December 2022, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Corporate Governance Report

Each of the independent non-executive Directors has confirmed his or her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Professional Committees, all non-executive Directors has made various contributions to the effective leadership of the Company.

Induction and Continuous Professional Development

All Directors of the Company confirmed that they have complied with Code Provision C.1.4 of Part 2 relating to the director training during the year ended 31 December 2022. During the year ended 31 December 2022, all Directors of the Company participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to further develop and refresh their knowledge and skills. All Directors of the Company have provided their training record during the year ended 31 December 2022 to the Company.

Directors	Reading materials	Attendance at lectures or seminars
Executive Directors		
Mr. Zhao Jinwen (Chairman)	√	√
Ms. Zhang Ying	√	√
Non-executive Director		
Mr. Yang Heng	√	√
Independent Non-executive Directors		
Mr. Xing Jiangze	√	√
Ms. Chow Yue Hwa Jade	√	√
Mr. Zhu Xiaozhe	√	√
Former Non-executive Director		
Mr. Fu Feng	√	√

Note: Ms. Wang Yan, a Director of the fourth session of the Board, has been appointed as the non-Executive Director of the Company since 30 December 2022, and therefore, her training record was not included in the training record during the year ended 31 December 2022.

The Company has established mechanisms to ensure independent views and input are available to the Board including but not limited to, independent non-executive Directors being entitled to retain independent professional advisors as and when it is required; the Company providing the necessary working conditions for independent non-executive Directors to perform their duties; all Directors being encouraged to express their views in an open and candid manner during the Board or committees meetings; and the compliance with the requirement of the Hong Kong Listing Rules that at least one-third of the Board members are independent non-executive directors. The implementation and effectiveness of such mechanisms are reviewed on an annual basis by the Board.

Corporate Governance Report

Chairman and Chief Executive Officer

Code Provision C.2 of Part 2 stipulates that the chairman and chief executive in the Company should have a balanced power and authority.

The positions of Chairman of the Board and President of the Company are held by Mr. Zhao Jinwen and Ms. Zhang Ying, respectively. The Chairman provides leadership and is responsible for formulating the overall strategic planning of the Group. The President focuses on the Company's overall business management and making overall operational decisions.

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, consider the selection criteria, selection procedures and terms of office of the Directors of the Company after taking into account the practical situations of the Company, and shall record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Each of the Directors has entered into a service contract with the Company for a term commencing on the date of appointment and ending on the expiration of the term of office.

Board Professional Committees

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls.

The Group has established a whistleblowing policy and system. Please refer to the contents under the sub-section headed "Risk management and internal controls".

The Audit Committee of the fifth session of the Board consists of one non-executive Director and two independent non-executive Directors. The members of the Audit Committee are Mr. Xing Jiangze, Ms. Wang Yan and Ms. Chow Yue Hwa Jade. It is currently chaired by Mr. Xing Jiangze, an independent non-executive Director.

During the year ended 31 December 2022, the Audit Committee met six times to review the annual financial results in respect of the year ended 31 December 2021, the first quarter results for the three months ended 31 March 2022, the interim financial results in respect of the six months ended 30 June 2022 and the third quarter financial results in respect of the nine months ended 30 September 2022, the appointment of auditors and significant matters on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2022.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, to assess the independence and diversity of the independent non-executive Directors and to make recommendations to the Board on the appointment and removal of Directors. The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, the individuals' skills, experience, professional knowledge and time commitments, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee of the fifth session of the Board consists of one executive Director and two independent non-executive Directors. The members of the Nomination Committee are Ms. Yang Linyan, Ms. Zhang Ying and Mr. Xing Jiangze. It is currently chaired by Ms. Yang Linyan, an independent non-executive Director.

Corporate Governance Report

Nomination Policy

The following selection process for directors and senior management is set out in the terms of reference of nomination committee of the Board:

- (1) The Nomination Committee shall proactively exchange views with relevant departments of the Company, study the demand of the Company for new directors and senior management, and then prepare the written materials thereof;
- (2) The Nomination Committee may conduct extensive search for candidates for directors and senior management in the Company and job market;
- (3) The Nomination Committee shall collect information on the potential candidates, including the profession, education, job title, detailed working experience and all part-time jobs, and then prepare the written materials thereof;
- (4) The Nomination Committee shall seek the nominee's consent to nomination, failing which such nominee shall not be named as a candidate for directors and senior management;
- (5) Meetings of the Nomination Committee shall be convened, at which a review on qualifications for the potential candidates shall be carried out based on the terms of appointment for directors and senior management;
- (6) The Nomination Committee shall submit to the Board of Directors its recommendations on the candidates for directors and new senior management together with relevant materials in one month to two months prior to the election of new directors and appointment of new senior management;
- (7) The Nomination Committee shall implement other follow-up work in accordance with the decisions and feedback of the Board of Directors.

During the year ended 31 December 2022, the Nomination Committee met two times to nominate directors for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard to the benefits of diversity on the Board.

The Company is committed to selecting the best person for the role of a Board member. Selection of candidates will not only be based on educational background, professional experience, skills, knowledge and length of service, but also with reference to a range of factors with a view to enhancing diversity, including but not limited to gender, age, cultural background and ethnicity. The ultimate decision will be based on merit and contribution that the candidate will bring to the Board.

As at 31 December 2022, the Board consists of four male members and three female members, with a female representation and gender diversity on the Board of approximately 43%. The Nomination Committee is responsible for reviewing the diversity of the Board, and will continue to monitor and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and disclose in the corporate governance report about the implementation of the board diversity policy, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. The Nomination Committee will also bear in mind the gender diversity of the Board in the future when evaluating candidates to be appointed as directors to the Board.

Corporate Governance Report

As at 31 December 2022, one of our senior management members out of three is female, and approximately 82% of our total workforce were female. The Company will also continue to take steps to promote gender diversity at all levels of the Company.

Remuneration and Appraisal Committee

The Company has established a Remuneration and Appraisal Committee with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration and Appraisal Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

According to the Terms of Reference of Remuneration and Appraisal Committee, the remuneration plans of the directors of the Company proposed by the Remuneration and Appraisal Committee must be agreed by the Board and approved in the General Meeting before it can be implemented. The remuneration distribution schemes of the senior management of the Company must be submitted to the Board for approval. The procedures as set out in Model (ii) of Rule E.1.2 (c) of Part 2 in Appendix 14 of the Listing Rules is adopted for the determination on the remuneration of directors and senior management

The Remuneration and Appraisal Committee of the fifth session of the Board consists of one executive Director and two independent non-executive Directors. The members of the Remuneration and Appraisal Committee are Mr. Xing Jiangze, Mr. Zhao Jinwen, and Ms. Yang Linyan. It is chaired by Mr. Xing Jiangze, an independent non-executive Director.

For the year ended 31 December 2022, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, and to review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

The Company has established a Budget Committee. The primary duties of the Budget Committee are to make recommendations to the Board on budgeting.

The Budget Committee of the fifth session of the Board consists of three executive Directors, and two independent non-executive Directors. The members of the Budget Committee are Ms. Zhang Ying, Mr. Zhao Jinwen, Mr. Zhu Fengwei, Mr. Xing Jiangze and Ms. Chow Yue Hwa Jade. It is chaired by Ms. Zhang Ying.

For the year ended 31 December 2022, the Budget Committee met twice to review and make recommendations to the Board on the budgeting for the upcoming financial year.

Strategy and Development Committee

The Company has established a Strategy and Development Committee. The primary duties of the Strategy and Development Committee are to make recommendations to the Board on matters such as the Company's development plans, strategic investments and business innovations.

The Strategy and Development Committee of the fifth session of the Board consists of three executive Directors, one non-executive Director and two independent non-executive Directors. The members of the Strategy and Development Committee are Mr. Zhao Jinwen, Ms. Zhang Ying, Mr. Zhu Fengwei, Ms. Wang Yan, Ms. Chow Yue Hwa Jade and Ms. Yang Linyan. It is chaired by Mr. Zhao Jinwen.

For the year ended 31 December 2022, the Strategy and Development Committee met once to review and make recommendations to the Board on the Group's latest strategic plans and development.

Corporate Governance Report

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors and their corporate governance duties include:

- (a) to develop, review and implement the Company's policy and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of the Directors and Management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- (f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendations to the Board where appropriate to enhance shareholders' relationship with the Company.

For the year ended 31 December 2022, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

The Board intends to hold Board meetings regularly (i.e., at least four times a year roughly at quarterly intervals). Notices of no less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters for discussion in the meeting agenda.

For other Board and Board Professional Committee meetings, reasonable notice will generally be given. The agenda and the accompanying board papers will be dispatched to the Directors or members of a Board Professional Committee at least 3 days before the meetings to ensure that they have sufficient time to review the papers and can adequately prepare for the meetings. When Directors or members of a Board Professional Committee are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the Chairman of the Committee prior to the meeting.

Minutes of the Board meetings and Board Professional Committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Professional Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Professional Committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

According to the Articles of Association, a Director shall not vote nor be counted in the quorum on any resolution of the Board approving any contract or arrangement in which the Director or the Director's associates is materially interested.

During the year ended 31 December 2022, 10 board meetings were held.

Corporate Governance Report

DIRECTORS' ATTENDANCE RECORDS AT BOARD MEETINGS, BOARD PROFESSIONAL COMMITTEES' MEETINGS AND GENERAL MEETINGS

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2022 are set out below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and	Budget Committee meeting	Strategy and	General meeting
				Appraisal Committee meeting		Development Committee meeting	
Mr. Zhao Jinwen	10/10	3/3		1/1	1/1		1/3
Ms. Zhang Ying	10/10		2/2		2/2	1/1	3/3
Ms. Wang Yan (appointed on 30 December 2022)							
Mr. Yang Heng	10/10	3/3			1/1	1/1	0/3
Mr. Xing Jiangze	10/10	6/6	2/2	3/3	2/2		1/3
Ms. Chow Yue Hwa Jade	10/10	6/6			2/2	1/1	2/3
Mr. Zhu Xiaozhe	10/10		2/2	3/3		1/1	2/3
Mr. Fu Feng (appointed on 29 June 2022, and resigned on 1 December 2022)	3/3				1/1		1/1
Mr. Zhang Xin (resigned on 20 April 2022)	1/1			1/1	1/1	1/1	0/0

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

The largest shareholder of the Company, Shanghai Wensheng, and its person acting in concert, Shanghai Qijin have respectively confirmed to the Company and declared that they have complied with the non-compete undertaking given by them to the Company in April 2021 during the year ended 31 December 2022. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2022.

Corporate Governance Report

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. The remunerations paid to a total of 2 Senior Management (excluding Directors and Supervisors) by remuneration bands for the year ended 31 December 2022 are set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	0
RMB1,000,001 to RMB2,000,000	2
RMB2,000,001 to RMB3,000,000	0

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "Company Code") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and Supervisors, and all the Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROLS

As a public company listed both in Hong Kong and the National Equities Exchange and Quotations, the Company strives to improve its internal governance and build a favorable corporate risk monitoring environment by strictly abiding by the laws and regulations and other regulatory requirements of the listing locations.

Continue to improve and optimize risk monitoring system

During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, the Fundamental Norms on Corporate Internal Control, the Application Guidance on Corporate Internal Control, the Guidance on Corporate Internal Control and Assessment, the Audit Guidance on Corporate Internal Control as well as the relevant requirements with regard to the reviewing of the risk management and internal control systems by the Hong Kong Stock Exchange, the Company, along with its subsidiaries and relevant departments, carried out a comprehensive check on its existing system and procedures in light of organizational structure, development strategy, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, merchandizing, financial reports, comprehensive budget, contract management, internal communications and information system, and formed a virtuous cycle of detecting risks, identifying risks and facilitating business development through risk identification, risk assessment and gradual optimization, so as to further strengthen and standardize internal corporate monitoring, enhance operational management and risk control capability as well as to guarantee stakeholders' legitimate interests and facilitate the realization of the Company's strategic goal and sustainable development.

Corporate Governance Report

Effectively prevent operational risks to strengthen corporate control

The Company further normalized and perfected its internal control system to enhance the efficiency and effectiveness of the construction and implementation of the internal control system. The Company further improved its management and control measures with regard to strategic risks, financial risks, operational risks and market risks to prevent all kinds of risks, lay a solid foundation for corporate development as well as facilitate sustainable development. The Company further enhanced the learning and training of all employees so as to build up employee recognition and identification. The Company continued to enhance staff competency and skills by encouraging the learning of new management concepts and internal control methods through external and internal trainings, thus forming a benign atmosphere within the Company that "everyone learns internal control, everyone emphasizes risks and everyone is checked", and consequently facilitating the development of internal control and management mechanism and risk prevention mechanism that are systematic, normative and efficient.

The Company has established a scientific and efficient internal control system to identify, assess and manage the significant risks of the Company. The Board of Directors has confirmed its responsibility to supervise the Company's risk management and internal control systems, and reviewed their effectiveness at least annually through the Audit Committee. The Audit Committee generally supervises the effective implementation and self-evaluation of internal control, and is responsible for reviewing risk management and internal control systems and supervision. Besides reviewing the annual reports by the external auditors, the Audit Committee also reviews the periodic internal audit reports compiled by the audit department concerning the Company's core businesses in order to review the effectiveness of the internal

control system and risk management mechanism as well as to resolve any material inadequacies found in relation to internal control. The Internal Review Committee manages and supervises the internal risk management system within the relevant departments of the Company, guarantees the implementation and enhancement of risk management system and measures, and manages the disclosure of inside information. The Internal Review Committee, led by the Audit Committee, reports to the Audit Committee.

The management is responsible for the daily operation of the internal control within the Company. The Office of the Board, Audit and Regulatory Department and Merchandise Department constitute the functioning departments within the Company responsible for the implementation of internal control and the assessment of the soundness and effectiveness of all the internal control systems within the Company. As the implementation units of the internal control, the Company's functioning departments, affiliates, wholly-owned and holding subsidiaries appoint designated persons to improve and evaluate the internal control system. The Company's internal risk management organizational structure is illustrated below:



Corporate Governance Report

The Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of the Company's risk management and internal control systems. Currently, the Company formulated rules and regulations to tackle problems concerning matters such as regional management, logistics operations and disposal of obsolete inventories, namely Administrative Measures on Donations, Administrative Measures on Inventory-taking in Logistics Warehouse and Administrative Measures on Disposal of Obsolete Inventories, in an effort to improve the Company's internal system and avoid operational risks. The Company has established various whistle-blowing channels, including telephone hotline: 86 21-6195 5215, email: jiancha@lachapelle.cn, and mail, to enable anonymous reporting of any suspected violations of laws and regulations, corruption and bribery. The Company's Regulatory Department participated in and organized anti-corruption trainings, involving a total of around 130,000 attendances. It has also opened a WeChat subscription account named La Chapelle with Integrity. All of the abovementioned the efforts have contributed to the improvement of the Company's network for anti-corruption and internal control.

For the year ended 31 December 2022, the Board carried out annual review on the effectiveness of the Company's risk management system, procedures and internal control system, and continuously advised on various means of improvement. The review involved all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and the Company's budget on accounting and financial reporting function. The Board considers that the Company's risk management and internal control systems are effective and adequate in all material respects. The Company will continue to improve its risk management and internal control systems in order to protect the interests of the Company and its shareholders.

The Company's risk management and internal control systems aim to manage, rather than eliminate, the risks involved with failing to meet the business goals, and can only provide reasonable, but not absolute, guarantee on material misrepresentations or losses.

Strengthen insider filing to improve insider information management

During the Reporting Period, the Company carried out the management of insider information strictly in accordance with the regulatory requirements under the Hong Kong Listing Rules, and its internal system. The Company strengthened the management of its confidentiality policy of insider information and seriously performed its duty with respect to confidentiality and filing of persons with knowledge of inside information. The Company has been able to truly, accurately and completely record the persons who has knowledge of insider information by being involved in the processes of counseling and planning, argumentation and consultation and compiling and reviewing of such insider information. The Company timely performed filing of directors, supervisors and senior management, relevant staff and intermediary agents as well as carried out self-examination on insider trading from time to time, so as to ensure that the relevant information is collected, delivered, organized and disclosed legally in accordance with the relevant laws and regulations. During the Reporting Period, no person with knowledge of insider information was found to be trading the Company's shares based on insider information.

Corporate Governance Report

Enhance corporate governance system to improve corporate governance

In order to enhance corporate governance and build a favorable internal control environment, the Company further enhanced the relevant mechanisms such as the rules of procedure regarding General Meeting, the Board of Directors and the Supervisory Committee, and terms of reference of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. The Company's General Meeting, the Board of Directors, the Supervisory Committee, senior management and board secretary were able to operate independently and legally, and fulfilled their respected rights and duties based on the powers as set out in the Articles of Association and relevant regulations. No violation of laws and regulations had been found. All Board Professional Committees performed their duties in accordance with the Articles of Association and the corresponding terms of reference. Each Board Professional Committee has set up its own meeting system and submits written resolutions regarding reviewed matters to the Board, which act as an important basis for the decision-making of the Board and the General Meeting and thus play a positive role in corporate governance.

The Company will continue to enhance its internal control and improve self-assessment. It will also continue to develop and improve its risk management and internal control systems that meet the demand of its development and management needs so as to ensure that the Company's operational management is legal, its assets are reliable, and financial reports and relevant information are true and complete, thus providing a reasonable guarantee for realizing the Company's strategic development goals.

COMPANY SECRETARY

During the year ended 31 December 2022, Ms. Wong Wai Ling, the Company Secretary, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Ms. Wong Wai Ling is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and Mr. Zhao Jinwen, an executive Director, is her primary contact person at the Company. The biographical details of the Company Secretary is set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

Having been authorized by the Chairman, the Company Secretary is responsible for working out meeting agenda, organising Board meetings, and offering relevant documents to the Directors in advance, so as to ensure that the Directors have obtained sufficient and accurate information for making effective and well-grounded decisions.

The Company Secretary assists in convening and holding Board meetings in accordance with all applicable laws and regulations,, as well as the procedures specified in the Articles of Association. In addition, the Company Secretary would prepare relevant minutes and circulate them to the Directors for their comments.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022 in accordance with statutory requirements and applicable accounting standards.

The Board is responsible for providing to the shareholders a clear and balanced assessment on the Company's financial position and prospects, and is accountable to the shareholders in this regard. The management of the Company provides all relevant information and records to the Board, which enable the Board to prepare the accounts of the Company and to make the above assessments.

Corporate Governance Report

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2022. Save as disclosed below, the Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report.

GOING CONCERN CAPABILITY

The Company has incurred a net loss of RMB1,073,774 thousand in 2022 and has sustained losses for five consecutive years. As of December 31, 2022, the Company's total liabilities exceeded its total assets by RMB2,573,209 thousand. Due to failure to repay overdue debts, the Company is facing multiple litigations with its major bank accounts and equity interest in its subsidiaries being frozen and real estate being seized, and the Company is listed as a discredited debtor. As mentioned in "Other important matter – Other important matters to be disclosed" in Note 14 to the financial statements, on 2 February 2023, the court has accepted the bankruptcy liquidation application filed against the Company by Shanghai Qihui Enterprise Management Co., Ltd. and appointed an administrator, and the Company has entered into bankruptcy liquidation proceedings. As of the date of the audit report, the Company is still under bankruptcy liquidation status.

As disclosed in "Basis for preparation of the financial statements" note 2 to the financial statements, at present, the main business of the Company is running normally, and its operation and management are in good order. The board of directors and management are also actively planning to transition the bankruptcy liquidation into reorganization procedure in order to completely solve the historical debt burden of the Company. Therefore, the Company's management has prepared its financial statements on going concern basis and plans to take measures to improve the Company's financial position.

However, the Company has not yet completed its reorganization plan, and it is uncertain whether such plan will be approved by its creditors, whether the necessary pre-approval procedures for the bankruptcy reorganization can be completed, whether the subsequent application for bankruptcy reorganization will be accepted by the court or whether the court will rule for it to enter into the reorganization procedures. The auditors was of the view that the circumstances of the above indicate that there is significant uncertainty regarding the Company's continued operation. The auditors were unable to obtain sufficient and appropriate audit evidence to determine whether it is appropriate for the Company to prepare its 2022 financial statements on going concern basis.

AUDITORS

Da Hua Certified Public Accountants (Special General Partnership) ("Da Hua") was appointed as the domestic and international auditors of the Company for the year ended 31 December 2022. The resolution regarding the appointment of the auditor for the year ending 31 December 2023 will be tabled at the 2022 AGM.

The remuneration paid to Da Hua in respect of the audit services rendered for the year ended 31 December 2022 was RMB2.28 million.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The shareholders' communication policy of the Company is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors. General meetings of the Company are formal channels for communication between shareholders and the Board. The chairman of the Board and the chairmen of the Board Professional Committees (or, in their absence, other members of the respective committees) will make themselves available at the general meetings to have direct communication with the shareholders. The Company publishes its announcements, financial information, and other relevant information on its website (group.lachapelle.cn) and the website of Hong Kong Stock Exchange (www.hkexnews.hk), as a channel to facilitate effective communication.

Corporate Governance Report

The Company has a shareholders' communication policy in place and the Board is satisfied during the annual evaluation of the current policy that it is adequate and effective.

Shareholders may also send their enquiries and concerns to the Board by sending them to the investor relations department of the Company at the following address:

Address: 12F, Building 4, No. 50. Lane 2700 South Lianhua Road, Minhang District, Shanghai, China, Postal code: 200241

Email: ir@lachapelle.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting or Class Meeting by Shareholders

Pursuant to the Articles of Association, shareholders severally or jointly holding 10% or more of the shares carrying the right to vote at the proposed meeting may request the Board to convene an extraordinary general meeting or a class meeting. The agenda of the proposed meeting shall be stated therein.

When the Company convenes an annual general meeting, a notice to notify all registered shareholders must be given no later than 20 days before the meeting date; when the Company convenes an extraordinary general meeting, a notice to notify all registered shareholders must be given no later than 15 days before the meeting date. Such notice shall contain the matters to be considered at the meeting as well as the date and venue of the meeting.

Putting Forward Proposals at General Meetings

When the Company decides to convene an annual general meeting, any shareholders that severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company, and may raise ad hoc proposals and submit them in writing to the Board ten days prior to the general meeting. The Board shall, within two days after receipt of such proposal, issue a supplemental notice of the general meeting and announce the contents of the ad hoc proposals.

The contents of the proposals to be raised shall be within the scope of duties of the general meetings. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws, administrative regulations and the Articles of Association.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, the Company proposed to make certain amendments to the existing Articles of Association (the "**Proposed Amendments**"). The Proposed Amendments were approved by the shareholders at the 2022 first extraordinary general meeting held on 9 August 2022, the 2022 second extraordinary general meeting held on 30 December 2022, and the 2023 first extraordinary general meeting, 2023 first domestic shareholders class meeting, and 2023 first H shareholders class meeting held on 13 January 2023, respectively. The revised Articles of Association has been published on both the websites of the Hong Kong Stock Exchange and the Company.

Audit Report

D.H.S.Z.[2023]000535

To the Shareholders of Xinjiang La Chapelle Fashion Co., Ltd:

I. DISCLAIMER OF OPINION

We have audited the financial statements of Xinjiang La Chapelle Fashion Co., Ltd (hereinafter as "La Chapelle"), which comprised the consolidated and parent company's balance sheet as of 31 December 2022, the consolidated and parent company's income statements, the consolidated and parent company's cash flow statement, the consolidated and parent company's statement of changes in shareholder's equity for the fiscal year 2022, and notes to the financial statements.

We do not express audit opinion on the accompanying financial statements of La Chapelle. Due to the significance of the matters described in the "Basis for Disclaimer of Opinion" section, we are unable to obtain sufficient and appropriate audit evidence to form the basis of our audit opinion on the financial statements.

II. BASIS FOR DISCLAIMER OF OPINION

A. Significant uncertainty of going concern

La Chapelle has incurred a net loss of RMB1,073,774 thousand in 2022 and has sustained losses for five consecutive years. As of December 31, 2022, La Chapelle's total liabilities exceeded its total assets by RMB2,573,209 thousand. Due to failure to repay overdue debts, La Chapelle is facing multiple litigations with its main bank accounts and equity interests in its subsidiaries being frozen and real estate being seized, and La Chapelle is listed as a discredited debtor. As mentioned in "Other important matter – Other important matters to be disclosed" in Note 14 to the financial statements, On 2 February 2023, the court has accepted the bankruptcy liquidation application filed against La Chapelle by Shanghai Qihui Enterprise Management Co., Ltd. and appointed administrator, and La Chapelle has entered into bankruptcy liquidation proceedings. As of the date of our report, La Chapelle is still under bankruptcy liquidation status.

As disclosed in "Basis for preparation of the financial statements" note 2 to the financial statements, at present, the main business of La Chapelle is running normally, and its operation and management are in good order. The board of directors and management are also actively planning to promote the bankruptcy liquidation into reorganization procedure in order to completely solve the historical debt burden of the Company. Therefore, La Chapelle's management has prepared its financial statements on going concern basis and plans to take measures to improve La Chapelle's financial position.

However, La Chapelle has not yet completed its reorganization plan, and it is uncertain whether such plan will be approved by its creditors, whether the necessary pre-approval procedures for the bankruptcy reorganization can be completed, whether the subsequent application for bankruptcy reorganization will be accepted by the court or whether the court will rule for it to enter into the reorganization procedures. The circumstances of the above indicate that there is significant uncertainty regarding the Company's continued operation. We were unable to obtain sufficient and appropriate audit evidence to determine whether it is appropriate for La Chapelle to prepare its 2022 financial statements on going concern basis.

Audit Report

B. Litigation matters

As disclosed in "Litigation Matters" in note 11-2-1 in the financial statements, due to La Chapelle's default in repaying debt, the amount of unadjudicated litigation was RMB741,821 thousand as of 31 December 2022, and the amount of the adjudicated litigation was RMB465 thousand as of the date of audit report. Also as disclosed in "Effects of New Litigation or Arbitration" in note 12-1-1 of the financial statements, from 1 January 2023 to the report date, new litigations cases involving a total amount of RMB76,576 thousand were filed against La Chapelle.

Wholly owned subsidiaries of La Chapelle, Shanghai Weile Apparel Co., Ltd. and Shanghai Leou Apparel Co., Ltd. entered into bankruptcy and liquidation progress in July 2022, and their financial data was no longer included in the consolidated financial statements of La Chapelle after it lost control over them. As of December 31, 2022, among the outstanding lawsuits of La Chapelle, there are cases where the above two companies have assumed guarantee obligations for or received guarantee from La Chapelle and other subsidiaries within the scope of consolidation. Some of these creditors have declared their claims to the above two companies, and if they cannot be fully repaid, the outstanding portion will be recovered from La Chapelle and its subsidiaries.

Although La Chapelle has made the necessary presentation of the effects of certain litigation matters in the financial statements, we were unable to obtain sufficient and appropriate audit evidence to determine the potential loss from such litigation matters and the accuracy and completeness of the estimated liabilities related to such litigation and arbitration due to the complexity of litigation matters and the uncertainty of their outcome; such as the amount involved in these litigation matter, amount of default payment and the completeness of the litigation matters.

III. RESPONSIBILITIES OF MANAGEMENT AND GOVERNANCE FOR FINANCIAL STATEMENTS

The management of La Chapelle is responsible for preparing financial statements that present a fair view in accordance with accounting standards for business enterprises and for designing, implementing, and maintaining such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, La Chapelle's management is responsible for assessing La Chapelle's ability to continue as a going concern, disclosing matters related to going concern (if applicable) and applying the going concern assumptions, unless management plans to liquidate La Chapelle, discontinue operations, or has no other realistic option.

Governance is responsible for overseeing La Chapelle's financial reporting process.

IV. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF FINANCIAL STATEMENTS

Our responsibility is to perform the audit of the financial statements of La Chapelle in accordance with CAS(China Accounting Standards) in order to issue an audit report. However, we are unable to obtain sufficient and appropriate audit evidence as a basis for our audit opinion because of the matters described in the "Basis for Disclaimer of Opinion" section.

We are independent of La Chapelle and have fulfilled our other responsibilities in terms of professional ethics in accordance with the Code of Ethics for Certified Public Accountants in China.

Da Hua Certified Public Accountants
(Special General Partnership)

CICPA:
(Engagement Partner)

薛祈明
Xue Qiming

Beijing, China

CICPA:

葉華
Ye Hua

30 March 2023

Consolidated Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note V	Closing Balance	Opening Balance
Assets			
Current assets:			
Monetary Funds	(I)	100,238	167,456
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable		–	–
Accounts receivable	(II)	42,580	88,718
Accounts receivable financing		–	–
Prepayments	(III)	5,004	11,050
Other receivables	(IV)	11,298	53,453
Inventories	(V)	38,699	60,865
Contract assets		–	–
Held-for-sale assets		–	–
Non-current assets due within a year	(VI)	–	–
Other current assets	(VII)	32,288	26,544
Total current assets		230,107	408,086
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments	(VIII)	106,264	144,603
Other equity instruments investment	(IX)	–	2,580
Other non-current financial assets	(X)	92,208	101,641
Investment properties		–	–
Fixed assets	(XI)	526,254	1,516,195
Construction in progress	(XII)	69,778	75,000
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets	(XIII)	36,427	3,837
Intangible assets	(XIV)	91,125	152,674
Development expenditure		–	–
Goodwill	(XV)	–	–
Long-term prepaid expenses	(XVI)	4,028	2,247
Deferred tax assets	(XVII)	–	–
Other non-current assets	(XVIII)	–	–
Total non-current assets		926,084	1,998,777
Total assets		1,156,191	2,406,863

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

Consolidated Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note V	Closing Balance	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings	(XX)	1,147,748	1,149,220
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		–	–
Accounts payable	(XXI)	893,963	826,501
Advance from customers	(XXII)	267	10,851
Contract liabilities	(XXIII)	4,408	20,395
Payroll Payable	(XXIV)	10,563	9,833
Tax payable	(XXV)	201,028	203,777
Other payables	(XXVI)	958,932	914,134
Held-for-sale liabilities		–	–
Non-current liability due within one year	(XXVII)	10,348	349,910
Other current liabilities	(XXVIII)	578	1,874.00
Total current liabilities		3,227,835	3,486,495
Non-current liabilities:			
Long-term borrowings	(XXIX)	–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Lease liabilities	(XXX)	26,673	1,897
Long-term payables		–	–
Long-term payroll payable		–	–
Estimated liabilities	(XXXI)	469,473	420,032
Deferred income		–	–
Deferred tax liabilities	(XVII)	–	2,110
Other non-current liabilities	(XXXII)	5,419	5,899
Total non-current liabilities		501,565	429,938
Total liabilities		3,729,400	3,916,433

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

Consolidated Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note V	Closing Balance	Opening Balance
Equity:			
Share capital	(XXXIII)	547,672	547,672
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Capital surplus	(XXXIV)	1,910,806	1,910,806
Less: Treasury share	(XXXV)	20,010	20,010
Other comprehensive income	(XXXVI)	(43,606)	(41,026)
Special reserves		–	–
Surplus reserve	(XXXVII)	246,788	246,788
Undistributed profits	(XXXVIII)	(5,147,499)	(4,075,526)
Equity attributable to Shareholders of the Company		(2,505,849)	(1,431,296)
Non-controlling interests		(67,360)	(78,274)
Total equity		(2,573,209)	(1,509,570)
Total liabilities and equity		1,156,191	2,406,863

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Consolidated Income Statement

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

Items	Note V	2022	2021
1. Revenue	(XXXIX)	197,841	430,128
Less: Costs of sales	(XXXIX)	61,761	219,366
Taxes and surcharges	(XL)	12,201	20,116
Selling and distribution expenses	(XLI)	81,179	215,376
Administrative expenses	(XLII)	129,047	158,473
Research and development expenses		–	–
Finance expenses	(XLIII)	181,703	199,731
Including: Interest expenses		182,103	209,670
Interest income		1,495	5,080
Add: Other income	(XLIV)	17,690	108,431
Investment income	(XLV)	(629,545)	31,792
Including: Investment income from associates and joint ventures		(38,342)	(11,265)
Derecognition of financial assets at amortized cost		–	–
Gain/(Loss) from net exposure hedging		–	–
Gain/(Loss) on fair value changes	(XLVI)	(9,433)	7,591
Credit impairment losses	(XLVII)	(27,890)	(186,505)
Asset impairment losses	(XLVIII)	(22,577)	(310,182)
Gain/(Loss) on disposal of assets	(XLIX)	(2,218)	7,209
2. Operating profit		(942,023)	(724,598)
Add: Non-operating income	(L)	1,822	7,813
Less: Non-operating expenses	(LI)	134,023	118,901
3. Profit before tax		(1,074,224)	(835,686)
Less: Income tax expenses	(LII)	(450)	(12,924)
4. Net profit		(1,073,774)	(822,762)
I. Classified by continuity of operations			
Net profit from continuing operations		(1,073,774)	(822,762)
Net profit from discontinuing operations		–	–
II. Classified by ownership of the equity			
Net profit attributable to shareholders of the parent company		(1,071,973)	(821,280)
Net profit attributable to non-controlling interests		(1,801)	(1,482)

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

Consolidated Income Statement

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	Note V	2022	2021
5. Other comprehensive income, net of tax		(2,580)	(2,160)
Other comprehensive income after tax attributable to parent company		(2,580)	(2,160)
I. Items of other comprehensive income that cannot be reclassified into profit and loss		(2,580)	(2,160)
i. Changes in fair value of investments in equity instruments		(2,580)	(2,160)
II. Items of other comprehensive income reclassified to profit or loss		-	-
i. Translation differences on translation of foreign currency financial statement		-	-
Other comprehensive income attributable to non-controlling interests after tax		-	-
6. Total comprehensive income		(1,076,354)	(824,922)
Attributable to shareholders of the company		(1,074,553)	(823,440)
Attributable to non-controlling interests		(1,801)	(1,482)
7. Earnings per share			
I. Basic earnings per share		(1.97)	(1.51)
II. Diluted earnings per share		(1.97)	(1.51)

Legal representative:
Zhao Jinwen

Principal in charge of accounting:
Hu Zhiguo

Head of accounting department:
Hu Zhiguo

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

Consolidated Cash Flow Statement

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

Items	Note V	2022	2021
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		168,187	429,678
Tax and surcharge refunds		8,878	–
Cash received relating to other operating activities	(LV)	13,463	38,149
Total cash inflows from operating activities		190,528	467,827
Cash paid for goods and services		43,909	64,416
Cash paid to and for employees		72,828	124,622
Taxes and surcharges paid		8,319	9,997
Other cash payments related to operating activities	(LV)	81,449	230,895
Total cash outflows from operating activities		206,505	429,930
Net cash flows from operating activities		(15,977)	37,897
2. Cash flows from investing activities			
Cash received from return on investments		–	–
Cash received from gain on investment		–	–
Net cash received from disposals of fixed assets, intangible assets, and other long-term assets		240	1,093
Net cash received from disposal of subsidiaries and other business units		–	17,124
Cash received relating to other investing activities		–	–
Total cash inflows from investing activities		240	18,217
Cash paid for fixed assets, intangible assets, and other long-term assets		6,679	4,899
Cash paid for investments		–	–
Net cash paid for acquiring subsidiaries and other business units		–	–
Cash paid relating to other investing activities	(LV)	573	–
Total cash outflows from investing activities		7,252	4,899
Net cash flows from investing activities		(7,012)	13,318

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

Consolidated Cash Flow Statement

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	Note V	2022	2021
3. Cash flows from financing activities			
Cash received from investments by others		–	2,000
Including: Cash received by subsidiaries from non-controlling investors		–	2,000
Cash received from borrowings		–	–
Other cash receipts related to other financing activities		–	–
Total cash inflows from financing activities		–	2,000
Cash repayments of borrowings		–	4,980
Cash payments for distribution of dividends, profits or interest expenses		–	3,377
Including: Dividends or profit paid by subsidiaries to non-controlling investors		–	–
Other cash payments related to financing activities	(LV)	2,315	7,821
Total cash outflows from financing activities		2,315	16,178
Net cash flows from financing activities		(2,315)	(14,178)
4. Effect of changes in foreign exchange rates on cash and cash equivalents		–	–
5. Net increase in cash and cash equivalents		(25,304)	37,037
Add: Opening balance of cash and cash equivalents		61,356	24,319
6. Closing balance of cash and cash equivalents		36,052	61,356

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

Items	2022											
	Equity attributable to parent company											
	Other equity instruments				Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Un-distributed profits	Non-controlling interests	Total equity
Share capital	Preferred stock	Perpetual debt	Others									
1. Closing balance of last year	547,672	-	-	-	1,910,806	20,010	(41,026)	-	246,788	(4,075,526)	(78,274)	(1,509,570)
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	-	-	1,910,806	20,010	(41,026)	-	246,788	(4,075,526)	(78,274)	(1,509,570)
3. Increase/decrease for current year	-	-	-	-	-	-	(2,580)	-	-	(1,071,973)	10,914	(1,063,639)
I. Total comprehensive income	-	-	-	-	-	-	(2,580)	-	-	(1,071,973)	(1,801)	(1,076,354)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	-	-
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	-	-
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	12,715	12,715
4. Closing balance of current year	547,672	-	-	-	1,910,806	20,010	(43,606)	-	246,788	(5,147,499)	(67,360)	(2,573,209)

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	2021											
	Equity attributable to parent company											Total equity
	Other equity instruments				Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Un-distributed profits	Non-controlling interests	
Share capital	Preferred stock	Perpetual debt	Others									
1. Closing balance of last year	547,672	-	-	-	1,910,806	20,010	(38,866)	-	246,788	(3,254,246)	(78,792)	(686,648)
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	-	-	1,910,806	20,010	(38,866)	-	246,788	(3,254,246)	(78,792)	(686,648)
3. Increase/decrease for current year	-	-	-	-	-	-	(2,160)	-	-	(821,280)	518	(822,922)
I. Total comprehensive income	-	-	-	-	-	-	(2,160)	-	-	(821,280)	(1,482)	(824,922)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	2,000	2,000
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	2,000	2,000
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	-	-	1,910,806	20,010	(41,026)	-	246,788	(4,075,526)	(78,274)	(1,509,570)

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Company Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note XV	Closing Balance	Opening Balance
Assets			
Current assets:			
Monetary Funds		34,823	57,883
Financial assets held for trading		–	–
Derivative financial assets		–	–
Notes receivable		–	–
Accounts receivable	(I)	1,475,334	2,528,297
Accounts receivable financing		–	–
Prepayments		1,784	4,741
Other receivables	(II)	299,272	271,235
Including: Interest receivables		–	–
Dividend receivables		–	–
Inventories		16,554	51,536
Contract assets		–	–
Held-for-sale assets		–	–
Non-current assets due within a year		–	–
Other current assets		2,726	5,611
Total current assets		1,830,493	2,919,303
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments	(III)	582,020	642,420
Other equity instruments investment		–	–
Other non-current financial assets		22,540	31,846
Investment properties		–	–
Fixed assets		2,459	5,705
Construction in progress		–	–
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets		30,968	–
Intangible assets		4,309	8,396
Development expenditure		–	–
Goodwill		–	–
Long-term prepaid expenses		–	18,052
Deferred tax assets		–	–
Other non-current assets		–	–
Total non-current assets		642,296	706,419
Total assets		2,472,789	3,625,722

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

Consolidated Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note XV	Closing Balance	Opening Balance
Liability and Equity			
Current liabilities:			
Short-term borrowings		597,748	599,220
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		–	–
Accounts payable		1,034,143	1,090,911
Advance from customers		221	1,734
Contract liabilities		1,334	1,281
Payroll payable		544	1,219
Tax payables		98,060	96,249
Other payables		1,358,432	1,220,338
Held-for-sale liabilities		–	–
Non-current liability due within a year		6,713	–
Other current liabilities		174	166
Total current liabilities		3,097,369	3,011,118
Non-current liabilities:			
Long-term borrowings		–	–
Bonds payable		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Lease liabilities		24,526	–
Long-term payables		–	–
Long-term payroll payable		–	–
Estimated liabilities		49,179	47,739
Deferred income		–	–
Deferred tax liabilities		–	–
Other non-current liabilities		–	–
Total non-current liabilities		73,705	47,739
Total liabilities		3,171,074	3,058,857

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

Consolidated Balance Sheet

As at 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

	Note XV	Closing Balance	Opening Balance
Equity:			
Share capital		547,672	547,672
Other equity instruments		–	–
Including: Preferred stock		–	–
Perpetual debt		–	–
Capital surplus		1,897,270	1,897,270
Less: Treasury share		20,010	20,010
Other comprehensive income		–	–
Special reserves		–	–
Surplus reserve		246,788	246,788
Undistributed profits		(3,370,005)	(2,104,855)
Total equity		(698,285)	566,865
Total liabilities and equity		2,472,789	3,625,722

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Company Income Statement

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	Note XV	2022	2021
1. Revenue	(IV)	81,021	241,901
Less: Costs of sales	(IV)	26,026	196,348
Taxes and surcharges		702	3,073
Selling and distribution expenses		86	34,958
Administrative expenses		61,126	58,102
Research and development expenses		–	–
Finance expenses		71,655	76,789
Including: Interest expenses		71,908	88,508
Interest income		848	6,553
Add: Other income		13,094	81,302
Investment income	(V)	4,190	24,902
Including: Investment income from associates and joint ventures		–	(42)
Derecognition of financial assets at amortized cost		–	–
Gain/(Loss) from net exposure hedging		–	–
Gain/(Loss) on fair value changes		(9,305)	4,814
Credit impairment losses		(1,064,852)	(139,983)
Asset impairment losses		(76,676)	(124,513)
Gain/(Loss) on disposal of assets		(1,603)	(406)
2. Operating profit		(1,213,726)	(281,253)
Add: Non-operating income		286	2,881
Less: Non-operating expenses		51,489	73,268
3. Profit before tax		(1,264,929)	(351,640)
Less: Income tax expenses		221	(2,201)
4. Net profit		(1,265,150)	(349,439)
i. Net profit from continuing operations		(1,265,150)	(349,439)
ii. Net profit from discontinuing operations		–	–
5. Other comprehensive income, net of tax		–	–
I. Items of other comprehensive income that cannot be reclassified into profit and loss		–	–
II. Items of other comprehensive income reclassified to profit or loss		–	–
6. Total comprehensive income		(1,265,150)	(349,439)

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Company Cash Flow Statement

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

Items	Note XV	2022	2021
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		715	25,452
Tax and surcharge refunds		7	–
Cash received relating to other operating activities		577	4,873
Total cash inflows from operating activities		1,299	30,325
Cash paid for goods and services		–	–
Cash paid to and for employees		–	10
Taxes and surcharges paid		–	–
Other cash payments related to operating activities		1,300	30,307
Total cash outflows from operating activities		1,300	30,317
Net cash flows from operating activities		(1)	8
2. Cash flows from investing activities			
Cash received from return on investments		–	–
Cash received from gain on investment		–	–
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		–	–
Net cash received from disposal of subsidiaries and other business units		–	–
Cash received relating to other investing activities		–	–
Total cash inflows from investing activities		–	–
Cash paid for fixed assets, intangible assets, and other long-term assets		–	–
Cash paid for investments		–	–
Net cash paid for acquiring subsidiaries and other business units		–	–
Cash paid relating to other investing activities		–	–
Total cash outflows from investing activities		–	–
Net cash flows from investing activities		–	–

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

Company Cash Flow Statement

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	Note XV	2022	2021
3. Cash flows from financing activities			
Cash received from investments by others		–	–
Cash received from borrowings		–	–
Other cash receipts related to other financing activities		–	–
Total cash inflows from financing activities		–	–
Cash repayments of borrowings		–	–
Cash payments for distribution of dividends, profits or interest expenses		–	–
Other cash payments related to financing activities		–	–
Total cash outflows from financing activities		–	–
Net cash flows from financing activities		–	–
4. Effect of changes in foreign exchange rates on cash and cash equivalents		–	–
5. Net increase in cash and cash equivalents		(1)	8
Add: Opening balance of cash and cash equivalents		18	10
6. Closing balance of cash and cash equivalents		17	18

Legal representative:

Zhao Jinwen

Principal in charge of accounting:

Hu Zhiguo

Head of accounting department:

Hu Zhiguo

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

Items	2022										
	Other equity instruments				Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Un-distributed profits	Total equity
Share capital	Preferred stock	Perpetual debt	Other								
1. Closing balance of last year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(2,104,855)	566,865
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(2,104,855)	566,865
3. Increase/decrease for current year	-	-	-	-	-	-	-	-	-	(1,265,150)	(1,265,150)
I. Total comprehensive income	-	-	-	-	-	-	-	-	-	(1,265,150)	(1,265,150)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	-
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	-
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(3,370,005)	(698,285)

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

Items	2021										
	Other equity instruments				Capital reserves	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Un-distributed profits	Total equity
Share capital	Preferred stock	Perpetual debt	Others								
1. Closing balance of last year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(1,755,416)	916,304
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in prior period	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Opening balance of current year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(1,755,416)	936,314
3. Increase/decrease for current year	-	-	-	-	-	-	-	-	-	(349,439)	(349,439)
I. Total comprehensive income	-	-	-	-	-	-	-	-	-	(349,439)	(349,439)
II. Shareholders invest and reduce capital	-	-	-	-	-	-	-	-	-	-	-
i. Common stock contributed/paid-in capital by shareholders/owners	-	-	-	-	-	-	-	-	-	-	-
ii. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
iii. Share-based payments to owners' equity	-	-	-	-	-	-	-	-	-	-	-
iv. Others	-	-	-	-	-	-	-	-	-	-	-
III. Profits distribution	-	-	-	-	-	-	-	-	-	-	-
i. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-
ii. Distribution to owners	-	-	-	-	-	-	-	-	-	-	-
iii. Others	-	-	-	-	-	-	-	-	-	-	-
IV. Transfers within owners' equity	-	-	-	-	-	-	-	-	-	-	-
i. Capital surplus transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
ii. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-
iii. Use of surplus reserve to cover previous losses	-	-	-	-	-	-	-	-	-	-	-
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
v. Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	-
vi. Others	-	-	-	-	-	-	-	-	-	-	-
V. Special reserves	-	-	-	-	-	-	-	-	-	-	-
i. Appropriated during current year	-	-	-	-	-	-	-	-	-	-	-
ii. Used during current year	-	-	-	-	-	-	-	-	-	-	-
VI. Others	-	-	-	-	-	-	-	-	-	-	-
4. Closing balance of current year	547,672	-	-	-	1,897,270	20,010	-	-	246,788	(2,104,855)	566,865

Legal representative:
Zhao Jinwen

Principal in charge of accounting:
Hu Zhiguo

Head of accounting department:
Hu Zhiguo

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

Notes to the financial statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION

(I) Registered Address, the Type of Organization and the Address of the Headquarter

Xinjiang La Chapelle Fashion Co., Ltd. (hereinafter referred to as “the Company”) is a joint stock company, shareholding reformed by Shanghai Xuhui La Chapelle Apparel Co. (hereinafter referred to as “Shanghai Xuhui La Chapelle”). Shanghai Xuhui La Chapelle is a limited liability company incorporated in Xuhui District, Shanghai on 14 March 2001. On 26 February 2004, the company changed its name to Shanghai La Chapelle Fashion Limited (hereinafter referred to as “Shanghai La Chapelle”). On 23 May 2011, the Company was converted into a joint stock company with limited liabilities according to the plan approved by the original board of directors and the terms in the agreement made by the company’s sponsors. The A-share of RMB-denominated shares and H-share of overseas-listed shares issued by the Company were listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). On 8 July 2020, the Company changed its name to “Xinjiang La Chapelle Fashion Co., Ltd”. On 14 April 2022, the Company received the decision of termination the listing of the Company’s A-shares from the Shanghai Stock Exchange. On 24 May 2022, the A-shares of the Company were delisted from the Shanghai Stock Exchange. After delisting the abovementioned shares has been listed on the National Equities Exchange and Quotations since 22 July 2022, stock code 400116.

As of 31 December 2022, the Company accumulatively issued 547,761,600 shares with a registered share capital of RMB547,761.6 thousand. Registered address: Room 2008, 20/F, Tower D, Chuangxin Square, Si Ping Road, Xin Shi District, Urumqi, Xinjiang, People's Republic of China; office address: 12/F, Building 4, No. 50, Lane 2700, Lianhua South Road, Minhang District, Shanghai.

(II) Business Nature and Major Activities of the Company

The main business activity of the Company and its subsidiaries is design, promotion and sale of apparel products in the People's Republic of China.

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

During the reporting period, the major activities of the Company include apparel sales, brand-integrated services and property leasing.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION (CONTINUED)

(III) Scope of Consolidated Financial Statements

The total number of subsidiaries in the scope of consolidated financial statements for the period is 26, including:

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

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION (CONTINUED)

(III) Scope of Consolidated Financial Statements (continued)

Name of subsidiary	Type of subsidiary	Tier	Shareholding percentage (%)	Percentage of voting rights (%)
Shanghai La Chapelle Naf Fashion Co., Ltd. ("Laxia Nafu")	Controlling subsidiary	First	65	65
Guangzhou Xichen Clothing Co., Ltd. ("Guangzhou Xichen")	Controlling subsidiary	First	60	60
Taicang Xiawei Fashion Co., Ltd. ("Taicang Xiawei")	Wholly-owned subsidiary	First	100	100
Xinjiang Tongrong Fashion Co., Ltd. ("Xinjiang Tongrong")	Wholly-owned subsidiary	First	100	100
Shanghai Pinxi Technology Co., Ltd. ("Shanghai Pinxi")	Wholly-owned subsidiary	Second	100	100
Taicang Jiashang Storage Co., Ltd. ("Taicang Jiashang")	Wholly-owned subsidiary	Second	100	100
Taicang Chongan Fashion Co., Ltd. ("Taicang Chongan")	Wholly-owned subsidiary	First	100	100
Taicang Xiawei Storage Co., Ltd. ("Taicang Xiawei Storage")	Wholly-owned subsidiary	Second	100	100
Shanghai Geraopu Fashion Co., Ltd. ("Shanghai Geraopu")	Wholly-owned subsidiary	Second	100	100
Anhui Xinshang Fashion Co., Ltd. ("Anhui Xinshang")	Controlling subsidiary	Second	51	51
Shanghai Aixi Culture Broker Co., Ltd. ("Aixi Culture")	Wholly-owned subsidiary	Third	100	100

In this fiscal year, 2 entities were newly joined in, and 4 entities were subtracted from the scope of consolidation, details below:

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

I GENERAL INFORMATION (CONTINUED)

(III) Scope of Consolidated Financial Statements (continued)

1. Subsidiaries added to scope of consolidation:

Name of subsidiary	Reasons of changes
Shanghai Aixi Culture Broker Co., Ltd. ("Aixi Culture")	Investment establishment
Shanghai Qixin Property Management Co., Ltd. ("Qixin property management")	Investment establishment

2. Subsidiaries which no longer in scope of consolidation:

Name of subsidiary	Reasons of changes
Candie's Shanghai Fashion co., Ltd. ("Shanghai Leou")	Taken over by a court-appointed administrator and removed from the scope of consolidated statements
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Taken over by a court-appointed administrator and removed from the scope of consolidated statements
Yixin Retail Co., Ltd. ("Yixin Retail")	The company is not operating and was transferred on June 30, 2022
Shanghai Qixin Property Management Co., Ltd. ("Qixin property management")	Subtracted from the scope of consolidated statements due to its parent company, Shanghai Weile, was taken over by administrator

Details of the changes are presented in Note VI "Changes in Scope of Consolidation"

(IV) Approval of Financial Statements for Reporting

These financial statements are approved by Company's Board of Directors on 30 March 2023.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of Preparation of the Financial Statements

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

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

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

(II) Going Concern

The net loss of the Company in fiscal 2022 was RMB1,073,774 thousand and has consecutive loss for four years. As of 31 December 2022, the Company's total liabilities exceed total assets by RMB2,573,209 thousand. The Company is facing litigation matters, major bank accounts and equity interests in subsidiaries have been frozen and real estate has been seized due to default of debts (Refer to Note V/(I), Note V/(XI), Note V/(LVII), Note XI/(II)/1, and Note XII/(I)/1, respectively). The Company is listed as a discredited debtor. These matters or circumstances indicate the existence of material doubts and uncertainties that may lead to the Company's ability to continue as a going concern.

At present, the main business of La Chapelle is running normally, and its operation and management are in good order. The board of directors and management are also actively planning to promote the bankruptcy liquidation into reorganization procedure in order to completely solve the historical debt burden of the Company. Meanwhile, the Company continues to improve the performance and profitability, the main measures are as follows:

1. Plan and promote the bankruptcy restructuring process and strive to eliminate the debt burden through a comprehensive package.

Currently, the Company has been ruled by the court to enter into the bankruptcy liquidation procedure and is cooperating with the administrator to start the work of creditors declaration, debt and asset verification in an orderly manner in accordance with the applicable laws. With the objective of protecting the legitimate rights and interests of creditors and safeguarding the overall value of La Chapelle, the Company will conduct in-depth analysis and discussions with shareholders and creditors on the feasibility of debt restructuring to decrease its debt levels, actively recruit and select restructuring investors to obtain new funding, and discuss with relevant parties to resolve the Company's debts and future operational development, with a view to resolving the Company's debt problems, and thereby enhancing the Company's main business scale and sustainable profitability, and promoting the Company's early return to a positive growth path.

2. Promote the restructuring of the shareholding structure and its corresponding disposal to optimize the asset and liability structure of the Company.

As at the date of this report, two of the Company's subsidiaries holding core properties, Shanghai Weile and La Chapelle Taicang, have entered into insolvency proceedings and restructuring proceedings respectively, which will facilitate the disposal of the Company's property assets indirectly, reduce the pressure of overdue debts and deferred interest payments, and improve the Company's asset and liability structure. In the future, the Company will further sort out the Group's holding and controlling subsidiaries, optimize the shareholding structure and internal management accordingly, dispose of subsidiaries with no substantive business, revitalize subsidiaries holding assets in their names, divest subsidiaries with non-core business, and properly resolve arrangements for the disposal of business, assets and personnel, so as to revitalize the Company's various property assets and equity investments and significantly enhance the efficiency of asset utilization.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

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

(II) Going Concern (continued)

3. Build an online business brand to empower the new generation and achieve scale breakthrough and performance realization.

The Company will continue to increase its business development efforts in the brand empowerment business, further explore distributors and pipelines with quality industry resources and rich operational experience for cooperation, expand the brands, categories and platform pipelines covered by the online business, and accelerate the transformation to a light-asset, high-margin, fast-turnaround business model. At the same time, the Company will extend its business chain to provide comprehensive services such as brand culture, image visualization, supply chain integration, data analysis and operation and maintenance enhancement to online customers, establishing a mutually beneficial cooperation and long-term sustainable win-win mechanism. In addition, the Company has been exploring self-operated live-streaming business in the form of self-operated online core shops + live-streaming in offline shops, integrating offline retail outlets with online new retail business, empowering the terminal shops to attract traffic and achieve multi-level access to consumers, facilitating the Company's scale breakthrough and performance realization.

4. Focus on offline refinement of management capabilities and focus on improving business profitability.

At this stage, the Company has basically reached its lowest level of offline pipeline outlet numbers. The Company will continue to adhere to its strategy of "opening new shops and opening good shops" and fully focus on the more profitable southwest, northwest and northern regions in China, with shops in the core business areas being directly operated by the Company and shops in the remaining business areas operated through both franchises and associates model to achieve the effect of reducing the management radius and operating capital investment. At the same time, the Company will focus on improving the level of refinement of management, adopting the management mindset of "headquarters management reaches stores and management responsibility reaches individual staff", actively adjusting the product strategy and staff structure, using singlestore approach as a gateway to clear the remaining problems and improving the shop efficiency and profitability of the offline network.

5. Strengthen comprehensive budget management and cost control to ensure a stable balance of funds for operations.

The Company will further strengthen its overall budget management and cost control and improve the profitability of its main business through strict focus on "cost reduction and efficiency enhancement" measures. During the Reporting Period, the Company has taken measures to optimize the structure of functional departments and streamline redundant staff in line with the business restructuring process, so as to significantly reduce fixed expenses such as labor costs and fees and enhance management efficiency. In the future, the Company will pay more attention to the preparation, control and execution of comprehensive budgets, focus on strengthening cost control at source, strictly control various costs and expenses, conduct input and output analysis of key expenses, and form a closed-loop management of important expenses and project expenditures. The Company will also strengthen the management of payments and receipts for supply chain and brand empowerment businesses, and monitor and supervise the overall budgeting process to ensure a stable balance of funds for the Company's operations.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

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

(II) Going Concern (continued)

6. Strengthen internal control management and regulate operation to improve and perfect the internal control system.

The Company will continue to strengthen its internal control management and standard of operation, pay more attention to "standardization, process and refinement" management, and ensure the continuous standardization of the Company's operation by improving the internal control system, strengthening the internal approval process, delineating the financial approval authority and improving the internal audit system. At the same time, the Company will maintain a stable management team that can adapt to the development of its business at this stage. With the core objectives of improving operational quality and enhancing profitability, the Company will adapt to the development needs of its business activities at this stage and enhance the standard of internal control and operational efficiency by narrowing the focus on core resources, innovating the mode of operation and management and improving workflow.

7. Realize the advantages of shareholders and resource synergy to enhance the credit ability.

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

(III) Basis of Accounting and Valuation Principles

The Company's accounting is carried out on the accrual basis of accounting. The financial statements are measured at historical cost, except for other equity instruments and other non-current financial assets, which are measured at fair value. If an asset is impaired, a corresponding accrual for impairment is made in accordance with the relevant regulations.

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statement of Compliance with Corporate Accounting Standards

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and give a true and complete picture of the financial position, results of operations, cash flows and other relevant information of the company for the reporting period.

(II) Accounting Period

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

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(III) Operating Cycle

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

(IV) Currency of Accounts

The company adopts Chinese Yuan as its currency of accounts.

(V) Accounting for business combinations under common control and non-common control

1. The terms, conditions and economic effects of each transaction in a step-by-step business combination are one or more of the following, and multiple transactions are accounted for as a package:

- (1) These transactions occurred simultaneously or mutually influence have been considered;
- (2) These transactions lead to achieve a complete business result;
- (3) The occurrence of a transaction depends on the occurrence of at least one other transaction;
- (4) A transaction is not economical on its own, but it is economical when considered together with other transactions.

2. Business combination under the same common control

Assets and liabilities acquired in a business combination are measured at their book value in the consolidated financial statements of the ultimate controlling party at the date of combination (including goodwill resulting from the acquisition of the consolidated party by the ultimate controlling party). The difference between the book value of the net assets acquired in the merger and the book value of the merger consideration paid (or the aggregate nominal value of shares issued) is adjusted against the equity premium in capital surplus, and if the equity premium in capital surplus is not sufficient for elimination, it is adjusted against retained earnings.

If a contingent consideration exists and requires recognition of a estimated liability or asset, the difference between the amount of such estimated liability or asset and the settlement amount of the subsequent contingent consideration is adjusted to capital surplus (capital premium or equity premium), and if capital surplus is insufficient, retained earnings are adjusted.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(V) Accounting for business combinations under common control and non-common control (continued)

2. Business combination under the same common control (continued)

For a business combination that is ultimately achieved through multiple transactions, if it is a package transaction, each transaction is accounted for as one transaction to obtain control; if it is not a package transaction, the difference between the initial investment cost of the long-term equity investment, and the sum of the book value of the long-term equity investment before reaching the merger plus the book value of the new consideration paid for further acquisition of shares at the date of the merger is adjusted to capital surplus; if capital surplus is not sufficient to offset the difference, adjust retained earnings. For equity investments held before the date of consolidation, other comprehensive income recognized as a result of the adoption of the equity method of accounting or accounting under the Standard on Recognition and Measurement of Financial Instruments is not accounted for until the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee; other comprehensive income recognized in the net assets of the investee as a result of the adoption of the equity method of accounting, other than net profit or loss, other comprehensive income and profit distribution, is not accounted for until the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee. The changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution recognized by the equity method are not accounted for until the investment is disposed of and transferred to current profit or loss.

3. Business combination not under common control

The date of purchase is the date on which the company obtains control over the acquiree, i.e., the date on which control over the acquiree's net assets or production and operation decisions is transferred to the company. The company generally considers that the transfer of control is achieved when the following conditions are also met:

- (1) The business combination contract or agreement has been adopted by the company's internal authority.
- (2) The matter of business combination requiring approval by the relevant state authorities has been approved.
- (3) The necessary procedures for the transfer of property rights have been completed.
- (4) The Company has paid the majority of the merger price and has the ability and plan to pay the remaining amount.
- (5) The Company has effectively controlled the financial and operating policies of the acquiree and enjoys the corresponding benefits and bears the corresponding risks.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(V) Accounting for business combinations under common control and non-common control (continued)

3. Business combination not under common control (continued)

The Company measures assets paid for, liabilities incurred or assumed as consideration for a business combination at fair value at the date of purchase, and the difference between the fair value and book value is recognized in profit or loss for the current period.

The Company recognizes goodwill if the cost of the merger larger than the share of the fair value of the acquiree's identifiable net assets acquired in the merger; if the cost of the merger less than the share of the fair value of the acquiree's identifiable net assets acquired in the merger, after review, is recognized in profit or loss for the current period.

If a business combination under non-identical control is achieved in stages through multiple exchange transactions, each transaction is accounted for as a same transaction to obtain control if it is a package transaction; if it is not a package transaction, the equity investment held before the date of consolidation is accounted for under the equity method, the sum of the book value of the equity investment in the investee held before the date of purchase and the cost of the new investment at the date of purchase is used as the initial investment cost of that investment. If the equity investment held prior to the date of purchase is accounted for under the equity method, other comprehensive income recognized on the disposal of the investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee. If an equity investment held prior to the date of consolidation is accounted for using the standard on recognition and measurement of financial instruments, the sum of the fair value of the equity investment at the date of consolidation plus the cost of the additional investment is used as the initial investment cost at the date of consolidation. The difference between the fair value and the carrying amount of the equity interest originally held and the accumulated changes in fair value previously recognized in other comprehensive income should be transferred in full to investment income for the period at the date of consolidation.

4. Costs incurred in connection with the merger

Intermediary fees such as auditing, legal services, appraisal and consulting, and other directly related costs incurred for the business combination are charged to current profit or loss as incurred; transaction costs for equity securities issued for the business combination are deducted from equity if they are directly attributable to the equity transaction.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements

1. Scope of consolidation

The scope of consolidation of the Company's consolidated financial statements is determined on the basis of control, and all subsidiaries (including separate entities controlled by the Company) are included in the consolidated financial statements.

2. Consolidated procedure

The Company prepares consolidated financial statements on the basis of its own financial statements and those of its subsidiaries, and other relevant information. The Company prepares consolidated financial statements by considering the entire enterprise group as one accounting entity, reflecting the financial position, results of operations and cash flows of the enterprise group as a whole in accordance with the recognition, measurement and presentation requirements of relevant accounting standards for enterprises and in accordance with uniform accounting policies.

The accounting policies and accounting periods adopted by all subsidiaries included in the scope of consolidation of the consolidated financial statements are consistent with those of the Company. If the accounting policies and accounting periods adopted by the subsidiaries are not consistent with those of the Company, the necessary adjustments will be made in accordance with the Company's accounting policies and accounting periods when preparing the consolidated financial statements.

The effect on the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows, and consolidated statement of changes in shareholders' equity of internal transactions that occur between the Company and each subsidiary and between each subsidiary is offset in the consolidated financial statements. If the transaction is recognized differently from the perspective of the consolidated financial statements of the enterprise group than if the same transaction is recognized with the Company or a subsidiary as the accounting entity, the transaction is adjusted from the perspective of the enterprise group.

The share of the subsidiary's ownership interest, net profit or loss for the period and comprehensive income attributable to minority shareholders are presented separately in the consolidated balance sheet under the item of ownership interest, in the consolidated income statement under the item of net profit and in the consolidated statement of total comprehensive income, respectively. The balance resulting from the excess of the minority shareholders' share of the subsidiary's loss for the period over the minority shareholders' share of the subsidiary's ownership interest at the beginning of the period is eliminated to reduce shareholders' equity.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

For a subsidiary acquired through a business combination under the same control, its financial statements are adjusted on the basis of the carrying value of its assets and liabilities (including goodwill resulting from the acquisition of the subsidiary by the ultimate controlling party) in the financial statements of the ultimate controlling party.

For subsidiaries acquired through business combinations not under common control, their financial statements are adjusted based on the fair value of identifiable net assets at the date of purchase.

(1) *Addition to subsidiary or business*

During the reporting period, if a subsidiary or business is added as a result of a business combination under the same control, the opening balance of the consolidated balance sheet is adjusted; the revenues, expenses and profits of the subsidiary or business combination from the beginning of the period to the end of the reporting period are included in the consolidated income statement; and the cash flows of the subsidiary or business combination from the beginning of the period to the end of the reporting period are included in the consolidated cash flow statement, while the relevant items in the comparative statements are adjusted as if the consolidated reporting entity had been in existence since the point when the ultimate controlling party began to control it.

If it is possible to exercise control over an investee under the same control due to additional investment, etc., the parties involved in the consolidation are treated as if they existed in their current state at the time when the ultimate controlling party began to exercise control for adjustment purposes. For equity investments held prior to the acquisition of control of the consolidated party, the related gains or losses, other comprehensive income and other changes in net assets recognized between the later of the date of acquisition of the original equity interest and the date when the consolidated party and the consolidated party are under the same control and the date of consolidation are eliminated from opening retained earnings or current profit or loss, respectively, in the period of the comparative statements.

During the reporting period, if a subsidiary or business is added as a result of a business combination not under common control, the opening balance of the consolidated balance sheet is not adjusted; the revenue, expenses and profit of such subsidiary or business from the date of purchase to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiary or business from the date of purchase to the end of the reporting period are included in the consolidated cash flow statement.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(1) Addition to subsidiary or business (continued)

If the Company can exercise control over an investee not under common control due to additional investment, etc., the company remeasures the equity interest in the investee held prior to the date of purchase at the fair value of the equity interest at the date of purchase, and the difference between the fair value and carrying amount is recognized as investment income for the current period. If the equity interest in the investee held before the date of purchase involves other comprehensive income under the equity method of accounting and other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, the related other comprehensive income and other changes in owners' equity are transferred to investment income for the current period to which they belong at the date of purchase, except for other comprehensive income resulting from the remeasurement of the investee's net liabilities or changes in net assets of the defined benefit plan. Other comprehensive income arising from the remeasurement of the net liabilities or net assets of the defined benefit plan is excluded.

(2) Disposal of subsidiaries or business

1) General treatment

During the reporting period, if the Company disposes of a subsidiary or business, the revenue, expenses and profit of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

When control over an investee is lost due to the disposal of a portion of the equity investment or for other reasons, the company remeasures the remaining equity investment after disposal at its fair value at the date of loss of control. The difference between the sum of the consideration received for the disposal of the equity interest and the fair value of the remaining equity interest, less the sum of the share of the net assets of the original subsidiary calculated on a continuing basis from the date of purchase or the date of consolidation in proportion to the original shareholding and goodwill, is recognized as investment income in the period in which control is lost. Other comprehensive income or changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution related to the equity investment in the original subsidiary is transferred to investment income in the period when control is lost, except for other comprehensive income arising from the remeasurement of the investee's net liabilities or changes in net assets of the defined benefit plan.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(2) Disposal of subsidiaries or business (continued)

2) Disposal of subsidiary achieved by stages

Where an equity investment in a subsidiary is disposed of in steps through multiple transactions until control is lost, the terms, conditions and economic effects of each transaction to dispose of the equity investment in the subsidiary are such that one or more of the following circumstances normally indicate that the multiple transaction event should be accounted for as a package transaction:

- A. The transactions were entered into simultaneously or after consideration of their mutual effects;
- B. The transactions as a whole are necessary to achieve a complete business result;
- C. The occurrence of one transaction is dependent on the occurrence of at least one other transaction;
- D. A transaction is uneconomic when viewed alone but is economic when considered together with other transactions.

If each transaction for the disposal of an equity investment in a subsidiary until the loss of control is a package transaction, the company accounts for each transaction as a disposal of a subsidiary and loss of control; however, the difference between the disposal price and the share of the net assets of the subsidiary corresponding to the disposal of the investment for each disposal prior to the loss of control is recognized in the consolidated financial statements as other comprehensive income and is transferred to profit or loss in the period in which control is lost.

If the various transactions for the disposal of equity investments in subsidiaries until the loss of control are not a package transaction, prior to the loss of control, the accounting treatment is based on the policies related to partial disposal of equity investments in subsidiaries without loss of control; upon the loss of control, the accounting treatment is based on the general treatment of disposal of subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidated procedure (continued)

(3) *Acquisition of minority interest of subsidiary*

The difference between the company's newly acquired long-term equity investment due to the purchase of minority interest and its share of the net assets of the subsidiary calculated on a continuing basis from the date of purchase (or the date of consolidation) based on the newly acquired shareholding is adjusted to the equity premium in capital surplus in the consolidated balance sheet, and if the equity premium in capital surplus is not sufficient for elimination, it is adjusted to retained earnings.

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

The difference between the disposal price obtained from partial disposal of long-term equity investments in subsidiaries without loss of control and the share in the net assets of the subsidiaries calculated on an ongoing basis from the date of purchase or the date of consolidation corresponding to the disposal of long-term equity investments is adjusted against the equity premium in capital surplus in the consolidated balance sheet, and if the equity premium in capital surplus is not sufficient to cover the reduction, retained earnings is adjusted.

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

1. Classification of joint venture arrangements

The Company classifies joint venture arrangements into joint operations and joint ventures based on the structure of the joint venture arrangement, its legal form and the terms agreed upon in the joint venture arrangement, and other relevant facts and circumstances.

Joint venture arrangements that are not entered into through separate entities are classified as joint operations; joint venture arrangements entered into through separate entities are usually classified as joint ventures; however, there is conclusive evidence that any of the following conditions are met and that the joint venture arrangement is classified as a joint operation in accordance with relevant laws and regulations:

- (1) The legal form of the joint venture arrangement indicates that the joint venture parties have separate rights and obligations with respect to the relevant assets and liabilities of the arrangement.
- (2) The contractual terms of the joint venture arrangement stipulate that the joint venture parties have rights and obligations, respectively, with respect to the relevant assets and liabilities of the arrangement.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Classification of joint venture arrangements (continued)

- (3) Other relevant facts and circumstances indicate that the joint venture party has rights and obligations, respectively, with respect to the relevant assets and liabilities in the arrangement, such as the joint venture party's enjoyment of substantially all of the output associated with the joint venture arrangement and the ongoing dependence on the joint venture party for the satisfaction of the liabilities in the arrangement.

2. Accounting for joint operations

The Company recognizes the following items in its share of interest in joint operations that relate to the Company and accounts for them in accordance with the relevant corporate accounting standards:

- (1) Recognition of assets held separately and of jointly held assets in proportion to their shares;
- (2) Recognition of liabilities held separately, and of liabilities held jointly in proportion to their shares;
- (3) Recognition of income from the sale of its share of the output of a joint operation;
- (4) Recognition of revenue from the sale of output from joint operations in its share;
- (5) Recognition of expenses incurred separately and, in proportion to their shares, jointly.

When the Company contributes or sells assets, etc. to a joint operation (except when such assets constitute a business), only the portion of the gain or loss attributable to the other participants in the joint operation arising from the transaction is recognized until such assets, etc. are sold by the joint operation to a third party. If an impairment loss is incurred on assets contributed or sold in accordance with the provisions of Business Accounting Standards No. 8 – Impairment of Assets, etc., the company recognizes such loss in full.

When the Company purchases assets, etc. from a joint operation (except when such assets constitute a business), it recognizes only the portion of the gain or loss attributable to the other participants in the joint operation arising from the transaction until the assets, etc. are sold to a third party. If an impairment loss on an asset acquired in accordance with the provisions of Business Accounting Standards No. 8 – Impairment of Assets, etc. occurs, the Company recognizes the portion of the loss that is attributable to the Company's share.

The Company does not enjoy common control over the joint operation, if the Company enjoys the assets related to the joint operation and bears the liabilities related to the joint operation, the accounting treatment shall still be based on the above principles, otherwise, the accounting treatment shall be in accordance with the provisions of relevant enterprise accounting standards.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VIII) Criteria for determining cash and cash equivalents

In preparing the statement of cash flows, the Company recognizes cash on hand and deposits that are readily available for payment as cash. Investments that have all four conditions: short maturity (generally maturing within three months from the date of purchase), high liquidity, easy conversion to known amounts of cash, and minimal risk of changes in value are identified as cash equivalents.

(IX) Foreign currency operations and translation of foreign currency statements

1. Foreign currency operations

On initial recognition, foreign currency transactions are recorded in Chinese Yuan using the spot exchange rate on the date of the transaction as the translation rate.

At the balance sheet date, monetary items denominated in foreign currencies are translated at the spot exchange rate at the balance sheet date, and the resulting exchange differences are recognized in profit or loss, except for those arising from special borrowings in foreign currencies related to the acquisition of assets eligible for capitalization, which are treated in accordance with the principle of capitalizing borrowing costs. Non-monetary items measured in terms of historical cost in foreign currencies are still translated using the spot exchange rate at the date of the transaction, without changing the amount of the local currency of account.

Non-monetary items measured at fair value in foreign currencies are translated using the spot exchange rate at the date the fair value is determined. The difference between the translated amount in the carrying amount and the amount in the original carrying amount is treated as a change in fair value (including exchange rate changes) and recognized in current profit or loss or as other comprehensive income.

2. Translation of foreign currency in financial statements

Assets and liabilities in the balance sheet are translated using the spot rate of exchange at the balance sheet date; items in owners' equity, except for "undistributed earnings", are translated using the spot rate of exchange at the time of occurrence. Income and expense items in the income statement are translated using the spot exchange rate at the date of the transaction. Translation differences arising from the above translation are recognized in other comprehensive income.

When a foreign operation is disposed of, the foreign currency translation difference shown in the balance sheet under other comprehensive income and related to the foreign operation is transferred from other comprehensive income to profit or loss in the period of disposal; when a portion of the equity investment is disposed of or the proportion of interest in the foreign operation is reduced for other reasons but control over the foreign operation is not lost, the foreign currency translation difference related to the disposed portion of the foreign operation is The difference in translation of foreign currency statements related to the disposal of foreign operations will be attributed to minority interests and will not be transferred to profit or loss for the current period. When a foreign operation is disposed of as part of an associate or joint venture, the foreign currency translation differences related to the foreign operation are transferred to profit or loss in the period of disposal in proportion to the disposal of the foreign operation.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to a financial instrument contract.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense to each accounting period.

The effective interest rate is the rate used to discount the estimated future cash flows of a financial asset or financial liability through its expected life to the carrying amount of the financial asset or the amortized cost of the financial liability. In determining the effective interest rate, the expected cash flows are estimated taking into account all contractual terms of the financial asset or financial liability (such as early repayment, rollover, call option or other similar options, etc.), but not the expected credit losses.

The amortized cost of a financial asset or financial liability is the accumulated amortization resulting from the initial recognition amount of the financial asset or financial liability, less the principal repaid, plus or minus the difference between that initial recognition amount and the maturity amount using the effective interest method, less accumulated accrual for impairment losses (applicable only to financial assets).

1. Classification, Recognition, and Measurement of Financial Instruments

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

- (1) Financial assets measured at amortized cost.
- (2) Financial assets at fair value through other comprehensive income.
- (3) Financial assets at fair value through profit and loss.

Financial assets are measured at fair value on initial recognition, except for accounts receivable or notes receivable arising from the sale of goods or services that do not contain a significant financing component or do not consider a financing component of less than one year, which are initially measured at transaction price.

For financial assets at fair value through profit and loss, the related transaction costs are recognized directly in profit and loss, while for other categories of financial assets, the related transaction costs are recognized in their initial recognition amounts.

The subsequent measurement of a financial asset depends on its classification, and all relevant financial assets affected are reclassified when, and only when, the Company changes its business model for managing financial assets.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

(1) *Financial assets classified as measured at amortized cost*

If the contractual terms of a financial asset provide that the cash flows arising on a specific date are solely payments of principal and interest based on the outstanding principal amount, and the business model for managing the financial asset is to collect the contractual cash flows, the company classifies the financial asset as a financial asset measured at amortized cost. The company's financial assets classified as financial assets carried at amortized cost include monetary funds, notes receivable, accounts receivable, other receivables, long-term receivables, and debt investments.

The Company uses the effective interest rate method to recognize interest income on such financial assets and subsequently measures them at amortized cost. Gains or losses arising from their impairment or derecognition or modification are recognized in profit or loss for the current period. The Company determines interest income based on the carrying amount of the financial assets multiplied by the effective interest rate, except for the following cases:

- 1) For financial assets acquired or originated with credit impairment, the Company determines the interest income from the initial recognition on the basis of the amortized cost of the financial assets and the effective interest rate adjusted for credit.
- 2) For financial assets acquired or originated that are not credit impaired but become credit impaired in a subsequent period, the company determines interest income in the subsequent period based on the amortized cost of the financial asset and the effective interest rate. If the financial instrument is no longer credit impaired in a subsequent period because its credit risk has improved, the Company determines interest income by multiplying the effective interest rate by the carrying amount of the financial asset.

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

If the contractual terms of a financial asset provide that the only cash flows arising on a specific date are payments of principal and interest based on the principal amount outstanding, and the business model for managing the financial asset is to both collect the contractual cash flows and sell the financial asset, the Company classifies the financial asset as a financial asset measured at fair value through other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

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

The Company uses the effective interest rate method to recognize interest income on such financial assets. Except for interest income, impairment loss and exchange differences recognized in profit or loss, the remaining changes in fair value are recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income and recognized in profit or loss for the period.

Notes receivable and accounts receivable measured at fair value through other comprehensive income are reported as financing receivables, and other such financial assets are reported as other debt investments, of which: other debt investments maturing within one year from the balance sheet date are reported as non-current assets maturing within one year, and other debt investments with original maturities of less than one year are reported as other current assets.

(3) *Financial assets designated as at fair value through other comprehensive income*

On initial recognition, the Company may irrevocably designate investments in non-trading equity instruments as financial assets at fair value through other comprehensive income on the basis of a single financial asset.

Changes in the fair value of such financial assets are recognized in other comprehensive income and no impairment allowance is required. Upon derecognition of such financial assets, the cumulative gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income and included in retained earnings. Dividend income is recognized and recognized in profit or loss over the period in which the Company holds the investment in this equity instrument, when the Company's right to receive dividends has been established, it is probable that the economic benefits associated with the dividends will flow to the Company, and the amount of the dividends can be measured reliably. The Company reports such financial assets under the item of investment in other equity instruments.

An investment in equity instruments is a financial asset at fair value through profit or loss if it meets one of the following conditions, it was acquired principally for the purpose of selling in the near term; it is part of a portfolio of centrally managed identifiable financial asset instruments at initial recognition and there is objective evidence of a recent actual pattern of short-term profit-taking; it is a derivative (other than those that meet the definition of a financial guarantee contract and those that are designated as effective hedging instruments).

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

1. Classification, Recognition, and Measurement of Financial Instruments (continued)

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

Financial assets that do not qualify for classification as financial assets at amortized cost or at fair value through other comprehensive income and are not designated as at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss.

The Company uses fair value for the subsequent measurement of such financial assets and recognizes gains or losses arising from changes in fair value and dividend and interest income related to such financial assets in profit or loss for the current period.

The Company presents such financial assets under the items of financial assets held for trading and other non-current financial assets according to their liquidity.

(5) *Financial assets designated as at fair value through profit or loss*

At initial recognition, the company may irrevocably designate a financial asset as at fair value through profit or loss on an individual basis in order to eliminate or significantly reduce accounting mismatches.

If a hybrid contract contains one or more embedded derivatives and its main contract is not one of the above financial assets, the Company may designate the whole of it as a financial instrument at fair value through profit or loss. However, except for the following cases:

- 1) Embedded derivatives do not materially change the cash flows of hybrid contracts.
- 2) When first determining whether a similar hybrid contract requires a spin-off, little analysis is required to clarify that the embedded derivatives it contains should not be spun off. If an early repayment right embedded in a loan allows the holder to repay the loan early at an amount close to amortized cost, the early repayment right does not require a spin-off.

The Company uses fair value for the subsequent measurement of such financial assets and recognizes gains or losses arising from changes in fair value and dividend and interest income related to such financial assets in profit or loss for the current period.

The Company presents such financial assets under the items of financial assets held for trading and other non-current financial assets according to their liquidity.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

2. Classification, recognition, and measurement of financial liabilities

The Company classifies a financial instrument or its components as financial liabilities or equity instruments at initial recognition based on the contractual terms of the financial instrument issued and the economic substance reflected therein, rather than solely in legal form, in conjunction with the definitions of financial liabilities and equity instruments. Financial liabilities are classified at initial recognition as follows: financial liabilities at fair value through profit or loss, other financial liabilities, derivatives designated as effective hedging instruments.

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

The subsequent measurement of financial liabilities depends on their classification:

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

Such financial liabilities include financial liabilities held for trading (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss on initial recognitions.

A financial liability is classified as a financial liability held for trading if one of the following conditions is met: the financial liability is assumed primarily for the purpose of selling or repurchasing in the near future; it is part of a portfolio of centrally managed identifiable financial instruments and there is objective evidence that the enterprise has recently adopted a pattern of short-term profit-taking; it is a derivative instrument, except for derivatives that are designated and are effective hedging instruments, derivatives that qualify as financial guarantee contracts. Exceptions. Trading financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value, and all changes in fair value are recognized in profit or loss, except in relation to hedge accounting.

On initial recognition, for the purpose of providing more relevant accounting information, the company irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities at fair value through profit or loss:

- 1) Ability to eliminate or significantly reduce accounting mismatches.
- 2) Management and performance evaluation of a portfolio of financial liabilities or a portfolio of financial assets and financial liabilities on a fair value basis in accordance with the enterprise's risk management or investment strategy as set out in formal written documentation, and reporting to key management personnel on this basis within the enterprise.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

2. Classification, recognition, and measurement of financial liabilities (continued)

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

The Company uses fair value for the subsequent measurement of such financial liabilities and recognizes changes in fair value in profit or loss, except for changes in fair value arising from changes in the Company's own credit risk, which are recognized in other comprehensive income. The company recognizes all changes in fair value, including the amount of the effect of changes in its own credit risk, in profit or loss unless the inclusion of changes in fair value in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

(2) *Other financial liabilities*

The Company classifies financial liabilities as financial liabilities measured at amortized cost, except for the following, for which the Company applies the effective interest method and subsequently measures them at amortized cost, with gains or losses arising from derecognition or amortization recognized in profit or loss for the current period:

- 1) Financial liabilities at fair value through profit or loss.
- 2) Financial liabilities arising from the transfer of financial assets that do not qualify for derecognition or continue to be involved in the transferred financial assets.
- 3) Financial guarantee contracts that do not fall under the first two categories of this article, as well as loan commitments that do not fall under category 1) of this article to lend at below-market interest rates.

A financial guarantee contract is a contract that requires the issuer to pay a specified amount to the contract holder who has suffered a loss when a specified debtor is unable to pay its debt when due in accordance with the terms of the original or modified debt instrument. Financial guarantee contracts that are not financial liabilities designated as at fair value through profit or loss are measured, after initial recognition, at the higher of the amount of the allowance for loss and the amount initially recognized, less accumulated amortization over the guarantee period.

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

3. Derecognition of financial assets and liabilities

(1) *A financial asset is derecognized, i.e., reversed from its accounts and balance sheet, if one of the following conditions is met:*

- 1) Termination of contractual rights to receive cash flows from the financial asset.
- 2) The financial asset has been transferred and the transfer satisfies the requirements for derecognition of the financial asset.

(2) *Conditions for derecognition of financial liabilities*

A financial liability (or part of a financial liability) is derecognized when the present obligation is discharged from the financial liability (or part of the financial liability).

If an agreement is entered into between the company and the lender to replace an original financial liability by the assumption of a new financial liability, and the contractual terms of the new financial liability are materially different from those of the original financial liability, or the contractual terms of the original financial liability (or part thereof) are materially modified, the original financial liability is derecognized and a new financial liability is recognized, and the difference between the carrying amount and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognized in profit or loss for the period.

If the Company repurchases a portion of a financial liability, the carrying amount of the financial liability as a whole is allocated to the respective fair values of the continuing recognized portion and the derecognized portion as a percentage of the overall fair value at the date of repurchase. The difference between the carrying amount allocated to the derecognized portion and the consideration paid (including the non-cash assets transferred or liabilities assumed) should be recognized in profit or loss for the current period.

4. Recognition basis and measurement method of financial asset transfer

The Company assesses the extent to which it retains the risks and rewards of ownership of a financial asset when a transfer of the financial asset occurs, and treats each case separately as follows:

- (1) If substantially all the risks and rewards of ownership of a financial asset are transferred, the financial asset is derecognized, and the rights and obligations arising or retained from the transfer are recognized separately as assets or liabilities.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

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

- (2) If substantially all the risks and rewards of ownership of a financial asset are retained, the financial asset continues to be recognized.
- (3) If it neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset (i.e., in cases other than (1) and (2) of this Article), it is treated as follows, depending on whether it retains control over the financial assets:
 - 1) If control over the financial asset is not retained, the financial asset is derecognized and the rights and obligations arising from or retained in the transfer are recognized separately as assets or liabilities.
 - 2) If control over the financial asset is retained, the company continues to recognize the relevant financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes the related liability accordingly. The extent of continuing involvement in the transferred financial assets is the extent to which the company bears the risk or reward of changes in value of the transferred financial assets.

In determining whether a transfer of financial assets meets the above conditions for derecognition of financial assets, the principle of substance over form is applied. The Company distinguishes between transfers of financial assets as a whole and partial transfers of financial assets:

- (1) When a transfer of a financial asset as a whole satisfies the derecognition condition, the difference between the following two amounts is recognized in profit or loss:
 - 1) Carrying value of the transferred financial asset at the date of derecognition.
 - 2) The sum of the consideration received for the transfer of a financial asset and the amount corresponding to the derecognized portion of the cumulative amount of changes in fair value previously recognized directly in other comprehensive income (financial assets involved in the transfer are those measured at fair value through other comprehensive income).

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

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

- (2) If a portion of a financial asset is transferred and the transferred portion as a whole meets the derecognition condition, the carrying amount of the financial asset as a whole before the transfer is apportioned between the derecognized portion and the continuing recognized portion (in which case the retained service asset shall be treated as part of the continuing recognized financial asset) according to their respective relative fair values at the date of transfer, and the difference between the following two amounts is recognized in profit or loss:
 - 1) Carrying value of derecognized portion at the date of derecognition.
 - 2) The sum of the consideration received for the derecognized portion and the amount corresponding to the derecognized portion of the accumulated changes in fair value originally recognized in other comprehensive income (financial assets involved in the transfer are financial assets at fair value through other comprehensive income).

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

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

The fair value of a financial asset or financial liability for which there is an active market is determined using quoted prices in an active market unless there is a restricted period for the financial asset specific to the asset itself. The fair value of financial assets with an inherently restricted period is determined based on quoted prices in active markets, less any compensation required by market participants for assuming the risk that the financial assets will not be available for sale in the open market within a specified period. Quoted prices in active markets include quotations for the relevant assets or liabilities that are readily and regularly available from exchanges, dealers, brokers, industry groups, pricing agencies or regulators, etc. and are representative of actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets initially acquired or derived, or financial liabilities assumed is determined on the basis of market transaction prices.

Financial assets or financial liabilities for which no active market exists are valued using valuation techniques to determine their fair value. In valuation, the company uses valuation techniques that are applicable in the current circumstances and supported by sufficient available data and other information, selects inputs that are consistent with the characteristics of the asset or liability considered by market participants in transactions for the relevant asset or liability, and gives priority to the use of relevant observable inputs whenever possible. Use unobservable inputs when relevant observable inputs are not available or not practicable to obtain.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments

The Company accounts for financial assets measured at amortized cost, financial assets classified as at fair value through other comprehensive income and financial guarantee contracts that do not meet the derecognition criteria for transfer of financial assets or continue to be involved in the financial liabilities arising from the transferred financial assets on the basis of expected credit losses and recognizes a provision for losses.

Expected credit losses, which are the weighted average of credit losses on financial instruments weighted by the risk of default. Credit loss is the difference between all contractual cash flows receivable under the contract and all cash flows expected to be received by the company, discounted at the original effective interest rate, which is the present value of all cash shortages. In particular, for financial assets purchased or originated by the company that are credit impaired, the credit-adjusted effective interest rate of the financial assets shall be discounted.

For receivables resulting from transactions governed by the revenue standard, the company applies a simplified measurement approach and measures the allowance for losses at an amount equal to the expected credit loss over the entire life of the receivable.

For financial assets that are purchased or originated with credit impairment, only the cumulative changes in expected credit losses throughout their lives since initial recognition are recognized as a provision for losses at the balance sheet date. At each balance sheet date, the amount of the change in expected credit losses over the entire life of the asset is recognized as an impairment loss or gain in profit or loss. A favorable change in expected credit losses is recognized as an impairment gain even if the expected credit losses determined at that balance sheet date for the entire life of the asset are less than the amount of expected credit losses reflected in the estimated cash flows at initial recognition.

For financial assets other than those for which simplified measurement methods and purchased or originated credit impairment have been applied as described above, the company assesses at each balance sheet date whether the credit risk of the relevant financial instruments has increased significantly since initial recognition, and measures the allowance for losses, recognizes expected credit losses and changes therein, respectively, in accordance with the following circumstances:

- (1) If the credit risk of the financial instrument has not increased significantly since initial recognition and is in the first stage, the allowance for losses is measured at an amount equal to the expected credit loss of the financial instrument over the next 12 months and interest income is calculated based on the carrying amount and effective interest rate.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

- (2) If the credit risk of the financial instrument has increased significantly since initial recognition but no credit impairment has occurred, it is in the second stage, the allowance for losses is measured at an amount equal to the expected credit loss over the entire life of the financial instrument, and interest income is calculated based on the carrying amount and effective interest rate.
- (3) If the financial instrument has been credit impaired since initial recognition and is in the third stage, the Company measures its loss allowance at an amount equal to the expected credit loss over the entire life of the financial instrument and calculates interest income at amortized cost and effective interest rate.

The amount of increase or reversal of the allowance for credit losses on financial instruments is recognized as impairment loss or gain in profit or loss. Except for financial assets classified as financial assets at fair value through other comprehensive income, the allowance for credit losses is offset against the carrying amount of the financial assets. For financial assets classified as at fair value through other comprehensive income, the Company recognizes a provision for credit losses in other comprehensive income without reducing the carrying amount of the financial assets presented in the balance sheet.

If the Company has measured the provision for losses in the previous accounting period at an amount equal to the expected credit losses over the entire life of the financial instrument, but at the balance sheet date of the current period, the financial instrument is no longer subject to a significant increase in credit risk since initial recognition, the Company measures the provision for losses on the financial instrument at the balance sheet date of the current period at an amount equal to the expected credit losses over the next 12 months, and the resulting reversal of the provision for losses is recognized as an impairment gain in profit or loss for the current period.

(1) *Credit risk increased significantly*

The Company determines whether the credit risk of a financial instrument has increased significantly since initial recognition by comparing the risk of default of the financial instrument at the balance sheet date with the risk of default at the date of initial recognition using reasonable and substantiated forward-looking information that is available. For financial guaranteed contracts, the company uses the date the Company becomes a party to the irrevocable commitment as the initial recognition date when applying the accrual for impairment of financial instruments.

Notes to the Financial Statements

For the year ended 31 December 2022
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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(1) *Credit risk increased significantly (continued)*

The Company considers the following factors when assessing whether there is a significant increase in credit risk:

- 1) Whether there is a significant change in the actual or expected results of operations of the debtor;
- 2) Whether there has been a significant adverse change in the regulatory, economic or technological environment in which the debtor operates;
- 3) Whether there have been significant changes in the value of collateral pledged as security for the debt or in the quality of guarantees or credit enhancements provided by third parties that are expected to reduce the debtor's economic incentive to repay the debt by the contractual deadline or to affect the probability of default;
- 4) Whether there are significant changes in the debtor's expected performance and repayment behavior;
- 5) Whether there are changes in the Company's approach to credit management of financial instruments, etc.

At the balance sheet date, if the Company determines that a financial instrument has only low credit risk, the Company assumes that the credit risk of the financial instrument has not increased significantly since initial recognition. A financial instrument is considered to have low credit risk if the risk of default is low, the borrower's ability to meet its contractual cash flow obligations in the short term is strong, and the borrower's ability to meet its contractual cash flow obligations may not necessarily be reduced even if there are adverse changes in economic conditions and business environment in the longer term.

(2) *Financial assets that are credit impaired*

A financial asset becomes credit impaired when one or more events occur that have an adverse effect on the expected future cash flows of the financial asset. Evidence that a financial asset is credit impaired includes the following observable information:

- 1) Significant financial difficulty of the issuer or debtor;

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(2) *Financial assets that are credit impaired (continued)*

- 2) Breach of contract by the debtor, such as default or delinquency in interest or principal payments;
- 3) Creditors granting concessions to the debtor that the debtor would not otherwise make because of economic or contractual considerations related to the debtor's financial difficulties;
- 4) A high probability of bankruptcy or other financial reorganization of the debtor;
- 5) The disappearance of an active market for the financial asset as a result of the financial difficulties of the issuer or the debtor;
- 6) A financial asset is purchased or originated at a significant discount that reflects the fact that a credit loss has occurred.

A credit impairment of a financial asset may be the result of a combination of events and may not necessarily be the result of separately identifiable events.

(3) *Determination of expected credit losses*

The Company evaluates expected credit losses on financial instruments on an individual and portfolio basis, taking into account reasonable and substantiated information about past events, current conditions and projections of future economic conditions when assessing expected credit losses.

The Company classifies financial instruments into different portfolios based on common credit risk characteristics. The common credit risk characteristics used by the Company include type of financial instrument, credit risk rating, ageing portfolio, past due ageing portfolio, contractual settlement cycle, and industry in which the debtor is located. The individual evaluation criteria and portfolio credit risk characteristics of the related financial instruments are detailed in the accounting policies of the related financial instruments.

The Company determines the expected credit losses on the related financial instruments in accordance with the following methods:

- 1) For financial assets, credit losses are the present value of the difference between the contractual cash flows receivable by the Company and the cash flows expected to be collected.

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For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (continued)

6. Impairment of financial instruments (continued)

(3) *Determination of expected credit losses (continued)*

- 2) For lease receivables, credit losses are the present value of the difference between the contractual cash flows receivable by the Company and the cash flows expected to be collected.
- 3) For financial guaranteed contracts, credit losses are the present value of the difference between the expected payment to be made by the Company to the holder of such contract for credit losses incurred, less the amount expected to be collected by the company from the holder of such contract, the debtor, or any other party.
- 4) For financial assets that are credit impaired at the balance sheet date but not purchased or originated with credit impairment, the credit loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original effective interest rate.

The Company's approach to measuring expected credit losses on financial instruments reflects factors such as: the weighted average amount of unbiased probabilities determined by evaluating a range of possible outcomes; the time value of money; and reasonable and substantiated information about past events, current conditions and projections of future economic conditions that is available at the balance sheet date without undue additional cost or effort.

(4) *Write-down of financial assets*

When the Company no longer has a reasonable expectation that the contractual cash flows from a financial asset will be fully or partially recovered, the carrying amount of the financial asset is written down directly. Such write-down constitutes derecognition of the related financial asset.

7. Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset against each other. However, they are presented in the balance sheet as net amounts after offsetting each other if the following conditions are also met:

- (1) The Company has a legal right to offset the recognized amounts and such legal right is currently enforceable;
- (2) The Company plans to settle on a net basis, or to realize the financial asset and settle the financial liability at the same time.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Notes receivable

The Company determines the expected credit losses on notes receivable and accounts for them as described in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on notes receivable resulting from transactions governed by the income guidelines.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the Company classifies notes receivable into certain portfolios based on credit risk characteristics, considering historical credit loss experience, current conditions and judgments about future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Banker's Acceptance Note Portfolio	Accepting Institution	Calculation of expected credit losses by reference to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, through default exposures and expected credit loss rates over the entire duration.
Commercial Promissory Note Portfolio	Acceptor	Prepare a table comparing the aging of notes receivable with expected credit losses throughout the life of the notes by referring to historical credit loss experience, taking into account current conditions and forecasts of future economic conditions, and calculate expected credit losses.

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Accounts receivable

The Company's method of determining expected credit losses on accounts receivable and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on accounts receivable resulting from transactions governed by the income guidelines.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the company classifies accounts receivable into certain portfolios based on credit risk characteristics by referring to historical credit loss experience, taking into account current conditions and judgment of future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Full amount of expected credit loss portfolio	Account receivables which have full impairment of bad debts.	Accounts receivable with expected credit losses are individually evaluated with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and are classified into the corresponding portfolio for bad debt provisioning
Age of accounts risk portfolio	All accounts receivable except those for which full impairment of bad debts have been applied.	Calculate expected credit losses by referring to historical credit loss experience, combining current conditions and forecasts of future economic conditions, through default exposures and expected credit loss rates over the entire duration

Notes to the Financial Statements

For the year ended 31 December 2022

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Receivable's financing

The Company's method of determining expected credit losses on receivables financing and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

(XIV) Other receivables

The Company's method of determining and accounting for expected credit losses on other receivables is detailed in Note X/6 "Impairment of financial instruments".

The Company separately determines credit losses on other receivables for which sufficient evidence of expected credit losses can be assessed at the individual instrument level at a reasonable cost.

When sufficient evidence of expected credit losses cannot be assessed at the individual instrument level at a reasonable cost, the Company classifies other receivables into certain portfolios based on credit risk characteristics by referring to historical credit loss experience, taking into account current conditions and judgment of future economic conditions, and calculates expected credit losses on the basis of the portfolios. The basis for determining the portfolio is as follows:

Name of portfolio	Basis for determining	Accrue method
Full amount of expected credit loss portfolio	Other account receivables which have full impairment of bad debts.	Other receivables with expected credit losses are individually evaluated with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and are classified in the appropriate portfolio for bad debt provisioning
Age of accounts risk portfolio	All other account receivables except those for which full impairment of bad debts have been applied.	Calculate expected credit losses based on reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and prepare a comparison table of the aging of other receivables over the next 12 months or the entire duration.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Inventory

1. Classification of inventories

Inventories are finished goods or merchandise held for sale in the ordinary course of the company's activities, work-in-progress in the production process, materials and supplies consumed in the production process or in the provision of labor services, etc. They mainly include raw materials, goods in stock, and low-value consumables.

2. Inventory valuation method

Inventories are initially measured at cost when acquired, including purchase cost, processing cost and other costs. Inventories are valued by the weighted-average method when they are issued.

3. The basis for determining the net realizable value of inventories and the impairment for inventory

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

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

If the factors affecting previous write-down of inventory value have disappeared, the amount of the write-down is restored and reversed within the amount of the original impairment of inventories, and the amounts reversed are charged to current period profit or loss.

4. Inventory system for inventories

Adopt perpetual inventory counting system.

5. Amortization method of low-value consumables and packaging

Low-value consumables are amortized using the one-time reversal method

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Other debt investment

The method of determining expected credit losses and the accounting treatment of the company's other debt investments is detailed in Note X/6 "Impairment of financial instruments".

(XVII) Long-term receivables

The Company's method of determining expected credit losses on long-term receivables and its accounting treatment are detailed in Note X/6 "Impairment of financial instruments".

(XVIII) Long-term equity instruments

1. Initial determination of investment costs

- (1) Long-term equity investments resulting from business combinations are accounted for as described in Note V "Accounting for business combinations under common control and non-common control".
- (2) Long-term equity investments acquired by other methods.

Long-term equity investments acquired by cash payment are recorded at initial investment cost based on the actual purchase price paid. The initial investment cost includes expenses directly related to the acquisition of long-term equity investments, taxes and other necessary expenses.

Long-term equity investments acquired by issuing equity securities are recorded at the fair value of the equity securities issued as the initial investment cost; transaction costs incurred in issuing or acquiring its own equity instruments that are directly attributable to equity transactions are deducted from equity.

On the premise that the exchange of non-monetary assets has commercial substance and the fair value of the assets exchanged or exchanged can be measured reliably, the initial investment cost of long-term equity investments acquired in exchange for non-monetary assets is determined on the basis of the fair value of the assets exchanged, unless there is conclusive evidence that the fair value of the assets exchanged is more reliable; for non-monetary asset exchanges that do not satisfy the above premise, the initial investment cost is determined on the basis of the book value of the assets exchanged and the related tax payable. For non-monetary asset exchanges that do not meet the above prerequisites, the book value of the assets exchanged, and the related taxes and fees payable are used as the initial investment cost of the long-term equity investment exchanged.

The initial investment cost of long-term equity investments acquired through debt restructuring is determined on the basis of fair value.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

2. Subsequent measurement and profit or loss recognition

(1) *Cost method*

Long-term equity investments in which the Company is able to exercise control over the investee are accounted for using the cost method and are carried at initial investment cost, with additional or recovered investments adjusting the cost of long-term equity investments.

Except for the declared but unpaid cash dividends or profits included in the actual price or consideration paid when acquiring the investment, the Company recognizes as current investment income the cash dividends or profits declared and distributed by the investee according to its entitlement.

(2) *Equity method*

The Company accounts for its long-term equity investments in associates and joint ventures using the equity method; for a portion of these equity investments in associates held indirectly through venture capital institutions, mutual funds, trust companies or similar entities including investment-linked insurance funds, they are measured at fair value and the changes are recognized in profit or loss.

The difference between the initial investment cost of a long-term equity investment and its share of the fair value of the identifiable net assets of the investee at the time of investment is not adjusted; the difference between the initial investment cost and its share of the fair value of the identifiable net assets of the investee at the time of investment is recognized in profit or loss for the current period.

Upon acquisition of a long-term equity investment, the Company recognizes investment income and other comprehensive income, respectively, based on the share of net profit or loss and other comprehensive income realized by the investee, and adjusts the carrying value of the long-term equity investment; and reduces the carrying value of the long-term equity investment accordingly, based on the portion of profit or cash dividends declared by the investee to which the Company is entitled; for the investee The carrying value of long-term equity investments is adjusted and recognized in owners' equity for changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution.

The Company recognizes its share of the net profit or loss of the investee on the basis of the fair value of each identifiable asset, etc. of the investee at the time of acquisition of the investment, after adjusting the net profit of the investee. Unrealized gains or losses on internal transactions between the Company and its associates or joint ventures are recognized on the basis of the proportionate share of the gains or losses attributable to the Company, which is offset by the recognition of investment gains or losses on this basis.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

2. Subsequent measurement and profit or loss recognition (continued)

(2) *Equity method (continued)*

When the Company recognizes its share of losses incurred by an investee, it is treated in the following order: First, the carrying amount of the long-term equity investment is reduced. Second, if the carrying value of long-term equity investments is not sufficient for elimination, investment losses continue to be recognized to the extent of the carrying value of other long-term equity interests that substantially constitute the net investment in the investee, and the carrying value of long-term receivables, etc. is eliminated. Finally, after the above treatment, if, according to the investment contract or agreement, the enterprise still assumes additional obligations, a estimated liability is recognized for the expected obligations assumed and included in the current investment loss.

If the investee achieves profitability in subsequent periods, the company, after deducting the unrecognized share of loss, treats the investment in the reverse order of the above, and resumes recognition of investment income after writing down the carrying amount of recognized estimated liabilities and restoring the carrying amount of other long-term equity interests and long-term equity investments that substantially constitute the net investment in the investee.

3. Conversion of accounting method for long-term equity investments

(1) *Transfer from fair value measurement to equity method accounting*

If the equity investment originally held by the Company that does not have control, joint control or significant influence over the investee and is accounted for under the recognition and measurement of financial instruments standard is able to exercise significant influence or joint control over the investee but does not constitute control due to additional investment, etc., the sum of the fair value of the originally held equity investment plus the cost of the additional investment determined in accordance with AS 22 – Recognition and Measurement of Financial Instruments", the sum of the fair value of the equity investment originally held plus the cost of the additional investment shall be used as the initial investment cost to be accounted for under the equity method instead.

The difference between the initial investment cost accounted for under the equity method and the share of the fair value of the identifiable net assets of the investee at the date of additional investment, determined in accordance with the new percentage of shareholding after the additional investment, is adjusted to the carrying amount of the long-term equity investment and recognized as non-operating income for the period.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. Conversion of accounting method for long-term equity investments (continued)

(2) *Transfer from fair value measurement or equity method accounting to cost method accounting*

If the Company originally holds equity investments that are not controlled, jointly controlled or significantly influenced by the investee and are accounted for in accordance with the Guidelines on Recognition and Measurement of Financial Instruments, or if the Company originally holds long-term equity investments in associates or joint ventures and is able to exercise control over investees not under common control due to additional investments, etc., the carrying value of the equity investments originally held is used in the preparation of individual financial statements as The sum of the book value of the original equity investment plus the cost of the additional investment shall be used as the initial cost of investment to be accounted for under the cost method.

Other comprehensive income recognized as a result of the equity method of accounting for equity investments held prior to the date of purchase is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee upon the disposal of the investment.

If an equity investment held before the date of purchase is accounted for in accordance with the relevant provisions of AS 22 – Recognition and Measurement of Financial Instruments, the accumulated changes in fair value previously recognized in other comprehensive income are transferred to current profit or loss when the investment is accounted for under the cost method instead.

(3) *Conversion of equity method accounting to fair value measurement*

If the Company loses joint control or significant influence over an investee for reasons such as disposal of a portion of its equity investment, the remaining equity interest after disposal is accounted for in accordance with AS 22 – "Recognition and Measurement of Financial Instruments", and the difference between its fair value and book value at the date of loss of joint control or significant influence is recognized in the current period. Profit or loss.

Other comprehensive income recognized as a result of the equity method accounting for the former equity investment is accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee when the equity method accounting is discontinued.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

3. Conversion of accounting method for long-term equity investments (continued)

(4) *Conversion from cost method to equity method*

If the Company loses control over an investee for reasons such as the disposal of a portion of its equity investment, the Company will change to the equity method of accounting if the remaining equity interest after disposal is capable of exercising joint control or significant influence over the investee in the preparation of individual financial statements and adjust the remaining equity interest as if it had been accounted for under the equity method from the time of acquisition.

(5) *Conversion from cost method to fair value measurement*

If the Company loses control over an investee for reasons such as the disposal of a portion of its equity investment, in preparing the individual financial statements, if the remaining equity interest after disposal cannot exercise joint control or significant influence over the investee, it is instead accounted for in accordance with the relevant provisions of AS 22 – "Recognition and Measurement of Financial Instruments". The difference between its fair value and book value at the date of loss of control is recognized in profit or loss for the current period.

4. Disposal of long-term equity investment

The difference between the carrying amount and the actual acquisition price of a long-term equity investment disposed of shall be recognized in profit or loss for the current period. When a long-term equity investment accounted for using the equity method is disposed of, the same basis as that used for the direct disposal of the related assets or liabilities by the investee is used to account for the portion of the investment that was previously recognized in other comprehensive income at a corresponding rate.

The terms, conditions, and economic effects of each transaction to dispose of an equity investment in a subsidiary are accounted for as a package transaction for multiple transactions if one or more of the following conditions apply:

- (1) The transactions are entered into simultaneously or after consideration of their effects on each other;
- (2) The transactions as a whole are necessary to achieve a complete business result;
- (3) The occurrence of one transaction is dependent on the occurrence of at least one other transaction;
- (4) One transaction is uneconomic when viewed in isolation but is economic when considered together with other transactions.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

If control over the original subsidiary is lost due to the disposal of part of the equity investment or for other reasons, it is not a package transaction, and the relevant accounting treatment is distinguished between individual financial statements and consolidated financial statements:

- (1) In the individual financial statements, the difference between the carrying amount of the equity interest disposed of and the actual acquisition price is recognized in profit or loss for the current period. If the remaining equity interest after disposal can exercise joint control or significant influence over the investee, it is accounted for under the equity method instead, and the remaining equity interest is adjusted as if it had been accounted for under the equity method since its acquisition; if the remaining equity interest after disposal cannot exercise joint control or significant influence over the investee, it is accounted for in accordance with the relevant provisions of AS 22 – The difference between the fair value and the carrying amount at the date of loss of control is recognized in profit or loss for the current period.
- (2) In the consolidated financial statements, for each transaction prior to the loss of control over a subsidiary, the difference between the disposal price and the corresponding share of the long-term equity investment in the net assets of the subsidiary calculated on an ongoing basis from the date of purchase or the date of consolidation is adjusted to capital surplus (equity premium), and if capital surplus is not sufficient to offset the difference, retained earnings are adjusted; upon loss of control over a subsidiary, the remaining equity interest is recognized in accordance with Upon loss of control over a subsidiary, the remaining equity interest is remeasured at its fair value at the date of loss of control. The difference between the sum of the consideration received for the disposal of the equity interest and the fair value of the remaining equity interest, less the share of the net assets of the original subsidiary calculated on a continuing basis from the date of purchase in proportion to the original shareholding, is recognized as investment income in the period in which control is lost and goodwill is eliminated. Other comprehensive income related to the equity investment in the original subsidiary, etc., is transferred to investment income in the current period when control is lost.

If each transaction of the disposal of equity investment in a subsidiary until the loss of control is a package transaction, each transaction is accounted for as a disposal of equity investment in a subsidiary and loss of control, and the relevant accounting treatment is distinguished between individual financial statements and consolidated financial statements:

- (1) In the individual financial statements, the difference between the disposal price and the carrying amount of the long-term equity investment corresponding to the equity interest disposed of before the loss of control is recognized as other comprehensive income and transferred to profit or loss in the period in which control is lost.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Long-term equity instruments (continued)

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

- (2) In the consolidated financial statements, the difference between the disposal price and the share of the net assets of the subsidiary corresponding to the disposed investment for each disposal prior to the loss of control is recognized as other comprehensive income and is transferred to profit or loss in the period in which control is lost when control is lost.

5. Judgment criteria for joint control and significant influence

If the Company collectively controls an arrangement with other participants in accordance with the relevant agreement, and a decision on activities that significantly affect the return of the arrangement exists only when the unanimous consent of the participant's sharing control is required, the arrangement is considered to be a joint venture arrangement when the Company and the other participants jointly control the arrangement.

If a joint venture arrangement is entered into through a separate entity, if the Company is judged to have rights to the net assets of the separate entity based on the relevant agreement, the separate entity is accounted for as a joint venture using the equity method. If it is judged that the Company does not have rights to the net assets of the separate entity based on the relevant agreement, the separate entity is accounted for as a joint venture, and the Company recognizes items related to the share of interest in the joint venture and accounts for them in accordance with the provisions of the relevant ASBES.

Significant influence means that the investor has the power to participate in decision-making over the financial and operating policies of the investee, but does not control, or jointly control with other parties, the formulation of those policies. The Company determines that it has significant influence over the investee through one or more of the following circumstances, taking into account all facts and circumstances: (1) having representatives on the board of directors or similar authority of the investee; (2) participating in the process of setting financial and operating policies of the investee; (3) having significant transactions with the investee; (4) sending management personnel to the investee; (5) providing the investee unit with key technical information.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset

1. Recognition of fixed assets

Fixed assets are tangible assets that are held for the production of goods and services, rental or operation management and have a useful life of more than one fiscal year. A fixed asset is recognized when both of the following conditions are met:

- (1) It is probable that the economic benefits associated with the fixed asset will flow to the enterprise.
- (2) The cost of the fixed asset can be measured reliably.

2. Initial measurement of fixed assets

The Company's fixed assets are initially measured at cost.

- (1) The cost of purchased fixed assets includes the purchase price, import duties and other related taxes, and other expenses directly attributable to the fixed assets until they reach their intended useable state.
- (2) The cost of self-constructed fixed assets consists of the necessary expenditures incurred before the construction of the asset reaches its intended useable state.
- (3) Fixed assets invested by investors shall be recorded at the value agreed in the investment contract or agreement, except that the value agreed in the contract or agreement is not fair, which is recorded at fair value.
- (4) Where the purchase price of a fixed asset is deferred beyond normal credit terms and is substantially of a financing nature, the cost of the fixed asset is determined on the basis of the present value of the purchase price. The difference between the actual price paid and the present value of the purchase price is recognized in profit or loss over the credit period, except for those that should be capitalized.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Fixed asset (continued)

3. Subsequent measurement and disposal of fixed assets

(1) Depreciation of fixed assets

Depreciation on fixed assets is provided over their estimated useful lives based on their recorded value less estimated net salvage value. For fixed assets for which accrual for impairment has been made, depreciation is determined in future periods on the basis of the carrying amount net of impairment and based on the remaining useful life; fixed assets that are fully depreciated and continue to be used are not depreciated.

The Company determines the useful lives and estimates net residual values of fixed assets based on the nature and use of fixed assets. At the end of the year, the useful life, estimated net salvage value and depreciation method of fixed assets are reviewed and adjusted accordingly if there is any difference from the original estimate.

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

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

(2) Subsequent measurements of fixed assets

Subsequent expenditures related to fixed assets that meet the conditions for recognition of fixed assets are included in the cost of fixed assets; those that do not meet the conditions for recognition of fixed assets are included in the current profit and loss when incurred.

(3) Disposal of fixed assets

A fixed asset is derecognized when it is disposed of or when no economic benefits are expected to arise from its use or disposal. The disposal proceeds from the sale, transfer, scrapping or destruction of fixed assets, net of their book value and related taxes and fees, are recognized in profit or loss for the current period.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Construction in progress

1. Initial measurement of construction in progress

The Company's self-constructed construction in progress is valued at actual cost, which consists of necessary expenditures incurred before the construction of the asset reaches its intended useable state, including the cost of construction materials, labor costs, related taxes and fees paid, borrowing costs to be capitalized and overhead costs to be apportioned, etc.

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

Construction-in-progress projects are recorded as fixed assets at the value of all expenditures incurred before the construction of the asset reaches its intended useable state. If the construction in progress has reached its intended useable state but the final account has not yet been completed, the estimated value is transferred to fixed assets based on the budget, cost or actual cost of the project from the date it reaches its intended useable state, and the depreciation of fixed assets is recorded in accordance with the Company's depreciation policy for fixed assets, and after the final account is completed, the original accrued estimated value is adjusted according to the actual cost, but not the original depreciated value. Depreciation amount.

(XXI) Borrowing costs

1. Principles of recognizing capitalization of borrowing costs

Borrowing costs incurred by the Company that are directly attributable to the acquisition or production of assets eligible for capitalization are capitalized and charged to the cost of the related assets; other borrowing costs are recognized as expenses when incurred and charged to current profit or loss in accordance with the amounts incurred.

Assets eligible for capitalization are fixed assets, investment properties and inventories that require a substantial period of time to reach their intended use or saleable condition.

Borrowing costs begin to be capitalized when both of the following conditions are met:

- (1) Expenditure on assets has been incurred, which includes expenditure incurred in the form of cash payments, transfers of non-cash assets or the assumption of interest-bearing debt for the acquisition or production of assets eligible for capitalization;
- (2) Borrowing costs have been incurred;
- (3) The acquisition or production activities necessary to bring the asset to its intended use or saleable condition have begun.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Borrowing costs (continued)

2. Capitalization period of borrowing costs

The capitalization period refers to the period from the point when capitalization of borrowing costs commences to the point when capitalization ceases, excluding the period when capitalization of borrowing costs is suspended.

Borrowing costs cease to be capitalized when the acquisition or production of assets eligible for capitalization reaches its intended use or saleable condition.

Borrowing costs cease to be capitalized when a portion of the assets eligible for capitalization is separately completed and available for separate use.

If each part of an asset purchased or produced is completed separately, but must wait until the whole is completed before it can be used or sold to the public, the capitalization of borrowing costs ceases when the asset is completed as a whole

3. Suspension of capitalization period

Borrowing costs are suspended if there is an unusual interruption in the process of acquisition or production of an asset eligible for capitalization and the interruption lasts for more than three consecutive months; if the interruption is necessary to bring the asset eligible for capitalization to its intended useable or marketable condition, the borrowing costs continue to be capitalized. Borrowing costs incurred during the interrupted period are recognized as current profit or loss until the acquisition or production of the asset is restarted and the borrowing costs continue to be capitalized.

4. Calculation of capitalization of borrowing cost

Interest expenses on special borrowings (net of interest income earned on unused borrowed funds deposited in banks or investment income earned on temporary investments) and their ancillary expenses are capitalized until the assets purchased or produced that qualify for capitalization reach their intended use or saleable condition.

The amount of interest to be capitalized on general borrowings is determined by multiplying the weighted-average amount of accumulated asset expenditures in excess of the portion of special borrowings by the capitalization rate of the general borrowings occupied. The capitalization rate is determined based on the weighted-average interest rate on general borrowings.

If there is a discount or premium on borrowings, the amount of discount or premium to be amortized for each accounting period is determined by the effective interest rate method, and the amount of interest is adjusted for each period.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Right-of-use assets

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

1. the amount of the initial measurement of the lease liability;
2. the amount of lease payments made on or before the commencement date of the lease term, net of amounts related to lease incentives taken, if any, exist;
3. the initial direct costs incurred by the Company;
4. costs expected to be incurred by the Company to disassemble and remove the leased asset, restore the site where the leased asset is located, or restore the leased asset to the condition agreed upon under the terms of the lease (excluding costs incurred to produce inventory);

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

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

(XXIII) Intangible assets

Intangible assets are identifiable non-monetary assets without physical form owned or controlled by the Company, including land use rights, trademark use rights, outsourced software.

1. Initial measurement of intangible assets

The cost of an externally acquired intangible asset includes the purchase price, related taxes and other expenses directly attributable to bringing the asset to its intended use. Where the purchase price of an intangible asset is deferred beyond normal credit terms and is substantially of a financing nature, the cost of the intangible asset is determined on the basis of the present value of the purchase price.

When a debt restructuring acquires an intangible asset used to offset a debt, the fair value of the intangible asset is used to determine its recorded value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible asset used to offset the debt is recognized in profit or loss for the current period.

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets (continued)

1. Initial measurement of intangible assets (continued)

Provided that the exchange of non-monetary assets has commercial substance and the fair value of the asset being exchanged or the asset being exchanged can be measured reliably, the recorded value of the intangible asset acquired in exchange for non-monetary assets is determined on the basis of the fair value of the asset being exchanged, unless there is conclusive evidence that the fair value of the asset being exchanged is more reliable; for non-monetary asset exchanges that do not meet the above prerequisites, the carrying amount of the asset being exchanged and the related tax payable are used as the basis for determining the recorded value of the asset being exchanged. In the case of a non-monetary asset exchange that does not meet the above prerequisites, the carrying amount of the asset to be exchanged and the related taxes and fees to be paid are recognized as the cost of the intangible asset, and no gain or loss is recognized.

Intangible assets acquired by way of absorption and consolidation of enterprises under common control are recorded at the carrying value of the party being consolidated; intangible assets acquired by way of absorption and consolidation of enterprises not under common control are recorded at fair value.

The cost of an intangible asset developed internally includes materials used in developing the intangible asset, labor costs, registration fees, amortization of other patents and licenses used in the development process and interest costs that satisfy the conditions for capitalization, and other direct costs incurred to bring the intangible asset to its intended use.

2. Subsequent measurement of intangible assets

The Company analyzes and determines the useful life of intangible assets at the time of acquisition and classifies them into those with finite useful lives and those with indefinite useful lives.

(1) Intangible assets with limited useful life

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

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

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Intangible assets (continued)

2. Subsequent measurement of intangible assets (continued)

(1) *Intangible assets with limited useful life (continued)*

At the end of each period, the useful lives and amortization methods of intangible assets with finite useful lives are reviewed and adjusted accordingly if they differ from the original estimates.

After the review, the useful lives and amortization methods of intangible assets at the end of the period were not different from the previous estimates.

(2) *Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are considered to be those with indefinite useful lives if it is not foreseeable that the intangible assets will provide economic benefits to the enterprise.

Intangible assets with indefinite useful lives are not amortized during the holding period, and the lives of intangible assets are reviewed at the end of each period. If they are still indefinite after re-review at the end of the period, they continue to be tested for impairment in each accounting period.

After the review, the useful life of such intangible assets is still indefinite

(XXIV) Impairment of long-term assets

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

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

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

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

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Impairment of long-term assets (continued)

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

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

(XXV) Long-term prepaid expenses

1. Amortization method

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

2. Amortization period

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

(XXVI) Contract liabilities

The Company recognizes the portion of the obligation to transfer goods to customers for which consideration has been received or receivable from customers as a contract liability.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Employee benefits

Employee compensation refers to various forms of remuneration or compensation given by the Company for services rendered by employees or for the termination of employment relationships. Employee compensation includes short-term compensation, post-employment benefits, severance benefits and other long-term employee benefits.

1. Short-term employee benefits

Short-term compensation is defined as employee compensation, excluding post-employment benefits and termination benefits, that is payable in full within twelve months after the end of the annual reporting period in which the employees render the related services. The Company recognizes short-term compensation payable as a liability in the accounting period in which the employee provides services and includes it in the cost of related assets and expenses according to the beneficiary of the services provided by the employee.

2. Post-employment benefits

Post-employment benefits are all forms of compensation and benefits, except short-term compensation and termination benefits, provided by the Company to obtain services rendered by employees after their retirement or termination of employment with the Company.

The Company's post-employment benefit plan is defined contribution plan.

The defined contribution plans for post-employment benefits are mainly for participation in basic social pension insurance and unemployment insurance organized and implemented by local labor and social security agencies. During the accounting period in which the employees provide services to the Company, the amount of contributions payable under the defined contribution plan is recognized as a liability and recognized in current profit or loss or the cost of related assets.

After the Company makes regular contributions to these amounts in accordance with national standards and the annuity plan, it has no further payment obligations.

3. Termination benefits

Termination benefits are compensation given by the Company to employees for the termination of their employment relationship prior to the expiration of their employment contracts or to encourage employees to voluntarily accept redundancy. A liability is recognized for compensation given for the termination of the employment relationship with employees when the Company cannot unilaterally withdraw the termination plan or the proposed redundancy and at the earlier of the recognition of costs associated with the restructuring involving the payment of termination benefits. The Company recognizes the liability arising from the termination of the employment relationship with the employee, which is simultaneously recognized in profit or loss.

Notes to the Financial Statements

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Estimated liabilities

1. Criteria for recognition of a contingent liability

The Company recognizes a estimated liability when the obligation associated with a contingency meets both of the following conditions.

The obligation is a present obligation to be assumed by the Company.

It is probable that the performance of the obligation will result in an outflow of economic benefits to the Company.

The amount of the obligation can be measured reliably.

2. Measurement of estimated liabilities

The Company's estimated liabilities are initially measured at the best estimate of the expenditure required to satisfy the related present obligation.

In determining the best estimate, the Company considers the risks associated with the contingencies, uncertainties, and the time value of money. For those with a significant impact on the time value of money, the best estimate is determined by discounting the related future cash outflows.

The best estimates are treated separately as follows:

Where a continuous range (or interval) of required expenditures exists and it is equally probable that various outcomes will occur within that range, the best estimate is determined as the average of the middle of the range, i.e., the upper and lower amounts.

If there is no continuous range (or interval) of expenditures, or if there is a continuous range but the probabilities of various outcomes within the range are different, the best estimate is determined as the most probable amount if the contingency relates to a single item; if the contingency relates to multiple items, the best estimate is determined based on various probable outcomes and related probabilities.

If all or part of the expenditures required to settle the estimated liability are expected to be reimbursed by a third party, the amount of reimbursement is recognized separately as an asset when it is substantially certain that it will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the estimated liability.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Lease liabilities

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

1. fixed payments after deducting amounts related to lease incentives and material fixed payments;
2. variable lease payments that depend on an index or rate;
3. lease payments that include the exercise price of the purchase option if the Company is reasonably certain that the option will be exercised;
4. where the lease term reflects that the Company will exercise the option to terminate the lease, the lease payment amount includes the amount required to be paid to exercise the option to terminate the lease;
5. the amount expected to be paid based on the residual value of the guarantee provided by the Company.

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

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

(XXX) Share-based payments

1. Classification of share-based payments

The Company's share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

2. Determination of fair value of equity instruments

For equity instruments such as options granted for which there is an active market, the fair value is determined based on quoted prices in the active market. For equity instruments such as options granted for which no active market exists, the fair value is determined using an option pricing model, etc. The option pricing model selected considers the following factors: (1) the exercise price of the option; (2) the term of the option; (3) the prevailing price of the underlying shares; (4) the expected volatility of the share price; (5) the expected dividends on the shares; and (6) the risk-free interest rate during the term of the option.

In determining the fair value of equity instruments on the grant date, the effect of market conditions and non-viable conditions in the viability conditions specified in the share-based payment agreements are considered. If non-viable conditions exist for share-based payments, the cost expense corresponding to the services received is recognized as long as the employee or other parties satisfy all the non-market conditions of the viable conditions (such as the service period, etc.).

3. Basis for recognizing the best estimate on equity instruments expected to vest

At each balance sheet date during the waiting period, the number of equity instruments expected to be feasible is revised based on the best estimate based on the latest available subsequent information such as changes in the number of feasible employees. The final estimated number of exercisable equity instruments at the date of exercise corresponds to the actual number of exercisable equity instruments.

4. Accounting treatment method

Equity-settled share-based payments are measured at the fair value of the equity instruments granted to employees. If an equity instrument is exercisable immediately after the grant, it is recorded at the fair value of the equity instrument at the date of grant at the relevant cost or expense, with a corresponding increase in capital surplus. If the rights are not exercisable until the completion of the service within the waiting period or when the specified performance conditions are met, the services acquired during the period are recognized in the relevant cost or expense and capital surplus at each balance sheet date within the waiting period, based on the best estimate of the number of exercisable equity instruments and at the fair value of the equity instruments at the date of grant. No adjustment is made to the related costs or expenses and total owners' equity recognized after the exercise date.

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Share-based payments (continued)

4. Accounting treatment method (continued)

Share-based payments settled in cash are measured at the fair value of the liabilities assumed by the Company that are determined on the basis of shares or other equity instruments. If the right is exercisable immediately after the grant, the liability is increased accordingly by the fair value of the liability assumed by the Company at the date of grant to the relevant cost or expense. For cash-settled share-based payments that become exercisable after the completion of the services within the waiting period or after the fulfillment of specified performance conditions, the services acquired during the period are recorded at cost or expense and a corresponding liability at each balance sheet date within the waiting period, based on the best estimate of the circumstances under which they will become exercisable and the amount of the fair value of the liability assumed by the Company. At each balance sheet date prior to settlement of the related liability and at the settlement date, the fair value of the liability is remeasured, and the change is recognized in profit or loss for the period.

If an equity instrument granted is cancelled during the waiting period, the Company treats the cancellation of the equity instrument granted as an accelerated exercise and recognizes the amount to be recognized over the remaining waiting period immediately in profit or loss, together with capital surplus. If employees or other parties are able to elect to satisfy the non-viable option condition but fail to do so during the waiting period, the Company treats the cancellation as a cancellation of the equity instruments granted.

(XXXI) Revenue

The Company's revenues are derived from the following business types.

- (1) retail sales
- (2) Wholesale sales
- (3) Brand-integrated services
- (4) Property leasing

1. General principles of revenue recognition

The Company recognizes revenue based on the transaction price apportioned to that performance obligation when the Company has satisfied the performance obligation in the contract, i.e., when the customer obtains control of the relevant goods or services.

A performance obligation is a contractual commitment by the Company to transfer clearly distinguishable goods or services to a customer.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

1. General principles of revenue recognition (continued)

The acquisition of control of the relevant goods is the ability to dominate the use of the goods and derive substantially all of the economic benefits therefrom.

The Company evaluates the contract as of the contract commencement date, identifies each individual performance obligation contained in that contract, and determines whether each individual performance obligation is to be performed within a certain period of time or at a certain point in time. If one of the following conditions is met, the performance obligation is performed within a certain period of time, and the Company recognizes revenue over a period of time in accordance with the progress of performance: (1) the customer obtains and consumes the economic benefits resulting from the Company's performance at the same time as the Company's performance; (2) the customer is able to control the goods under construction during the Company's performance; (3) the goods produced during the Company's performance have irreplaceable uses and the Company is entitled to receive payment for the cumulative portion of performance completed to date throughout the contract period. Otherwise, the Company recognizes revenue at the point at which the customer obtains control of the relevant goods or services.

The Company uses the output method/input method to determine the appropriate schedule of performance for performance obligations to be performed within a given time period, depending on the nature of the goods and services. The output method determines the progress of performance based on the value to the customer of the goods that have been transferred to the customer (the input method determines the progress of performance based on the Company's inputs to satisfy the performance obligation). When the progress of performance cannot be reasonably determined, the company recognizes revenue in the amount of costs already incurred until the progress of performance can be reasonably determined, if the costs already incurred are expected to be reimbursed.

2. Specific methods of revenue recognition

Retail: The Company sells directly to customers at retail, which is a performance obligation to be fulfilled at a point in time and recognizes revenue when the customer has purchased the product, has received the price or acquired the right to receive payment, and it is probable that the related economic benefits will flow.

Wholesale sales: The Company sells goods to franchisees in various locations. The Company recognizes revenue when the merchandise is shipped or accepted by the franchisee. The Company provides sales discounts to franchisees based on sales volume. The Company determines the amount of discounts based on the expected value method based on historical experience, and recognizes revenue based on the net amount of the contract consideration less the expected discount amount.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (continued)

2. Specific methods of revenue recognition (continued)

Brand-integrated services: The brand-integrated services business is a business in which the Company provides customers with the right to use each brand and receives brand licensing royalties. Revenue from brand licensing is recognized over the agreed usage period of each brand, apportioned over the period.

Property leasing: The Company recognizes revenue on a straight-line basis over the lease term as agreed in the lease contract.

3. Accounting treatment principle on the revenue of specific transactions

(1) *Contracts with sales return clause*

Revenue is recognized at the amount of consideration expected to be received for the transfer of goods to the customer (i.e., excluding the amount expected to be returned as a result of the sale) when the customer obtains control of the goods, and a liability is recognized at the amount expected to be returned as a result of the sale.

The balance of the book value of merchandise expected to be returned upon sale, net of the costs expected to be incurred to recover the merchandise (including impairment of the value of the returned merchandise), is accounted for under "cost of returned merchandise".

(2) *Reward points program*

The Company will grant customers reward points with the sale of merchandise, which they can redeem for free or discounted merchandise provided by the Company. This reward point program provides a significant right to the customer, which the Company treats as a single performance obligation, apportions a portion of the transaction price to the reward points in the relative proportion of the individual selling price of the merchandise offered and the reward points, and recognizes revenue when the customer obtains control of the merchandise for which the points are redeemed or when the points lapse.

(3) *Primary responsible/agent*

For the Company's retail model in a department store counter, the Company is able to control the merchandise before transferring it to the customer, and therefore the Company is the primary responsible party and recognizes revenue based on the total consideration received or receivable.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contract costs

1. Contract performance costs

The Company recognizes as an asset the cost incurred to perform a contract that does not fall within the scope of other ASBEs other than the revenue standard and that also meets the following conditions as contract performance costs

- (1) The cost is directly related to a current or expected contract to be obtained, including direct labor, direct materials, manufacturing costs (or similar costs), costs explicitly borne by the customer, and other costs incurred solely in connection with that contract.
- (2) The cost increases the resources available to the business to meet future performance obligations.
- (3) The cost is expected to be recovered.

The asset is reported in inventories or other noncurrent assets based on whether its amortization period at initial recognition exceeds one normal operating cycle.

2. Contract acquisition costs

Incremental costs incurred by the Company to acquire a contract that are expected to be recovered are recognized as an asset as contract acquisition costs. Incremental costs are costs that would not have been incurred had the Company not acquired the contract, such as sales commissions. For amortization periods not exceeding one year, they are recognized in profit or loss as incurred.

3. Amortization of contract costs

The above assets related to contract costs are amortized to current profit or loss using the same basis as revenue recognition for goods or services related to the asset, either at the point of performance of the performance obligation or in accordance with the progress of performance of the performance obligation.

4. Impairment of contract costs

If the carrying value of the above assets related to contract costs is higher than the difference between the remaining consideration expected to be received by the Company for the transfer of the commodity related to the asset and the estimated costs to be incurred for the transfer of the related commodity, the excess should be provided for impairment and recognized as an asset impairment loss.

After the accrual for impairment is made, if there is a change in the factors for impairment in previous periods, such that the above two differences are higher than the carrying amount of the asset, the original impairment is reversed and recognized in profit or loss, provided that the carrying amount of the asset after the reversal does not exceed the carrying amount of the asset at the date of reversal assuming no impairment is made.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants

1. Classification

Government grants, which are monetary and non-monetary assets acquired by the Company from the government without consideration. Government grants are classified as asset-related government grants and revenue-related government grants according to the grant objects specified in the relevant government documents.

For government grants for which the government documents do not specify the grant objects, the Company classifies them as asset-related government grants or revenue-related government grants according to the actual grant objects, and the related judgment bases are described in Note V/(XXXII) "Other non-current liabilities"/(L) "Non-operating income" of these financial statements.

Government grants related to assets are government grants acquired by the Company for the acquisition and construction or other formation of long-term assets. Government grants related to revenue are government grants other than those related to assets.

2. Recognition of government grants

Government grants are recognized at the amount receivable if there is evidence that the company can meet the relevant conditions set forth in the financial support policy at the end of the period and the company expects to receive the financial support funds. Other than that, government grants are recognized when they are actually received.

Government grants are measured at the amount received or receivable if they are monetary assets. Government grants that are non-monetary assets are measured at fair value; if the fair value cannot be reliably obtained, they are measured at a nominal amount (RMB1). Government grants measured at nominal amount are directly recognized in current profit or loss.

3. Accounting method

The Company determines whether a particular type of government grant operation should be accounted for using the gross method or the net method based on the substance of the economic operation. Normally, the Company selects only one method for the same type or similar government grant operations and applies the method consistently to such operations.

Government grants related to assets should be written down to the carrying amount of the related assets or recognized as deferred income. Government grants related to assets that are recognized as deferred income are recognized in profit or loss over the useful life of the assets constructed or purchased in accordance with a reasonable and systematic method.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants (continued)

3. Accounting method (continued)

Government grants related to income, which are used to compensate the enterprise for relevant expenses or losses in subsequent periods, are recognized as deferred income and charged to current profit or loss or reduced to relevant costs in the period in which the relevant expenses or losses are recognized; if they are used to compensate the enterprise for relevant expenses or losses already incurred, they are directly charged to current profit or loss or reduced to relevant costs when acquired.

Government subsidies related to the daily activities of the enterprise are included in other income or reduced by related costs and expenses; government subsidies not related to the daily activities of the enterprise are included in non-operating income and expenses.

Government subsidies received in connection with policy-based preferential interest rate loans are reduced by the related borrowing costs; if a policy-based preferential interest rate loan is obtained from a lending bank, the actual amount of the loan received is used as the recorded value of the loan, and the related borrowing costs are calculated based on the principal amount of the loan and the policy-based preferential interest rate.

When recognized government subsidies need to be returned, the carrying value of the assets is adjusted if the carrying value of the relevant assets is reduced upon initial recognition; if there is a balance of relevant deferred income, the carrying value of the relevant deferred income is reduced and the excess is recognized in profit or loss for the period; if there is no relevant deferred income, it is recognized.

(XXXIV) Deferred tax assets and deferred tax liabilities

Deferred income tax assets and deferred income tax liabilities are recognized based on the difference between the tax bases of assets and liabilities and their carrying amounts (temporary differences). At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is recovered, or the liability is settled.

1. Criteria for recognition of deferred income tax assets

The Company recognizes deferred income tax assets arising from deductible temporary differences to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized and taxable losses and tax credits can be carried forward to future years. However, deferred income tax assets arising from the initial recognition of assets or liabilities are not recognized if the transaction has the following characteristics: (1) the transaction is not a business combination; (2) the transaction neither affects accounting profit nor taxable income or deductible losses when it occurs.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIV) Deferred tax assets and deferred tax liabilities (continued)

1. Criteria for recognition of deferred income tax assets (continued)

For deductible temporary differences associated with investments in associates, deferred tax assets are recognized if the following conditions are met, it is probable that the temporary differences will reverse in the foreseeable future, and it is probable that taxable income will be available against which the deductible temporary differences can be utilized in the future.

2. Criteria for recognition of deferred income tax liabilities

The Company recognizes deferred income tax liabilities for unpaid taxable temporary differences between the current and prior periods. However, they do not include:

- (1) Temporary differences arising from the initial recognition of goodwill;
- (2) Temporary differences arising from transactions or events not resulting from business combinations and which, when they occur, affect neither accounting profit nor taxable income (or deductible losses);
- (3) For taxable temporary differences associated with investments in subsidiaries or associates, the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Deferred income tax assets and deferred income tax liabilities are presented on a net basis after offsetting when the following conditions are met

- (1) The enterprise has the legal right to settle current income tax assets and current income tax liabilities on a net basis;
- (2) Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same tax authority on the same taxable entity or to different taxable entities, but in each future period in which the deferred income tax assets and deferred income tax liabilities are materially reversed, the taxable entities involved intend to settle the current income tax assets and current income tax liabilities on a net basis or acquire the assets and The taxable entity intends to settle current income tax assets and current income tax liabilities with net amount or acquire assets and settle liabilities simultaneously.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease

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

1. Splitting of leased and non-leased portions

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

2. Consolidation of lease contracts

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

- (1) The two or more contracts are entered into based on an overall business purpose and constitute a package transaction, the overall business purpose of which cannot be understood if not considered as a whole.
- (2) The amount of consideration for one of the two or more contracts depends on the pricing or performance of the other contracts
- (3) The rights to use the assets transferred by the two or more contracts, taken together, constitute a separate lease

3. Accounting treatment of the Company as a lessee

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

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

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

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

- (2) The accounting policies for right-of-use assets and lease liabilities are detailed in Note IV/(XXII) and (XXIX).

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

4. Accounting treatment of the Company as a lessor

(1) Classification of leases

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

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

- 1) At the expiration of the lease term, ownership of the leased asset is transferred to the lessee.
- 2) The lessee has an option to purchase the leased asset and the purchase price entered into is sufficiently low compared with the fair value of the leased asset at the time the option is expected to be exercised so that it is reasonably certain that the lessee will exercise the option at the inception date of the lease.
- 3) Although ownership of the asset does not pass, the lease term represents the majority of the useful life of the leased asset.
- 4) At the lease commencement date, the present value of the lease receipt amount is almost equal to the fair value of the leased asset.
- 5) The leased asset is special in nature and can only be used by the lessee if no major alterations are made.

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

- 1) If the lessee revokes the lease, the loss to the lessor caused by the revocation is borne by the lessee.
- 2) Gains or losses arising from fluctuations in the fair value of the residual value of the asset are attributed to the lessee.
- 3) The lessee has the ability to continue the lease to the next period at a rent much lower than the market level.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Lease (continued)

4. Accounting treatment of the Company as a lessor (continued)

(2) *Accounting for finance leases*

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

When the finance lease receivable is initially measured, the sum of the unguaranteed residual value and the present value of the amount of lease receipts not yet received at the commencement date of the lease term discounted at the interest rate embedded in the lease is used as the recorded value of the finance lease receivable. The amount of lease receipts includes:

- 1) fixed payments net of amounts related to lease incentives and material fixed payments.
- 2) variable lease payments that depend on an index or rate.
- 3) the amount of lease receipts including the exercise price of the purchase option if it is reasonably certain that the lessee will exercise the purchase option.
- 4) where the lease term reflects that the lessee will exercise the option to terminate the lease, the lease receipt amount includes the amount to be paid by the lessee to exercise the option to terminate the lease
- 5) The residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee, and an independent third party with the financial ability to meet the guarantee obligation.

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

(3) *Accounting for operating leases*

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

Notes to the Financial Statements

For the year ended 31 December 2022
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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVI) Termination of business

The Company recognizes a discontinued operation component as a separately distinguishable component if one of the following conditions is met and the component has been disposed of or classified as held for sale.

- (1) The component represents a separate major business or a separate major operating area.
- (2) The component is part of an associated plan to dispose of a separate major business or a separate major area of operation.
- (3) The component is a subsidiary acquired exclusively for resale.

Gains or losses from operations such as impairment losses and reversals of amounts from discontinued operations and gains or losses on disposals are presented in the income statement as gains or losses from discontinued operations.

(XXXVII) Repurchase of the Company's shares

Consideration and transaction costs paid by the Company to repurchase its own equity instruments reduce shareholders' equity. Issuance (including refinancing), repurchase, sale or cancellation of own equity instruments, other than share-based payments, are treated as changes in equity

(XXXVIII) Distribution of profits

The Company's cash dividends are recognized as a liability upon approval by the shareholders' meeting.

(XXXIX) Fair value measurement

The Company measures other investments in equity instruments, other noncurrent financial assets, and trading financial assets at fair value at each balance sheet date. Fair value, which is the price that a market participant would receive to sell an asset or pay to transfer a liability in an orderly transaction that occurs on the measurement date. The Company measures the relevant asset or liability at fair value assuming that the orderly transaction to sell the asset or transfer the liability takes place in the principal market for the relevant asset or liability; if no principal market exists, the Company assumes that the transaction takes place in the most advantageous market for the relevant asset or liability. The principal market (or most advantageous market) is the market for the transaction to which the Company has access at the measurement date. The Company uses the assumptions used by market participants in pricing the asset or liability to maximize their economic benefits.

Where a non-financial asset is measured at fair value, consideration is given to the ability of the market participant to generate economic benefits from the use of the asset for its best use or to generate economic benefits from the sale of the asset to other market participants who are able to use it for its best use.

Notes to the Financial Statements

For the year ended 31 December 2022

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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIX) Fair value measurement (continued)

The Company uses valuation techniques that are applicable in the current circumstances and supported by sufficient available data and other information, giving preference to relevant observable inputs and using unobservable inputs only when observable inputs are unavailable or impracticable to obtain.

(XL) Significant accounting judgments and estimates

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

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

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

1. Judgments

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

(1) *Business model*

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

Notes to the Financial Statements

For the year ended 31 December 2022
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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

1. Judgments (continued)

(2) *Contractual cash flow characteristics*

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

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

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

(4) *Deferred income tax assets*

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

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty

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

(1) *Impairment of financial instruments*

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

(2) *Impairment of goodwill*

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

(3) *The fair value of an unlisted equity investment*

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

(4) *Sales return*

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

Notes to the Financial Statements

For the year ended 31 December 2022
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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(5) *Impairment of inventories*

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

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

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

(7) *Interest rate on lessee's incremental borrowings*

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

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XL) Significant accounting judgments and estimates (continued)

2. Estimation uncertainty (continued)

(8) Long-term impairment losses

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

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

(XLI) Changes in significant accounting policies and accounting estimates

1. Change in accounting policies

Content and reasons for changes in accounting policies	Approval Process	Note
The Company implemented Interpretation No. 15 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2021 with effect from 1 January 2022	-	(1)
The Company implemented Interpretation No. 16 of Accounting Standards for Business Enterprises issued by the Ministry of Finance in 2022, with effect from 13 December 2022	-	(2)

Notes to the Financial Statements

For the year ended 31 December 2022
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III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XLI) Changes in significant accounting policies and accounting estimates (continued)

1. Change in accounting policies (continued)

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

On 31 December 2021, the Ministry of Finance issued Interpretation No. 15 of Accounting Standards for Business Enterprises (Caikuai [2021] No. 35, hereinafter referred to as "Interpretation No. 15"), Interpretation No. 15 "Accounting for the sale of products or by-products produced by an enterprise before a fixed asset reaches its intended useable state or in the course of research and development (hereinafter referred to as "trial sales") and "Judgment on loss-making contracts" shall be effective from 1 January 2022.

The Company has implemented Interpretation No. 15 in the Reporting Period, and the implementation of Interpretation No. 15 had no impact on the financial statements for the current reporting period.

(2) *Impact of the implementation of ASBE No. 16 on the Company*

On 13 December 2022, the Ministry of Finance issued Interpretation No. 16 of Accounting Standards for Business Enterprises (Caikuai [2022] No. 31, hereinafter referred to as "Interpretation No. 16"), which shall be effective from the date of publication.

The Company has implemented Interpretation No. 16 in the Reporting Period, and the implementation of Interpretation No. 16 had no impact on the financial statements for the current reporting period.

2. Changes in accounting estimates

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

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

IV. TAXATION

(I) The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate	Note
Value added tax ("VAT")	Products (commodity) sales income	13%	
	Real estate lease income	9%	
	Other taxable service income	6%	
	Simplified value-added tax calculation method	5%, 3%, 1%	
City maintenance and construction tax	Paid Transfer Tax	7%, 5%, 1%	
Enterprise income tax	Taxable income	25%	
Property tax	Calculate and pay at 70% of the original value of the real estate (or rental income).	1.2%, 12%	

(II) Tax incentives and basis:

According to the Announcement of the General Administration of Taxation of the Ministry of Finance No. 11 of 2021 on the Clarification of VAT Exemption Policy for Small-scale VAT Taxpayers, from 1 April 2021 to 31 December 2022, small-scale VAT taxpayers with monthly sales of up to RMB150,000 (inclusive) shall be exempted from VAT.

According to the "State Administration of Taxation Announcement [2021] No. 8", for the part of the annual taxable income of small and micro enterprises not exceeding RMB1 million, the taxable income shall be reduced by 12.5% from 2021 to 2022 and the corporate income tax shall be paid at a rate of 20%, effective tax rate is 2.5%. For the part of taxable income between RMB1 million and 3 million in 2022, the taxable income shall be reduced by 25% and the corporate income tax shall be paid at a rate of 20%, with an effective tax rate of 5%.

According to the "Announcement on Matters Relating to the Continued Exemption of Property Tax and Urban Land Use Tax during the Epidemic Period (Announcement No. 2 of 2021 by the Sichuan Provincial Taxation Bureau of the State Administration of Taxation)" by the Sichuan Provincial Taxation Bureau and the Sichuan Provincial Department of Finance, Chengdu Le Wei, a subsidiary of the Company, was granted a reduction of property tax and urban land use tax for the current year.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts are in RMB thousands if not otherwise stated, and the opening balances are as of 1 January 2022, and closing balances are as of 31 December 2022)

(I) Cash and cash equivalents

Items	Closing balance	Opening balance
Cash on hand	27	33
Bank deposits	36,025	61,323
Other monetary funds	64,186	106,100
Total	100,238	167,456
Including: total amount of funds abroad	2	2

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

Items	Closing balance	Opening balance
Bank deposits restricted due to reasons such as judicial freezing	64,186	106,100
Total	64,186	106,100

(II) Accounts receivable

Accounts receivable with aging since invoice date are analyzed as follows:

1. Classified disclosure on aging

Accounts receivable with aging since invoice date are analyzed as follows:

Aging	Closing balance	Opening balance
Within 90 days	24,536	41,566
90 days to 1 year	23,303	113,902
1 to 2 years	43,884	56,029
2 to 3 years	70,432	11,636
3 years above	311,453	57,924
Sub-total	473,608	281,057
Less: impairment for bad debts	431,028	192,339
Total	42,580	88,718

Note: The ageing discontinuity of "2 to 3 years" and "3 years above" in the current period is caused by Shanghai Weile being no longer included in the scope of consolidation.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Accounts receivable (continued)

2. Disclosures by bad debt allowance accrual method

Items	Book balance		Closing balance		Book value
	Amount	Proportion	Amount	Bad debt allowance	
		(%)		Proportion	
			Amount	(%)	
Accounts receivable subjected to accrual for expected credit losses on individual basis	426,310	90	426,310	100	-
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	47,298	10	4,718	10	42,580
Including: Accrual of aging for bad debts on portfolio	47,298	10	4,718	10	42,580
Total	473,608	100	431,028	91	42,580

Continued:

Items	Book balance		Opening balance		Book value
	Amount	Proportion	Amount	Bad debt allowance	
		(%)		Proportion	
			Amount	(%)	
Accounts receivable subjected to accrual for expected credit losses on individual basis	185,114	66	185,114	100	-
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	95,943	34	7,225	7	88,718
Including: Accrual of aging for bad debts on portfolio	95,943	34	7,225	7	88,718
Total	281,057	100	192,339	67.15	88,718

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Accounts receivable (continued)

3. Accounts receivable subjected to accrual for expected credit losses on individual basis

Items	Book balance	Closing balance		Reason
		Bad debt allowance	Proportion (%)	
Hongche Industrial (Shanghai) Co., Ltd.* (泓澈實業(上海)有限公司) ("Hongche Industrial")	4,284	4,284	100	Note 1
Shanghai Weile Fashion Co., Ltd.* (上海微樂服飾有限公司) ("Shanghai Weile")	263,527	263,527	100	Note 2
Receivables from merchants	158,499	158,499	100	Note 3
total	426,310	426,310	100	

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

Note 2: On 9 August 2022, Shanghai Weile, a wholly-owned subsidiary of the Company, was taken over by a bankruptcy liquidation administrator designated by the court. As Shanghai Weile is insolvent and has preferential claims, the Company expects that it will be difficult to collect its receivables, and therefore full provision for bad debts has been made.

Note 3: The amounts due from shopping malls for which accrual for bad debts was made were all due to the poor operating conditions of the shopping malls and liquidity problems, some of the shopping malls were in a state of closure and the Company considered that it was difficult to collect the receivables in full and therefore a full accrual for bad debts was made.

4. Accounts receivable subjected to accrual for expected credit losses on portfolio basis

1) Bad debt accrual on portfolio basis

Aging	Closing balance		
	Carrying amount	Bad debt allowance	Proportion (%)
Within 90 days	23,976	480	2
90 days to 1 year	14,095	705	5
1 to 2 years	6,924	2,077	30
2 to 3 years	2,116	1,269	60
3 years above	187	187	100
Total	47,298	4,718	10

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Accounts receivable (continued)

5. Accrual, recovery, or reversal of bad debts allowance during the period

Items	Opening balance	Changes			Closing balance
		Accrual	Recovered or reversed	Written off	
Accounts receivable subjected to accrual for expected credit losses on individual basis	185,114	280,732	–	24,054	426,310
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	7,225	(4,854)	–	41	4,718
Including: Accrual for bad debts on portfolio	7,225	(4,854)	–	41	4,718
Total	192,339	275,878	–	24,095	431,028

6. Actual write-off of accounts receivable during the reporting period

Item	Write-off amount
Actual write-off of accounts receivable	24,095

Of which, significant write-offs of accounts receivable are as follows:

Items	Categories	Write-off amount	Reason	Procedures	Related party transactions
Wuhan Zhuangsheng Chongguang General Merchandise Mall	Receivables from merchants	1,093	Court enforcement	Internal approval	No
Shenyang No.2 Branch of Beijing Hualian Supermarket Co., Ltd.	Receivables from merchants	1,044	Deregistered	Internal approval	No
Total		2,137			

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Accounts receivable (continued)

7. Top five accounts receivable with closing balances:

Name of company	Closing balance	Percentage of total accounts receivable balance (%)	Accrual for bad debts allowance
Shanghai Weile Fashion Co., Ltd.	263,527	56	263,527
Shanghai Feiliang Information Technology Co., Ltd.	17,377	4	17,377
Shanghai Fenghui Electronic Business Co., Ltd.	16,065	3	16,065
Shanghai Xiang'an Information Technology Co., Ltd.	13,573	3	13,573
Shenyang Juxinyu Trading Co., Ltd.	8,323	2	8,323
Total	318,865	68	318,865

8. There were no accounts receivable derecognized due to the transfer of financial assets during the reporting period.
9. There were no assets or liabilities resulting from the transfer of accounts receivable and continued involvement in the reporting period.
10. The accounts receivable balance at the end of the period increased by RMB192,551 thousand compared with the accounts receivable balance at the beginning of the period, representing an increase of 69%, mainly due to the fact that Shanghai Weile was no longer included in the scope of consolidation.

(III) Prepayment

1. Prepayment classified by aging

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	4,200	84	11,050	100
1 to 2 years	804	16	-	-
Total	5,004	100	11,050	100

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Prepayment (continued)

2. The top five prepayments by prepaid objects at the end of the period:

Name of company	Closing balance	Percentage of total prepayments (%)
Summary of the top five prepayments at the end of the period	1,678	34

(IV) Other receivables

Items	Closing balance	Opening balance
Other receivables	11,298	53,453
Total	11,298	53,453

Note: Other receivables in the above table represent other receivables after deducting interest receivable and dividend receivable.

(I) Other receivables

Accounts receivable with aging since invoice date are analyzed as follows:

1. Classified by aging

Aging	Closing balance	Opening balance
Within 1 year	50,551	60,249
1 to 2 years	49,123	179,175
2 to 3 years	144,373	39,898
3 years above	419,696	43,219
Sub-total	663,743	322,541
Less: bad debt impairment	652,445	269,088
Total	11,298	53,453

Note: The ageing discontinuity of "2 to 3 years" and "3 years above" in the current period is caused by Shanghai Weile and Shanghai Leou no longer being included in the scope of consolidation.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Other receivables (continued)

(I) Other receivables (continued)

2. Classified by characteristic

Nature	Closing balance	Opening balance
Deposits and security deposits	58,143	106,529
Refund of service charge expenses	9,778	9,778
Employee reserve fund	1,798	1,754
Property rental fees	7,822	12,522
Current accounts receivable	578,679	190,869
Others	7,523	1,089
Total	663,743	322,541

3. Disclosure based on the three stages of financial asset impairment

Items	Closing balance			Opening balance		
	Carrying amount	Bad debt allowance	Book value	Carrying amount	Bad debt allowance	Book value
Stage I	14,025	2,794	11,231	37,590	6,385	31,205
Stage II	193	126	67	36,156	13,908	22,248
Stage III	649,525	649,525	-	248,795	248,795	-
Total	663,743	652,445	11,298	322,541	269,088	53,453

4. Details of allowance for bad debts of other receivables

Bad debts allowance	Stage I	Stage II	Stage III	Total
	Expected credit loss in the next 12 months	Expected credit loss for the entire lifetime (no credit impairment occurred)	Expected credit loss for the entire lifetime (credit impairment occurred)	
Opening balance	6,385	13,908	248,795	269,088
Opening balance during the period that:	(163)	(9,397)	9,560	-
- transferred to stage II	(17)	17	-	-
- transferred to stage III	(146)	(9,414)	9,560	-
- reversed to stage II	-	-	-	-
- reversed to stage I	-	-	-	-
Accrual in the current period	(1,189)	(3,797)	443,703	438,717
Reversal in the current period	-	-	-	-
Write-off in the current period	-	-	47,264	47,264
Other decrease	2,239	588	5,269	8,096
Closing balance	2,794	126	649,525	652,445

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Other receivables (continued)

(I) Other receivables (continued)

5. *Other receivables actually written off during the reporting period*

Items	Write-off amount
Other receivables actually written off	47,264

6. *Details of the top five of other receivables at the end of the period*

Name of company	Characteristic	Closing balance	Aging	Percentage of the closing balance of other receivables (%)	Closing balance of accrual for bad debts
Shanghai Weile Fashion Co., Ltd.	External related-party transactions	270,325	1 to 3 years	41	270,325
Candie's Shanghai Fashion Co., Ltd.	External related-party transactions	144,532	1 to 3 years	22	144,532
LACHA FASHION I LIMITED	External related-party transactions	117,017	2 to 3 years	18	117,017
Shanghai Qixin Property Management Co., Ltd.	External related-party transactions	11,200	Within 1 year	2	11,200
Shanghai Hexia Investment Co., Ltd.	Receivables	10,797	3 years above	2	10,797
Total		553,871		85	553,871

7. *There were no other receivables involving government grants in this reporting period.*

8. *There were no other receivables derecognized due to the transfer of financial assets in the reporting period.*

9. *There were no assets and liabilities arising from the transfer of other receivables and their continued involvement in the reporting period.*

10. *The increase in the balance of other accounts receivable at the end of the period compared with the balance of other accounts receivable at the beginning of the period was RMB341,202 thousand, representing an increase ratio of 106%, as well as the reason for the ageing discontinuity, which was mainly due to the fact that Shanghai Weile and Shanghai Leou were no longer included in the scope of consolidation.*

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Inventories

1. Classification of inventories

Items	Closing Balance			Opening Balance		
	Book balance	Impairment allowance	Book value	Book balance	Impairment allowance	Book value
Raw materials	980	-	980	1,020	-	1,020
Finished goods	142,635	107,803	34,832	297,996	245,273	52,723
Goods in transit	-	-	-	21,525	19,420	2,105
Low value consumables	2,887	-	2,887	5,017	-	5,017
Total	146,502	107,803	38,699	325,558	264,693	60,865

2. Allowance for impairment of inventories

Items	Opening balance	Increase in the current period		Decrease in the current period			Closing balance
		Accrual	Others	Reversal	Write off	Others	
Finished goods	245,273	17,635	-	-	135,483	19,622	107,803
Goods in transit	19,420	-	-	-	19,420	-	-
Total	264,693	17,635	-	-	154,903	19,622	107,803

Notes for inventory impairment:

The Company accrues for impairment of inventories based on the age of the inventory and also uses the principle of lower of net realizable value or cost to provide for impairment and provides for impairment based on the principle of prudence. The write off during the period was due to the sale of inventories for which inventory impairment had been made.

(VI) Non-current asset due within a year

Items	Closing balance	Opening balance
Debt investment (Note 1)	7,547	7,547
Less: impairment for non-current assets due within one year	7,547	7,547
Total	-	-

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VI) Non-current asset due within a year (continued)

Note of non-current assets due within one year:

In 2017, the Company provided a loan to Shanghai Jiuwo Garment Co., Ltd. for a total amount of RMB6,500 thousand with an interest rate of 5.22%, which was extended for 2 years after maturity on 30 November 2018, with an interest rate of 5.77% during the extension period and will mature on 30 November 2020. As of 31 December 2022, the principal and interest of the borrowing were not recovered, therefore, the Company made full impairment of the principal and interest of the above borrowing.

(VII) Other current assets

(1) Details of other current assets

Item	Closing balance	Opening balance
Input tax to be certified/withholding credits	30,507	26,527
Prepaid tax presented at the net amount	7,366	39,129
Borrowing to related parties (Note 1)	47,869	47,869
Entrusted loan (Note 2)	42,400	42,400
Long-term investments expected to be disposed of in 2022 (Note 3)	298,057	312,657
Receivables related to long-term investments pending disposal (Note 3)	–	256,570
Cost of returns receivable	13	17
Others	1,767	533
Less: impairment loss	395,691	699,158
Total	32,288	26,544

Notes of other current assets:

Note 1: As of 31 December 2022, the Company had provided loans totaling RMB40,000 thousand (2018: RMB32,500 thousand; 2019: RMB7,000 thousand; 2020: RMB500 thousand) to Hongche Industrial at a borrowing rate of 6%. Due to the poor operating conditions of the enterprise and liquidity problems, the Company considers that the current assets are difficult to recover and therefore fully accrued impairment.

Note 2: As of 31 December 2022, the Company had provided loans totaling RMB37,400 thousand (2017: RMB5,000 thousand; 2018: RMB27,000 thousand; 2019: RMB5,400 thousand) to Xingji Industrial (Shanghai) Company Limited ("Xingji Industrial") with interest rates ranging from 5.22% to 5.66%. Since Xingji Industrial is no longer apart of the consolidation, and the Company could hardly recover the amount, the Company accrued a full impairment of this loan.

The Company also provided loans totaling RMB5,000 thousand (2017: RMB5,000 thousand) to Chengdu Biku Technology Co., Ltd. at an interest rate of 6%, for which the Company accrued full amount of impairment.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VII) Other current assets (continued)

(1) Details of other current assets (continued)

Note 3: Jack Walker, was declared bankruptcy by Shanghai No. 3 Intermediate People's Court on August 30, 2022, and the assets available for liquidation of Jack Walker could not be compensated to the Company. The corresponding long-term equity investment and current receivables were written off during the period.

Shanghai Weile, a wholly-owned subsidiary of the Company, and Shanghai Leou, a controlling subsidiary of the Company, have been applied for bankruptcy liquidation by creditors due to insolvency, and the Shanghai Third Intermediate People's Court ruled on July 4, 2022 and July 21, 2022, respectively, to accept the bankruptcy liquidation case and appointed an administrator to take over the control. According to the company's understanding, Shanghai Weile and Shanghai Leou were applied for bankruptcy liquidation by creditors due to insolvency, and there is a priority right to receive the debt, and it is expected that the possibility of the company recovering the current amount is low, and the possibility of the parent company being compensated as a shareholder is basically zero. Therefore, the corresponding long-term equity investments were fully provided for impairment in the current period.

(VIII) Long-term equity investment

Investee company	Opening balance	Opening impairment	Increase in investment	Decrease in investment	Increase/decrease during the year						Closing balance	Balance of impairment
					Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equities	Cash dividends declared	Accrual for impairment			
1. Associated Enterprises												
Tibet Baoxin Equity Investment Partnership (Limited Partnership) ("Tibet Baoxin")	147,969	9,483	-	-	(34,931)	-	-	-	-	-	113,038	9,483
Hongche Industrial (Shanghai) Co., Ltd. (Hereinafter referred to as "Hongche Industrial")	39,250	39,250	-	-	-	-	-	-	-	-	39,250	39,250
Beijing Aoni Trade Co. (hereinafter referred to as "Beijing Aoni")	18,514	12,397	-	-	(3,411)	-	-	-	-	-	15,106	12,397
Shanghai Yishan Clothing Co. (hereinafter referred to as "Shanghai Yishan") (Note 1)	-	-	-	-	-	-	-	-	-	-	-	-
Total	205,733	61,130	-	-	(38,342)	-	-	-	-	-	167,394	61,130

Note on long-term equity investments:

Note 1: As of 31 December 2022, Shanghai Yishan has no operating activities.

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IX) Other equity instrument investment

1. Other equity instrument investment

Item	Closing balance	Opening balance
Beijing Mingtongsiji Technology Co., Ltd. ("Beijing Mingtong")	-	2,580
Shanghai Bolatu Co., Ltd. ("Shanghai Bolatu")	-	-
Total	-	2,580

2. Details of equity instrument investment not for trading

Items	Reasons for designated as measured at fair value through other comprehensive income	Dividend income recognized in the current period	Accumulated gains	Accumulated losses	Amount of other comprehensive income recognized	Reasons for other comprehensive income recognized
					in retained earnings	in retained earnings
Beijing Mingtong	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	-	-	(30,002)	-	-
Shanghai Bolatu	holding the financial assets is not for short-term trading, which does not belong to an equity instrument held for trading	-	-	(13,605)	-	-
Total		-	-	(43,607)	-	-

3. Other particulars of equity instrument investments

Note 1: In 2017, the Company subscribed 1,075 thousand shares of Beijing Mingtong to the Company's directed issue through the National Small and Medium Enterprises Stock Transfer System, and the Company contributed RMB15,000 thousand, with a shareholding ratio of 3.75%. In 2019, the Company completed the change of equity interest in the additional 1,075 thousand shares of equity investment in Beijing Mingtong, and therefore added RMB15,002 thousand of investment in other equity instruments in the year, changing the shareholding ratio to 7.07%. The Company considered that the financial asset was not held for the purpose of selling in the short term and was not a trading equity instrument, i.e., at initial recognition, the Company chose to designate the equity investment as a financial asset measured at fair value through other comprehensive income and presented as an investment in other equity instruments. The fair value of this equity instrument as of 31 December 2022, was zero.

Note 2: In July 2017, the Company entered into an equity transfer agreement with Shanghai Oxygen Culture Communication Company Limited ("Oxygen Culture") to acquire 9.07% equity interest in Shanghai Bolatu Information Technology Company Limited held by Oxygen Culture for RMB13,606 thousand. In March 2018, Shanghai Bolatu Information Technology Co., Ltd. completed the change of business registration information of the above-mentioned equity interest, and the Company designate the equity investment as a financial asset measured at fair value through other comprehensive income, which is presented as investment in other equity instruments. The fair value of this equity instrument as of 31 December 2022 was zero.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(X) Other non-current financial assets

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	92,208	101,641
Including: Ningbo Langshengqianhui Investment Partnership (limited partnership)	22,540	31,846
Nantong Xunming Fund Partnership (limited partnership)	56,557	56,564
Hangzhou Smart Investment Equity Investment Partnership (limited partnership)	13,111	13,231
Total	92,208	101,641

Notes of other non-current financial assets:

Note 1: The Company entered into a written agreement on "Limited Partnership Agreement of Ningbo Lanshengqianhui Investment Partnership (Limited Partnership)" with relevant parties in November 2017, which provides for the Company's contribution of RMB26,000 thousand, representing 5.2% of the total contributed capital, and the Company contributed a total of RMB18,200 thousand in 2017 in paid-up installments, which the Company considered that the financial assets were not held for the purpose of selling in the short term and were not liquid financial assets, and presented them as other non-current financial assets.

Note 2: The Company entered into a written agreement of "Nantong Xunming Fund Partnership (Limited Partnership) Limited Partnership Agreement" with relevant parties in August 2018, which agreed that the Company contributed RMB100,000 thousand, representing 33% of the total contribution, and the Company contributed a total of RMB65,000 thousand in 2019 in tranches, which the Company presented as other non-current financial assets considering that the financial asset was not held for the purpose of selling in the short term and was not a liquid financial asset.

Note 3: The Company entered into a written agreement of "Hangzhou Wisdom Investment Equity Partnership (Limited Partnership) Partnership Agreement" with relevant parties in May 2017, and further entered into an updated version of the agreement in November 2017, in accordance with the agreement to subscribe for a capital contribution of RMB10,000 thousand, representing 19.57% of the total capital contribution, and the Group paid in a capital contribution of RMB10,000 thousand in June 2017. The Company considered that the financial asset was not held for the purpose of selling in the short term and was not a liquid financial asset and presented it as other non-current financial assets.

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XI) Fixed asset

1. Fixed asset details

Item	Properties and plants	Machinery equipment	Motor vehicles	Office and electric equipment	Total
I. Original cost					
1. Opening balance	1,790,464	57,026	1,996	66,187	1,915,673
2. Increases in the current year	313	386	–	985	1,684
Purchase	313	–	–	465	778
Other increase	–	386	–	520	906
3. Decreases in the current year	1,088,389	625	236	27,621	1,116,871
Disposal or retirement	3,761	580	–	21,454	25,795
Decrease due to scope of consolidation	1,083,722	45	236	6,167	1,090,170
Other decrease	906	–	–	–	906
4. Closing balance	702,388	56,787	1,760	39,551	800,486
II. Accumulated depreciation					
1. Opening balance	296,930	40,655	1,522	60,371	399,478
2. Increases in the current year	71,434	8,073	253	1,537	81,297
Accrual for the period	71,434	8,073	253	1,537	81,297
3. Decreases in the current period	179,563	579	224	26,177	206,543
Disposal or retirement	216	549	–	20,319	21,084
Decrease due to scope of consolidation	179,347	30	224	5,858	185,459
4. Closing balance	188,801	48,149	1,551	35,731	274,232
III. Impairment allowance					
1. Opening balance	–	–	–	–	–
2. Increases in the current period	–	–	–	–	–
3. Decreases in the current period	–	–	–	–	–
4. Closing balance	–	–	–	–	–
IV. Carrying amount					
1. Closing balance	513,587	8,638	209	3,820	526,254
2. Opening balance	1,493,534	16,371	474	5,816	1,516,195

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For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XI) Fixed asset (continued)

2. Fixed assets leased out through operating leases

Item	Closing carrying amount
Taicang Logistic Park	114,430
Chengdu Logistic Park	48,172
Tianjing Logistic Park	16,576
Total	179,178

3. Fixed asset with pending certificates of ownership

Item	Carrying amount	Reasoned for not completing the property certificate
Chengdu Logistic Center	85,955	The real estate certificate is processing
Total	85,955	

4. Other particulars of fixed asset

As of 31 December 2022, the Company obtained a short-term loan of RMB332,400 thousand from Bank of Communications by pledging the real estate located at No. 58, Tanzhu Road, Minhang District, Shanghai (Hu (2020) Min Real estate ownership certificate No. 023353, as detailed in Note V/(XX)). As of 31 December 2022, the real estate was taken over with the off-balance sheet subsidiary Shanghai Weile by the administrator and is no longer included in the scope of consolidation.

As of 31 December 2022, the Company obtained short-term loans of RMB550,000 thousand from Bank of Urumqi by pledging real estate located at No. 116, Guangzhou East Road, Taicang (Su (2019) Taicang Real estate ownership certificate No. 0006322 and Su (2018) Taicang No. 0029259), as detailed in Note VI/(XX). As of 31 December 2022, the book value of the real estate was RMB347,452 thousand, including RMB313,365 thousand for houses and buildings and RMB34,087 thousand for land use rights. The above assets have been seized by Shanghai Xuhui District People's Court on 30 September 2020, due to the impact of litigation.

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XI) Fixed asset (continued)

4. Other particulars of fixed asset (continued)

As of 31 December 2022, the Company's assets located at No. 116, Guangzhou East Road, Taicang (Su (2018) Taicang Real estate ownership certificate No. 0027590), have been seized by Liwan District People's Court, Guangzhou City on 17 June 2021, due to the impact of litigation.

As of 31 December 2022, the Company obtained a short-term loan of RMB198,000 thousand from Everbright Bank by pledging the real estate located at No. 24, Xinghua Si Branch Road, Dasi Town, Xiqing District, Tianjin (Jin (2018) Xiqing Real estate ownership certificate No. 1016982), as detailed in Note V/(XX). As of 31 December 2022, the book value of the real estate was RMB227,707 thousand, including RMB122,682 thousand for houses and buildings, RMB35,247 thousand for land use rights and RMB69,778 thousand for construction in progress, the above assets were seized by the Shanghai Xuhui District People's Court on 23 December 2020, due to the impact of litigation.

As of 31 December 2022, the Company obtained a short-term loan of RMB87,000 thousand from CITIC Bank by pledging the land and structures on the ground located in Group 2 and 3 of Guangming Community, Jinma Town, Wenjiang District, Chengdu (Wenguoyong (2015) No. 66859), refer to Note VI/(XXI). As of 31 December 2022, the book value of the land and structures was RMB103,405 thousand, including RMB85,955 thousand for houses and buildings, RMB17,450 thousand for land use rights. The above assets have been seized by the Chengdu Wenjiang District People's Court on 10 September 2020, due to the impact of litigation.

As of 31 December 2022, the Company's fixed assets with restricted ownership or use rights are shown in Note V/(LVII)

(XII) Construction in progress

1. Details of construction in progress

Project	Closing balance			Opening balance		
	Carrying amount	Impairment allowance	Book value	Carrying amount	Impairment allowance	Book value
Tianjin logistics center	89,804	20,026	69,778	89,804	14,804	75,000
Total	89,804	20,026	69,778	89,804	14,804	75,000

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For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XII) Construction in progress (continued)

2. Movement in significant construction in progress

Project	Opening balance	Increase in the current year	Transferred into fixed assets	Other decreases in the current period	Closing balance
Tianjin logistics center	89,804	–	–	–	89,804
Total	89,804	–	–	–	89,804

Continued:

Project	Budget (ten thousand yuan)	Completion percentage (%)	Project progress (%)	Accumulative capitalization of borrowings	Including: interest of capitalized borrowing costs	interest rate of capitalized borrowing costs (%)	Sources of funds
Tianjin logistics center	142,000	63	69	–	–	–	Loans from financial institutions and own funds
Total	142,000	63	69	–	–	–	

3. Accrual for impairment of construction in progress during the reporting period

Item	Current accrual amount	Current accrual amount
Tianjin logistics center	5,222	Affected by the company's business conditions
Total	5,222	

4. Other notes on construction in progress

As of 31 December 2022, the Company's construction in progress with restricted ownership or use rights is described in Note V/(LVII).

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Right-of-use assets

Items	Properties and plants	Total
I. Original cost		
1. Opening balance	6,377	6,377
2. Increases	38,743	38,743
Leased Stores	5,346	5,346
Others	33,397	33,397
3. Decreases	2,739	2,739
Disposal of stores	2,739	2,739
4. Closing balance	42,381	42,381
II. Accumulated depreciation		
1. Opening balance	2,540	2,540
2. Increases	5,863	5,863
3. decreases	2,449	2,449
4. Closing balance	5,954	5,954
III. Accrual for impairment		
1. Opening balance	-	-
2. Increases	-	-
3. Decreases	-	-
4. Closing balance	-	-
IV. Book value		
1. Closing balance	36,427	36,427
2. Opening balance	3,837	3,837

Notes to the Financial Statements

For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Intangible assets

1. Details of intangible assets

Items	Trademarks	Purchased software	Land use right	Total
I. Original cost				
1. Opening balance	4,086	96,537	167,443	268,066
2. Increases	–	–	–	–
3. Decreases	1,776	77	63,644	65,497
Decrease due to scope of consolidation	1,776	77	63,644	65,497
4. Closing balance	2,310	96,460	103,799	202,569
II. Accumulated amortization				
1. Opening balance	2,912	85,210	23,368	111,490
2. Increases	4	4,255	2,874	7,133
Accrual for the period	4	4,255	2,874	7,133
3. Decreases	1,776	42	9,227	11,045
Decrease due to scope of consolidation	1,776	42	9,227	11,045
4. Closing balance	1,140	89,423	17,015	107,578
III. Accrual for impairment				
1. Opening balance	1,155	2,747	–	3,902
2. Increases	–	–	–	–
3. Decreases	–	36	–	36
4. Closing balance	1,155	2,711	–	3,866
IV. Book value				
1. Closing balance	15	4,326	86,784	91,125
2. Opening balance	19	8,580	144,075	152,674

2. Description of intangible assets

- (1) As of 31 December 2022, the Company has no land use rights with outstanding title certificates.
- (2) As of 31 December 2022, the Company's intangible assets with restricted ownership or use rights are described in Note V/(LVII).
- (3) The net book value of intangible assets – land use rights at the end of the period decreased by RMB57,291 thousand, or 40%, compared with the net book value at the beginning of the period, mainly due to the fact that Shanghai Weile and Shanghai Leou were no longer included in the scope of consolidation.

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For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XV) Goodwill

1. Original cost of goodwill

Name of investee or item resulting in goodwill	Opening balance	Increase	Decreases	Closing balance
Acquire Hangzhou Anshe	78,231	-	78,231	-
Total	78,231	-	78,231	-

2. Impairment of goodwill

Name of investee or item resulting in goodwill	Opening balance	Increase	Decreases	Closing balance
Acquire Hangzhou Anshe	78,231	-	78,231	-
Total	78,231	-	78,231	-

3. Information about the asset group or combination of asset groups

The asset group of the original brand of La Chapelle:

The Company recognized goodwill of RMB92,339 thousand in connection with the acquisition of Hangzhou Anshe on 1 April 2015. Based on full consideration of the asset group or combination of asset groups that can benefit from the synergistic effect of the business combination, the Company apportioned the goodwill to the asset group of the Qigege brand of RMB14,108 thousand and the asset group of the original brand of La Chapelle of RMB78,231 thousand, of which the goodwill of the Qigege brand was derecognized with the disposal of Hangzhou Anshe on 30 May 2019.

The synergies related to this asset group have disappeared during the period and the previously recognized goodwill was written off.

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVI) Long-term prepaid expenses

Items	Opening balance	Increases	Amortization	Other decreases	Closing balance
Leasehold improvement	2,247	4,995	3,214	-	4,028
Total	2,247	4,995	3,214	-	4,028

(XVII) Deferred tax assets and deferred tax liabilities

1. Deferred tax liabilities before offsetting

Items	Closing balance		Opening balance	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Changes in fair value of financial instruments	-	-	8,440	2,110
Total	-	-	8,440	2,110

2. Deferred tax assets and liabilities presented as net balance after offsetting

Items	Deferred tax assets and liabilities offset at the end of the period	Ending balance of deferred tax assets or liabilities after offsetting	Opening offsetting amount of deferred tax assets and liabilities	Opening balance of deferred tax assets or liabilities after offsetting
Deferred tax assets	-	-	-	-
Deferred tax liabilities	-	-	-	-

3. Details of deductible temporary differences of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Deductible temporary differences	1,679,536	1,518,137
Deductible losses	2,923,838	3,287,839
Total	4,603,374	4,805,976

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For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVII) Deferred tax assets and deferred tax liabilities (continued)

4. Unrecognized tax losses carried forward as deferred tax assets will expire in the following year

Year	Closing balance	Opening balance	Note
2022	–	106,705	
2023	142,873	143,244	
2024	741,639	801,984	
2025	1,509,004	1,937,757	
2026	232,269	298,149	
2027	298,053	–	
Total	2,923,838	3,287,839	

(XVIII) Other non-current assets

Items	Closing balance			Opening balance		
	Book balance	Allowance for		Book balance	Allowance for	
		impairment	Carrying value		impairment	Carrying value
Prepayments for props	–	–	–	5,570	5,570	–
Total	–	–	–	5,570	5,570	–

Note: the reason for the decrease in the balance of other non-current assets in the reporting period was that Shanghai Weile was no longer included in the scope of consolidation.

Notes to the Financial Statements

For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIX) Allowance for impairment of assets

Items	Opening balance	Accrual	Decreases			Re- classification	Closing balance
			Transfer back	Write-offs/ write-offs	Other decrease		
Bad debt allowance for accounts receivable	192,339	275,878	-	24,095	13,094	-	431,028
Bad debt allowance for other receivables	269,088	438,717	-	47,264	8,096	-	652,445
Allowance for impairment of inventories	264,693	17,635	-	154,903	19,622	-	107,803
Allowance for impairment of non-current assets due within one year	7,547	-	-	-	-	-	7,547
Bad debt Allowance for other current assets	699,158	60,120	-	331,825	31,762	-	395,691
Bad debt Allowance for other non-current assets	5,570	-	-	-	5,570	-	-
Allowance for impairment of long-term equity investments	61,130	-	-	-	-	-	61,130
Allowance for impairment of construction in progress	14,804	5,222	-	-	-	-	20,026
Allowance for impairment of intangible assets	3,902	-	-	-	36	-	3,866
Allowance for impairment of goodwill	78,231	-	-	78,231	-	-	-
Total	1,596,462	797,572	-	636,318	78,180	-	1,679,536

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XX) Short-term borrowings

1. Classification of short-term borrowings

Items	Closing balance	Opening balance
Secured borrowing	54,000	54,000
Mortgages and guaranteed loans	543,748	545,220
Mortgage, pledge, and guaranteed loan	550,000	550,000
Total	1,147,748	1,149,220

Notes to the classification of short-term borrowings:

Guaranteed loans of RMB54,000 thousand were short-term loans of the Company from Bank of Communications Co., Ltd. Shanghai Zhabei Sub-branch, with guarantors Mr. Xing Jiaying, Shanghai Weile, Chengdu Lewei, Tianjin Laxia and Taicang Laxia, respectively.

Mortgage and guarantee loans of RMB543,748 thousand, of which 81,348 thousand is a short-term loan from CITIC Bank Limited Taifu Plaza Sub-branch, (the opening balance is RMB82,380 thousand, with deduction of RMB1,472 thousand in 2022 caused by judicial deduction) with Shanghai Weile, Chengdu Lewei, Tianjin Laxia, Taicang Laxia and Mr. Xing Jiaying as guarantors. Collateral is buildings on the ground located at Guangming community, Jinma town, Wenjiang district, Chengdu, which recorded in Chengdu lewei (Wenguoyong (2015) No. 66859); RMB184,000 thousand is a short-term loan of the Company from Shanghai Caohejing Development Zone Sub-branch of China Everbright Bank Co., Ltd. with Mr. Xing Jiaying, Shanghai Weile and Chengdu Lewei as guarantors, and the collateral is the land use right and ownership of building structures at No. 24, Xinghua Si Branch Road, Dashi Town, Xiqing District, Tianjin, which recorded in Tianjin Laxia (Jin (2018) Xiqing Real Estate Ownership Certificate No. 1016982); RMB278,400 thousand is a short-term loan of the Company from Bank of Communications Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch, with collateral of buildings at No. 58 Tanzhu Road, Minhang District, Shanghai, recorded in Shanghai Weile (Hu (2020) Min real estate ownership certificate No. 023353).

The mortgage, pledge, and guarantee loans of RMB550,000 thousand are entrusted loans of Xinjiang Tongrong from Bank of Urumqi Siping Road Technology Sub-branch, with Urumqi High-Tech Investment Development Group as principal and Mr. Xing Jiaying as guarantor. The collateral is buildings and land use rights at No. 116, Guangzhou East Road, Taicang, recorded in Taicang Laxia (Su (2019) Taicang Real Estate Ownership Certificate No. 0006322 and Su (2018) Taicang Real Estate Ownership Certificate No. 0029259) and the pledge is the Company's 100% equity in Taicang Jiashang Storage Co. Ltd.

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XX) Short-term borrowings (continued)

1. Classification of short-term borrowings (continued)

The short-term loans totaling RMB332,400 thousand (RMB278,400 thousand in mortgage and guarantee loans and RMB54,000 thousand in guaranteed loans) with Bank of Communications, Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch were transferred by Bank of Communications, Ltd. Shanghai Branch to China Huarong Asset Management Co., Ltd..

As of 31 December 2022, the annual interest rate range of the above borrowings is 4.55% to 7.00% (31 December 2021: 4.55% to 7.00%).

2. Overdue short-term borrowings outstanding at the end of the period

The total amount of overdue short-term borrowings at the end of the period was RMB1,147,748 thousand, of which the significant overdue short-term borrowings were as follows:

Lending company	Closing balance	Borrowing interest rate (%)	Due time	Overdue interest rate (%)
China Huarong Asset Management Co., Ltd. Shanghai Pilot Free Trade Zone Branch	54,000	7	21 November 2020	10.5
China Huarong Asset Management Co., Ltd. Limited Shanghai Pilot Free Trade Zone Branch	75,000	7	28 November 2020 9 September 2021	10.5
Shanghai Pilot Free Trade Zone Branch of China Huarong Asset Management Co., Ltd.	203,400	7	to 3 November 2021 1 May 2021 /	10.5
Shanghai Caohejing Development Zone Sub-branch of China Everbright Bank Co., Ltd.	184,000	5.22	25 June 2021	6.786
Taifu Plaza Sub-branch of CITIC Bank Co., Ltd.	81,348	4.55	16 to 29 April, 2021	6.825
Urumqi Siping Road Technology Sub-branch of Urumqi Bank Co., Ltd.	550,000	6.8	27 November 2020	6.3
Total	1,147,748			

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Accounts payable

Items	Closing balance	Opening balance
Payable for procurement	893,963	826,501
Total	893,963	826,501

1. Major accounts payable aging over one year

Name of company	Closing balance	Reason
Candie's Shanghai Fashion Co., Ltd.	134,703	Difficulties in capital turnover
Nantong Minglong Fashion Co., Ltd.	77,899	Difficulties in capital turnover
Huangshan Dongming Apparel Co., Ltd.	27,912	Difficulties in capital turnover
Hunan Suoyate Garment Co., Ltd.	19,827	Difficulties in capital turnover
Jiaying Chengxin Garment Co., Ltd.	19,261	Difficulties in capital turnover
Guangzhou Chuangxing Garment Group Co., Ltd.	17,353	Difficulties in capital turnover
Shanghai Yafeng Garment & Apparel Co., Ltd.	17,270	Difficulties in capital turnover
Xinjiang Hengding International Supply Chain Technology Co., Ltd.	14,964	Difficulties in capital turnover
Nantong Sanrun Garment Co., Ltd.	14,842	Difficulties in capital turnover
Guangzhou Runxing Garment Co., Ltd.	14,779	Difficulties in capital turnover
Total	358,810	

(XXII) Advance from customers

1. Details of advance from customers

Items	Closing balance	Opening balance
Rent in advance	267	10,851
Total	267	10,851

Notes to the Financial Statements

For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIII) Contract liabilities

1. Details of contract liabilities

Items	Closing balance	Opening balance
Receipt of goods in advance	4,408	20,395
Total	4,408	20,395

2. Significant changes to the book value of contract liabilities during the period

Items	Amount change	Reason
Franchising/consignment sales obligations	(4)	Franchise and consignment sales increase
Brand-integrated services performance obligations	(3,865)	Increase due to licensing sales
Membership points obligations	(12,118)	Membership point sales
Total	(15,987)	

(XXIV) Payroll payable

1. Details of payroll payables

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term payroll	8,104	53,702	53,246	8,560
Retirement benefits – defined contribution plans	200	6,563	6,612	151
Termination benefits	1,529	5,511	5,188	1,852
Total	9,833	65,776	65,046	10,563

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIV) Payroll payable (continued)

2. Details of short-term payroll

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Wages or salaries, bonuses, allowances, and subsidies	6,565	47,141	46,284	7,422
Staff welfare	-	-	-	-
Social insurance	151	4,108	4,122	137
Including: Medical insurance	133	3,644	3,640	137
Others	18	464	482	-
Housing fund	99	2,453	2,552	-
Labor union and staff education fund	-	-	-	-
Other social insurance	1,289	-	288	1,001
Total	8,104	53,702	53,246	8,560

3. Details of defined contribution plan

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance premium	192	6,353	6,400	145
Unemployment Insurance premium	8	210	212	6
Total	200	6,563	6,612	151

(XXV) Taxes Payable

Item of taxes	Closing balance	Opening balance
Value Added Tax	103,897	93,177
Corporate Income Tax	63,920	63,793
Personal Income Tax	189	244
City Maintenance and Construction Tax	14,036	14,779
Education Fee Surcharge	10,310	11,165
Others	8,676	20,619
Total	201,028	203,777

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVI) Other payables

Items	Closing balance	Opening balance
Interests payable	288,683	206,452
Other payables	670,249	707,682
Total	958,932	914,134

Note: Other payables in the above table refer to other payables after deducting interest payable and dividends payable.

1. Interest payable

Items	Closing balance	Opening balance
Interest of long-term borrowings with installment of interest and repayment of principal upon maturity	–	49,431
Interest payable of short-term borrowings	288,683	157,021
Total	288,683	206,452

Details of significant interest expired but unpaid:

Names of borrowing company	Overdue amount	Reason
China Huarong Asset Management Co., Ltd., Shanghai Pilot Free Trade Zone Branch	82,279	Difficulties in capital turnover
CITIC Bank Limited Shanghai Taifu Plaza Sub-branch	9,790	Difficulties in capital turnover
Shanghai Branch of China Everbright Bank Co., Ltd.	22,238	Difficulties in capital turnover
Urumqi Siping Road Technology Sub-branch of Bank of Urumqi Co., Ltd.	174,376	Difficulties in capital turnover
Total	288,683	

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVI) Other payables (continued)

2. Other payables

(1) *Other receivables presented by characteristic*

Nature	Closing balance	Opening balance
Payables for construction and decoration of department stores	142,223	390,986
Suppliers' deposits	42,762	61,313
Vendors' deposit	17,555	21,544
Outsourcing staff service fee	156	238
Payables for logistic expense	3,607	2,409
Trustee fees	2,153	15,594
Payable for posts props and store promotion	4,883	1,890
Payables for rental fees	96,565	94,963
Litigation defaults, fees, and interests	111,973	72,155
Loans from the third parties	2,900	4,403
Payable for e-commercial	3,597	3,779
Consulting fees	7,800	156
Payables for software purchase	2,819	2,620
Estimated expenditures	8,699	3,371
Tax overdue payments	34,669	18,328
Others	9,419	13,933
External related party	178,469	-
Total	670,249	707,682

(2) *Other significant payables aging over one year*

Name of company	Closing balance	Reasons for not-repayment or carryover
Shanghai Weile Fashion Co., Ltd.	132,630	Difficulties in capital turnover
Candie's Shanghai Fashion Co., Ltd.	22,993	Difficulties in capital turnover
Jinan Borunda Decoration Co., Ltd.	15,935	Difficulties in capital turnover
Tianjin Construction Engineering No. 2 Co., Ltd.	12,050	Difficulties in capital turnover
Zhengzhou Luyi Display Cabinet Co., Ltd.	9,330	Difficulties in capital turnover
Total	192,938	

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXVII) Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term borrowing due within one year (Note)	-	347,777
Lease liabilities due within one year	10,348	2,133
Total	10,348	349,910

Note: please refer to Note V/(XXIX) for details

(XXVIII) Other current liabilities

Items	Closing balance	Opening balance
VAT amounts reclassified pending	578	1,874
Total	578	1,874

(XXIX) Long-term borrowings

Category	Closing balance	Opening balance
Collateralized Borrowing	-	347,777
Less: long-term borrowing due within one year	-	347,777
Total	-	-

Notes of long-term loans:

The mortgage loan of RMB347,777 thousand is a fixed asset loan between the Company and Bank of Communications Co., Ltd. Shanghai Zhabei Sub-branch and Jing'an Sub-branch with a term from 15 August 2018 to 10 November 2023. The mortgage is a land and construction in progress in the name of subsidiary Shanghai Weile, land of 332 Street Square 3/12, Wujing Town, Minhang District, Shanghai (Hu Min Zi (2016) No. 056386). In December 2020, Bank of Communications transferred the loan to China Huarong Asset Management Company Limited, Shanghai Pilot Free Trade Zone Branch. On 18 January 2021, the loan was declared maturity in accordance with the main contract.

Shanghai Weile, a wholly-owned subsidiary of the Company, was applied for bankruptcy liquidation by its creditor due to insolvency. The Shanghai Third Intermediate People's Court ruled on July 4, 2022, to accept the bankruptcy liquidation case, and the administrator took over Shanghai Weile on August 9, 2022, since then, it is no longer included in the scope of consolidation.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXX) Lease liabilities

Remaining lease term	Closing balance	Opening balance
Within 1 year	12,040	2,286
1 to 2 years	9,399	1,947
2 to 3 years	8,574	–
3 to 4 years	8,591	–
4 to 5 years	2,448	–
Subtotal of total lease payments	41,052	4,233
Less: Unrecognized financing costs	4,031	203
Sub-total of present value of lease payments	37,021	4,030
Less: lease liabilities due within one year	10,348	2,133
Total	26,673	1,897

Interest expense on lease liabilities of RMB932 thousand was occurred during the period.

(XXXI) Estimated liability

Item	Closing balance	Opening balance	Reason
Estimated returns of goods	34	33	Returned goods
Pending litigation	57,335	64,281	Litigation matters
Borrowings from Gemstone Advantage (current name: Gemstone Advantage Limited)	407,225	355,718	Accrual of Guarantee Obligations
Tianjin project delayed completion of liquidated damages	4,879	–	Breach of contract due to delay in completion
Total	469,473	420,032	

(XXXII) Other non-current liabilities

Items	Closing balance	Opening balance
Asset-related government grants	5,242	5,579
Others	177	320
Total	5,419	5,899

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For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXII) Other non-current liabilities (continued)

1. Asset-related government grants

Items	Opening balance	Amount of subsidy increased	Recognized in	Other changes	Closing balance	Asset/revenue related
			other profit or loss in the current period			
Subsidy of Tianjin logistic project	5,100	-	300	-	4,800	Asset related
Subsidy of Taicang logistic project	479	-	37	-	442	Asset related
Total	5,579	-	337	-	5,242	

2. Other liability items

Items	Opening balance	Amount of subsidy increased	Amount of	Other changes	Closing balance	Asset/revenue related
			offsetting costs in the current period			
Decoration subsidy (Note)	320	-	143	-	177	revenue related
Total	320	-	143	-	177	

Note: The decoration subsidy is a store renovation subsidy for shopping malls, which was amortized against selling expenses of RMB143 thousand during the period.

(XXXIII) Share capital

Item	Opening balance	Change for the period Increase (+) Decrease (-)					Closing balance
		Issuance of new shares	Bonus share	Transfer from reserve	Others	Sub-total	
Total share capital	547,672	-	-	-	-	-	547,672

Changes in share capital:

Item	Closing balance	Opening balance
RMB-denominated ordinary shares	332,882	332,882
Overseas-listed shares (H share)	214,790	214,790
Total	547,672	547,672

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For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIV) Capital surplus

Items	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share premium (equity premium)	1,864,243	-	-	1,864,243
Other capital surplus	46,563	-	-	46,563
Total	1,910,806	-	-	1,910,806

(XXXV) Treasury share

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Treasury share	20,010	-	-	20,010
Total	20,010	-	-	20,010

Notes of treasury shares:

As of 31 December 2022, the Company has repurchased a total of 3,573,200 A shares by way of centralized competitive bidding transactions, which have accounted for 0.65% of the total share capital of the Company and 1.07% of the A share capital of the Company, with the highest transaction price of RMB6.15 per share and the lowest transaction price of RMB4.14 per share, and the amount used for the repurchase was RMB20,010 thousand (excluding transaction costs).

(XXXVI) Other comprehensive income

Items	Changes in the current period										Closing balance
	Opening balance	Incurring before income tax for the period	Less: comprehensive income included in other comprehensive income	Less: Transfer from prior period to profit or cost charged to other comprehensive income	Less: Transfer from assets at amortized cost charged to other comprehensive income	Less: Income tax expense	Attributable to parent company after tax	Attributable to minority shareholders after tax	Re-measurement of changes in defined benefit plans	Less: earnings charged to other comprehensive income	
I. Other comprehensive losses that cannot be reclassified into profit and loss	(41,026)	(2,580)	-	-	-	-	(2,580)	-	-	-	(43,606)
1. Fair value change gains of other equity instrument investments	(41,026)	(2,580)	-	-	-	-	(2,580)	-	-	-	(43,606)
Total other comprehensive income	(41,026)	(2,580)	-	-	-	-	(2,580)	-	-	-	(43,606)

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXVII) Surplus reserve

Items	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Statutory surplus reserve	246,788	-	-	246,788
Total	246,788	-	-	246,788

(XXXVIII) Undistributed profit

Items	Closing balance	Opening balance
Undistributed profits at the beginning of year (before adjustments)	(4,075,526)	(3,254,246)
Adjustments of the beginning balance	-	-
Undistributed profits at the beginning of year (after adjustments)	(4,075,526)	(3,254,246)
Add: Net profit attributable to shareholders of the Company	(1,071,973)	(821,280)
Less: appropriation to statutory surplus reserve	-	-
Add: Losses recovery from surplus reserve	-	-
Undistributed profits at the end of the period	(5,147,499)	(4,075,526)

(XXXIX) Revenue and cost of sales

1. Revenue and cost of sale

Items	Current period's amount		Previous period's amount	
	Revenue	Cost	Revenue	Cost
Principal business	135,801	29,478	363,136	183,877
Other business	62,040	32,283	66,992	35,489
Total	197,841	61,761	430,128	219,366

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIX) Revenue and cost of sales (continued)

2. Income derived from contracts

Contract classifications	Current period's amount	Previous period's amount
I. Category of products		
Apparel	107,465	302,688
Brand-integrated services	28,336	60,448
Lease	50,243	51,922
Others	11,797	15,070
II. Classified by business areas		
Domestic	197,841	430,128
Overseas	-	-
III. Classified by the timing of commodity transfer		
Transferred at a point in time	119,262	317,758
Transferred at a point over time	78,579	112,370
Total	197,841	430,128

(XL) Taxes and surcharge

Items	Current period's amount	Previous period's amount
City maintenance and construction tax	626	2,416
Educational surcharge	363	1,830
Others	11,212	15,870
Total	12,201	20,116

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For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLI) Selling and distribution expenses

Items	Current period's amount	Previous period's amount
Employee benefits expenses	28,809	45,805
Depreciation of right of use assets	3,435	10,936
Amortization of long-term prepaid expenses	4,886	16,190
Department store expenses	6,739	74,180
Online platform expenses	234	–
Utilities and electricity fees	2,333	13,143
Logistic expenses	1,025	1,421
Depreciation of fixed assets	29,640	34,437
Marketing expense	861	1,059
Costs of low value consumables	398	465
Repair and maintenance expenses	934	9,667
Traveling and communication expenses	218	350
Amortization of intangible assets	173	260
Quality inspection fee	24	–
Office supplies	228	292
Design and consulting expenses	1,158	7,147
Sample garment procurement fee	84	24
Total	81,179	215,376

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLII) Administrative expense

Items	Current period's amount	Previous period's amount
Employee benefits expenses	41,131	50,635
Depreciation of fixed assets	39,588	46,925
Consulting expenses	25,121	29,852
Amortization of intangible assets	5,844	10,133
Rental fees	833	3,481
Utilities and electricity fees	4,245	7,333
Office supplies	4,916	3,979
Traveling and communication expenses	519	890
Depreciation of right of use assets	1,291	–
Sample purchase fee	345	133
Logistic expenses	204	436
Repair and maintenance expenses	508	938
Costs of low value consumables	360	174
Amortization of long-term prepaid expenses	76	84
Others	4,066	3,480
Total	129,047	158,473

(XLIII) Financial expenses

Items	Current period's amount	Previous period's amount
Interest expenses	182,103	209,670
Less: Interest income	1,495	5,080
Bank charges	163	196
Financing fees	932	(5,055)
Total	181,703	199,731

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For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLIV) Other income

1. Details of other income

Source of other income	Current period's amount	Previous period's amount
Governmental grants relating to daily operational activities	2,837	3,478
Gains from debt restructuring	14,843	103,210
others	10	1,743
Total	17,690	108,431

2. Governmental grants recognized in other income

categories	Current period's amount	Previous period's amount	Asset/ revenue related
Transferred from amortization of deferred income in asset class	337	337	Asset related
Enterprise support policy	–	695	Revenue related
Taxes and surcharges refunded	2,500	2,446	Revenue related
Total	2,837	3,478	

(XLV) Investment income

1. Details of investment income

Categories	Current period's amount	Previous period's amount
Income from long-term equity investments accounted for by the equity method	(38,342)	(11,265)
Investment loss of disposal of long-term equity investment	–	(776)
Gain or loss on debt restructuring (Note)	5,246	43,833
Change due from scope of consolidation	(596,449)	–
Total	(629,545)	31,792

2. Note of investment income

As of 31 December 2022, the Company had investment income of RMB5,247 thousand from negotiations with some suppliers by way of debt forgiveness during the period.

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLVI) Gain on fair value changes

Source of gain on fair value changes	Current period's amount	Previous period's amount
Other non-current financial assets	(9,433)	7,591
Total	(9,433)	7,591

(XLVII) Credit impairment losses

Categories	Current period's amount	Previous period's amount
Bad debt losses of accounts receivables	(15,018)	(104,312)
Bad debt losses of other receivables	(12,872)	(80,133)
Bad debt losses of long-term receivables	–	188
Bad debt losses of other current assets	–	(2,248)
Total	(27,890)	(186,505)

(XLVIII) Asset impairment loss

Categories	Current period's amount	Previous period's amount
Loss on impairment of inventories	(17,635)	(151,704)
Impairment loss on long-term equity investments	–	(21,880)
Impairment loss on construction in progress	(5,222)	(14,804)
Impairment loss on intangible assets	–	(3,902)
Goodwill impairment loss	–	(78,231)
Others	280	(39,661)
Total	(22,577)	(310,182)

Notes to the Financial Statements

For the year ended 31 December 2022
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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLIX) Gain on disposals of assets

Categories	Current period's amount	Previous period's amount
Losses on disposal of fixed assets	(2,404)	(753)
Gains on disposal of right of use assets	186	7,962
Total	(2,218)	7,209

(L) Non-operating income

Categories	Current period's amount	Previous period's amount	Amount included in non-recurring profit or loss for the period
Compensation income	517	2,219	517
Others	1,305	5,594	1,305
Total	1,822	7,813	1,822

(LI) Non-operating expenses

Categories	Current period's amount	Previous period's amount	Amount included in non-recurring profit or loss for the period
Compensation for closing stores	4,801	9,151	4,801
Compensation for litigation	102,122	80,398	102,122
Loss on obsolescence of non-current assets	56	6,241	56
Loss on disposal of current assets	17	256	17
Penalties	385	2,874	385
Tax late payment	21,601	18,317	21,601
Others	5,041	1,664	5,041
Total	134,023	118,901	134,023

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LII) Income tax expenses

1. Table of income tax expenses

Items	Current period's amount	Previous period's amount
Current income tax expense	1,660	(1,123)
Deferred income tax expense	(2,110)	(11,801)
Total	(450)	(12,924)

2. Reconciliation between total profit and income tax expenses

Items	Current period's amount
Total profit	(1,074,224)
Income tax expense at statutory/applicable tax rates	(268,557)
Effect of different tax rates applied to subsidiaries	-
Effect of adjusting income tax of prior periods	-
Effect of non-taxable income	(11,944)
Effect of non-deductible costs, expenses and losses	5,400
Effect of deductible losses from the use of prior period's unrecognized deferred tax assets	(2,819)
Effect of deductible temporary differences or deductible losses on deferred tax assets not recognized in the current period	279,580
Effects of deferred tax liabilities	(2,110)
Income tax expense	(450)

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LIII) Loss per share

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

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

Items	Current period's amount	Previous period's amount
Losses:		
Net loss for the period attributable to the Company's common stockholders	(1,071,973)	(821,280)
Shares:		
Weighted average number of shares of the Company's common stock issued and outstanding	544,098	544,098
Basic loss per share and diluted loss per share	(1.97)	(1.51)

Note:

As of 31 December 2022, the Company has repurchased an aggregate of 3,573,200 A-share through centralized competitive trading, which is deducted from the calculation of the weighted average number of the Company's outstanding common shares.

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LIV) Cost classification by nature

Additional information on the Company's operating costs, selling expenses and administrative expenses by nature is as follows:

Items	Current period's incurrence	Previous period's incurred
Expended Inventory	61,761	219,366
Employee expenses	69,940	96,440
Depreciation of right-to-use assets	4,726	10,936
Amortization of long-term amortization expenses	4,961	16,274
Shopping mall fees/rental fees	7,572	77,661
Utility expenses	6,578	20,476
E-commerce expenses	234	–
Logistics expenses	1,229	1,857
Depreciation of fixed assets	69,229	81,362
Consulting fees	26,279	36,999
Marketing expenses	861	1,059
Costs of low value consumables	758	639
Office expenses	5,144	4,271
Travel expenses	737	1,240
Amortization of intangible assets	6,017	10,393
Renovation and maintenance expenses	1,442	10,605
Quality inspection fees	24	–
Sample purchase fee	429	157
Others	4,066	3,480
Total	271,987	593,215

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Notes to the consolidated cash flow statement

1. Cash received relating to other operating activities

Items	Current period's incurrence	Previous period's incurred
Deposits from shopping mall and associate	1,141	16,823
Interest income	1,495	2,254
Non-operating income	333	1,604
Government grants	251	3,141
Others	9,503	10,774
Receipt of employee reserve funds	740	3,553
Total	13,463	38,149

2. Cash paid relating to other operating activities

Items	Current period's amount	Previous period's amount
Utilities, electricity and department store expenses	46,322	63,539
Consulting fees	21,202	35,736
E-commerce fees	-	77
Net increase in deposits and guarantees	983	3,403
Compensation expenditure	8	3,832
Bank charges	163	196
Reimbursement of performance bonds	-	67
Frozen bank account	8,243	111,477
Others	4,528	12,568
Total	81,449	230,895

Notes to the Financial Statements

For the year ended 31 December 2022

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Notes to the consolidated cash flow statement (continued)

3. Payment of other cash related to investing activities

Items	Current period's amount	Previous period's amount
Cash outflow for loss of control of subsidiaries	573	–
Total	573	–

4. Payment of other cash related to financing activities

Categories	Current period's amount	Previous period's amount
Leasing payments	2,315	7,821
Total	2,315	7,821

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LVI) Supplementary information of cash flow statement

1. Supplementary information of cash flow statement

Categories	Current period's amount	Previous period's amount
1. Reconciliation net loss to cash flows from operating activities		
Net Profit	(1,073,774)	(822,762)
Add: Credit impairment losses	27,890	186,505
Asset impairment allowance	22,577	310,182
Depreciation of fixed assets, oil and gas assets, biological assets	81,297	81,362
Depreciation of right of use assets	5,863	10,936
Amortization of intangible assets	7,133	10,393
Amortization of long-term prepaid expenses	3,214	16,274
Loss on disposal of fixed assets, intangible assets and other long-lived assets		
(Gains are recorded with a "-" sign)	2,218	(7,209)
Loss on scrapping of fixed assets (gain is recorded with a "-" sign)	56	6,241
Losses on changes in fair value (gains are recorded with a "-" sign)	9,433	(7,591)
Financial costs (gains are recorded with a "-" sign)	183,035	199,731
Loss on investments (gain is presented with a "-" sign)	629,545	(31,792)
Decrease in deferred income tax assets (increase is shown by "-")	-	-
Increase in deferred income tax liabilities (decrease is presented with a "-" sign)	(2,110)	(11,801)
Decrease in deferred income	480	(2,251)
Decrease in inventories (increase is shown by "-")	179,056	377,851
Decrease in operating receivables (increase by "-")	(94,133)	175,269
Increase in operating payables (decrease is presented with a "-" sign)	2,243	(453,441)
Others	-	-
Net cash flows from operating activities	(15,977)	37,897
2. Significant investing and financing activities not involving cash received and paid		
Debt transfers to capital	-	-
Corporate convertible bond due within one year	-	-
Financing leased in financial assets	-	-
3. Net change in cash and cash equivalents	-	-
Closing balance of cash	36,052	61,356
Less: Opening balance of cash	61,356	24,319
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
Net increase amount of cash and cash equivalents	(25,304)	37,037

Notes to the Financial Statements

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LVI) Supplementary information of cash flow statement (continued)

2. Cash and cash equivalents

Categories	Closing balance	Opening balance
I. Cash	36,052	61,356
Including: Cash on hand	27	33
Cash at bank that can be readily drawn on demand	36,025	61,323
Other cash at bank that can be readily used	–	–
II. Cash equivalents		
Including: Bond investment due within three months	–	–
III. Closing balance of cash and cash equivalents	36,052	61,356
Including: restricted cash and cash equivalents used by the company or the subsidiaries of the Group	–	–

(LVII) Assets with restricted ownership or use right

Categories	Balance	Reason for restriction
Monetary Funds	64,186	Judicial Freeze
Inventory	86	Lien, pledge, seizure
Fixed assets	513,587	Seizure and Loan Mortgage
Construction in progress	69,778	Loan Mortgage
Intangible assets	86,784	Seizure and Loan Mortgage
Total	734,421	

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V. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LVIII) Foreign currency monetary items

1. Foreign currency monetary items

Categories	Foreign currency balance at the end of the period	Translation rate	Closing balance in RMB
Currency funds	–		2
Of which: Hong Kong Dollars	–	0.8933	1
Of which: US Dollars	–	6.9646	1
Estimated liabilities			
Of which: Euros	54,726	7.4229	406,225

(LIX) Government grants

Types of Government Grants	Current period's amount	Amount charged to current profit or loss	Note
Government grants included in deferred income	–	337	For details, please refer to Note V/(XXXII)
Government grants included in other income	2,837	2,837	For details, please refer to Note V/(XLIV)
Total	2,837	3,174	

Notes to the Financial Statements

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VI. CHANGES IN CONSOLIDATION SCOPE

- (I) There was no business combination under non-identical control during the reporting period
- (II) There was no business combination under the same control during the reporting period
- (III) Disposal of subsidiaries

Name of Subsidiary	Disposal Price	Disposal Percentage (%)	Disposal Method	Time of losing control	Basis for losing control	The difference between the disposal price and the share of the net assets of the subsidiary at the consolidated financial statement level corresponding to the disposal of the investment
Yixin Retail Co., Ltd.	-	100.00	Agreement transfer	30 June 2022	Change of registration and agreement	-

Note: Yixin Retail was established in July 2020, Shanghai Laxia Enterprise Management Co., Ltd., the Company's wholly-owned subsidiary, has contributed RMB5.100 million in capital and held 100% of Yixin Retail's equity. Since the establishment of Yixin Retail, Co. Ltd. Yixin Retail has not carried out any actual business since its establishment. Based on the strategic adjustment direction of the overall shrinkage of La Chapelle, 100% of the shares were transferred by agreement with RMB0 on June 30, 2022.

(IV) Change in scope of consolidation for other reasons

Name of subsidiary	Reasons of changes
Aixi Culture	Investment establishment
Shanghai Leou	Taken over by a court-appointed administrator and removed from the scope of consolidated statements
Shanghai Weile	Taken over by a court-appointed administrator and removed from the scope of consolidated statements
Qixin Property Management	A wholly-owned subsidiary of Shanghai Weile established during this period. Separated from the scope of consolidated statements due to Shanghai Weile was taken over by administrator

Notes to the Financial Statements

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VII. INTERESTS IN OTHER ENTITIES

(I) Interests in other subsidiaries

1. Structure of the Group

Name of subsidiaries	Main business site	Place of registration	Nature of business	Percentage of shareholding (%)		Means of acquirement
				Direct	Indirect	
Laxia Xiuxian	Shanghai	Shanghai	Production and sales of apparel products	100	–	Established by investment
Chongqing Lewei	Chongqing	Chongqing	Production and sales of apparel products	100	–	Established by investment
Beijing Laxia	Beijing	Beijing	Production and sales of apparel products	100	–	Established by investment
Chengdu Laxia	Chengdu	Chengdu	Sales of apparel products	100	–	Established by investment
Shanghai Langhe	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Shanghai Xiawei	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Taicang Laxia	Taicang	Taicang	Sales of apparel products	95	5	Established by investment
Tianjin Laxia	Tianjin	Tianjin	Sales of apparel products	100	–	Established by investment
Chengdu Lewei	Chengdu	Chengdu	Sales of apparel products	100	–	Established by investment
Shanghai Chongan	Shanghai	Shanghai	Sales of apparel products	85	–	Established by investment
Shanghai Youshi	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Fujian Lewei	Pucheng	Pucheng	Sales of apparel products	100	–	Established by investment
Enterprise Management	Shanghai	Shanghai	Investment	100	–	Established by investment
Shanghai Nuoxin	Shanghai	Shanghai	Sales of apparel products	100	–	Established by investment
Shanghai Jiatusuo	Shanghai	Shanghai	IT technology	100	–	Established by investment
Laxia Nafu	Shanghai	Shanghai	Sales of apparel products	65	–	Established by investment
Guangzhou Xichen	Guangzhou	Guangzhou	Sales of apparel products	60	–	Acquired by combination
Taicang Xiawei	Taicang	Taicang	Sales of apparel products	100	–	Established by investment
Xinjiang Tongrong	Urumqi	Urumqi	Apparel technology	95	5	Established by investment
Shanghai Pinxi	Shanghai	Shanghai	Apparel technology	–	100	Established by investment
Taicang Jiashang	Taicang	Taicang	Warehousing services	–	100	Established by investment
Taicang Chongan	Taicang	Taicang	Sales of apparel products	100	–	Established by investment
Taicang Xiawei Storage	Taicang	Taicang	Warehousing services	–	100	Established by investment
Shanghai Geraopu	Shanghai	Shanghai	Sales of apparel products	–	100	Established by investment
Anhui Xinshang	Susong	Susong	Sales of apparel products	–	51	Established by investment
Aixi Culture	Shanghai	Shanghai	Cultural and entertainment brokerage services	–	100	Established by investment

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

(II) Equity in Joint Ventures and Associates

1. Significant joint ventures and associates

Name of associates	Main business region	Place of registration	Characteristic of business	Percentage of shareholding (%)		Accounting treatment
				Direct	Indirect	
Tibet Baoxin	Tibet	Tibet	Asset management	60	–	Equity method
Hongche Industrial	Shanghai	Shanghai	Design and sales of apparel products	36	–	Equity method
Beijing Aoni	Beijing	Beijing	Wholesale and retail	16	–	Equity method
Shanghai Yishan	Shanghai	Shanghai	Wholesale and retail	30	–	Equity method

(1) *Explanation of the ratio of shareholding in joint ventures or associates different from the ratio of voting rights*

The Company holds only one seat in the investment committee of Tibetan Baoxin and can participate directly in the discussion and formulation of decisions. However, as there are a total of four seats in the investment committee and decisions require a vote of at least two-thirds of the members of the investment committee, the Company is unable to control the decisions of the investment committee and only has significant influence on Tibetan Baoxin, which is therefore considered as an associate.

(2) *Basis for holding less than 20% of the voting rights but having significant influence*

The Company holds one seat on the board of directors of Beijing Aoni and has a total of three board members, so it can directly participate in the discussion and formulation of decisions and has significant influence on Beijing Aoni, and therefore it is considered an associate.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

VIII. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

The Company's major financial instruments include monetary funds, equity investments, borrowings, receivables, and payables. It is exposed to risks associated with various financial instruments in its day-to-day activities, which mainly include credit risk, liquidity risk and market risk. The risks associated with these financial instruments and the risk management policies that have been adopted by the Company to mitigate these risks are described below:

The Board of Directors is responsible for planning and establishing the Company's risk management framework, formulating the Company's risk management policies and related guidelines, and overseeing the implementation of risk management measures. The Company has established risk management policies to identify and analyse the risks faced by the Company. These risk management policies specify risks and cover many aspects of market risk, credit risk and liquidity risk management. The Company regularly assesses changes in the market environment and the Company's operations to determine whether to update its risk management policies and systems. The Company's risk management is carried out by the Risk Management Committee in accordance with the policies approved by the Board. The Risk Management Committee identifies, evaluates and mitigates relevant risks by working closely with other business units of the Company. The Company's internal audit department conducts regular reviews of risk management controls and procedures and reports the results of these reviews to the Company's Audit Committee. The Company diversifies its exposure to financial instruments through an appropriately diversified portfolio of investments and businesses and reduces the risk of concentration in a single industry, a specific region or a specific counterparty by establishing appropriate risk management policies.

(I) Credit risk

Credit risk is the risk of financial loss to the Company arising from the failure of counterparties to meet their contractual obligations and management has established an appropriate credit policy and continually monitors exposure to credit risk.

The Company has adopted a policy of only dealing with creditworthy counterparties.

In addition, the Company assesses the creditworthiness of its customers and sets credit periods accordingly based on an assessment of the customer's financial condition, the likelihood of obtaining guarantees from third parties, credit history and other factors such as current market conditions. The Company continuously monitors the balance and collection of notes and accounts receivable and uses written reminders, shortened credit periods or cancellation of credit periods for customers with poor credit histories to ensure that the Company is not exposed to significant credit losses. In addition, the Company reviews the recoveries of financial assets at each balance sheet date to ensure that adequate accrual for expected credit losses has been made for the relevant financial assets.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

VIII. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (continued)

The Company's other financial assets include monetary funds, other receivables, and equity investments. The credit risk of these financial assets arises from counterparty defaults and the maximum exposure to credit risk is the carrying amount of each financial asset on the balance sheet. The Company does not provide any other guarantees that may expose the Company to credit risk.

The Company holds its monetary fund mainly with financial institutions such as nation-controlled banks and other large and medium-sized commercial banks, which management believes have high creditworthiness and asset positions and are not exposed to significant credit risk and will not incur any significant losses due to defaults by the counterparties. It is the Company's policy to control the amount of deposits placed with each reputable financial institution based on its market reputation, scale of operations and financial background to limit the amount of credit risk exposure to any individual financial institution.

As part of the Company's credit risk asset management, the Company uses aging to assess impairment losses on accounts receivable and other receivables. The Company's accounts receivable and other receivables relate to a large number of customers and the aging information provides an indication of the solvency and bad debt risk of these customers with respect to their accounts receivable and other receivables. The Company calculates historical actual bad debt ratios for different aging periods based on historical data, and considers forecasts of current and future economic conditions, such as national GDP growth rates, total infrastructure investment, national monetary policies, and other forward-looking information for adjustment to arrive at expected loss rates. For long-term receivables, the Company makes a reasonable assessment of expected credit losses after considering the settlement period, contractual payment terms, the debtor's financial position and the economic situation of the industry in which the debtor operates and adjusting for the above forward-looking information.

As of 31 December 2022, the carrying amounts of the relevant assets and the expected credit impairment losses were as follows:

Aging	Carrying amount	Impairment accrued
Accounts receivable	473,608	431,028
Prepayment	5,004	–
Other receivables	663,743	652,445
Total	1,142,355	1,083,473

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

VIII. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(II) Liquidity risk

Liquidity risk is the risk that the Company will run short of funds in meeting its obligations settled by delivery of cash or other financial assets. The Company's member companies are each responsible for their own cash flow forecasts. Based on the results of the cash flow forecasts of each member company, the funding department of the Company continuously monitors the Company's short and long-term funding requirements at the corporate level to ensure that adequate cash reserves are maintained; and also, continuously monitors compliance with the provisions of borrowing agreements to obtain commitments from major financial institutions to provide sufficient standby funding to meet short and long-term funding requirements. In addition, the Company has entered into line of credit agreements with its major business correspondent banks for financing lines to support the Company in meeting its obligations related to commercial paper.

As of 31 December 2022, the Company's financial liabilities and off-balance sheet guarantee items are presented as undiscounted contractual cash flows by remaining contractual maturity as follows:

Items	Closing balance					Total
	Immediate repayment	Within 1 year	1 to 2 years	2 to 5 years	5 years above	
Short-term borrowings	1,147,748	–	–	–	–	1,147,748
Accounts payable	893,963	–	–	–	–	893,963
Other payables	958,932	–	–	–	–	958,932
Total	3,000,643	–	–	–	–	3,000,643

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

VIII. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk

1. Exchange rate risk

The Company's principal operations are in the People's Republic of China and its principal business is denominated in RMB. The finance department of the Company's head office is responsible for monitoring the size of the Company's foreign currency transactions and foreign currency assets and liabilities to minimize its exposure to foreign exchange risk; for this purpose, the Company may enter forward foreign exchange contracts or currency swap contracts for the purpose of hedging its foreign exchange risk. The Company has not entered any forward foreign exchange contracts or currency swap contracts in 2022, 2021, and 2020.

As of 31 December 2022, the amounts of foreign currency financial assets and foreign currency financial liabilities held by the Company that have been translated into RMB are listed below:

Projects	31 December 2022 RMB in thousand	31 December 2021 RMB in thousand
Hong Kong Dollar Items		
Currency funds	1	2
US Dollar Items		
Currency funds	1	–
Euro items		
Estimated liabilities	406,225	355,602

As of 31 December 2022, the Company recognized foreign currency assets of RMB2,000 (all bank deposits in foreign currencies), representing approximately 0.00% of the asset items, and foreign currency liabilities of RMB406,225 thousand, representing approximately 10.77% of the liability items, which did not involve foreign currency owner's equity items. For each class of the Company's financial assets and liabilities in Hong Kong dollars and euros, if the RMB had appreciated or depreciated by 10% against the Hong Kong dollar or the euro, with other factors remaining unchanged, the Company would have decreased or increased its net profit by approximately RMB40,623 thousand (approximately RMB35,460 thousand in 2021)

2. Interest rate risk

The Company's interest rate risk arises primarily from interest-bearing debt such as bank borrowings. Financial liabilities with floating interest rates expose the Company to cash flow interest rate risk and financial liabilities with fixed interest rates expose the Company to fair value interest rate risk. The Company determines the relative proportion of fixed rate and floating rate contracts based on market conditions.

In 2022, the Company has no floating rate interest bearing debt.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

IX. FAIR VALUE

(I) Financial instruments measured at fair value

The Company presents the carrying value of financial asset instruments measured at fair value on 31 December 2022, by the three levels of fair value. The classification of fair value in the three levels is based on the lowest of the three levels to which each significant input used in measuring fair value belongs. The three levels are defined as follows.

Level 1: is the unadjusted quoted price in an active market for identical assets or liabilities that is available at the measurement date.

Level 2: are inputs other than Level 1 inputs that are directly or indirectly observable for the relevant asset or liability.

Level 2 inputs include: 1) quoted prices in active markets for similar assets or liabilities; 2) quoted prices in inactive markets for identical or similar assets or liabilities; 3) observable inputs other than quoted prices, including interest rates and yield curves, implied volatilities and credit spreads that are observable during normal quotation intervals; and 4) inputs such as market validation.

Level 3: are unobservable inputs for the underlying asset or liability.

(II) Fair value measurement at the end of the period

1. Persistent fair value measurement

Items	Closing fair value			Total
	Level 1	Level 2	Level 3	
Other equity instrument investment	–	–	–	–
Other non-current financial assets	–	–	92,208	92,208
Total assets	–	–	92,208	92,208

(III) Items measured at fair value on a continuing and discontinuing level 3 basis, qualitative and quantitative information on the valuation techniques used and significant parameters

1. Description of fair value valuation

The difference between the carrying value and fair value of the Company's financial instruments, other than lease liabilities and long-term receivables disclosed at fair value, is minimal. Management has evaluated money funds, accounts receivable, notes payable and accounts payable, and the fair values approximate the carrying values due to the short remaining maturity.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

IX. FAIR VALUE (CONTINUED)

(III) Items measured at fair value on a continuing and discontinuing level 3 basis, qualitative and quantitative information on the valuation techniques used and significant parameters (continued)

1. Description of fair value valuation (continued)

The Company's finance department, headed by the Finance Manager, is responsible for establishing policies and procedures for the fair value measurement of financial instruments. The Finance Manager reports directly to the Chief Financial Officer and the Audit Committee. At each balance sheet date, the finance department analyses changes in the value of financial instruments and determines the key inputs to be applied to the valuation. The valuation is subject to review and approval by the Chief Financial Officer. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial statement purposes.

The fair value of financial assets and financial liabilities is determined as the amount that would result from a voluntary exchange of assets or settlement of liabilities between knowledgeable parties in an arm's length transaction, rather than a forced sale or liquidation situation. The following methods and assumptions are used to estimate fair value.

Long-term receivables are determined at fair value using the discounted future cash flow method, using as the discount rate the market rate of return for other financial instruments with similar contractual terms, credit risk and remaining maturity.

For the fair value of unlisted investments in equity instruments, the Company estimated and quantified the potential impact of using alternative reasonable and probable assumptions as inputs to the valuation model.

2. Unobservable input value information

Items	Fair value at end of period	Valuation techniques	Unobservable inputs	Range interval
Equity instrument investment: Beijing Mingtongsiji Technology Co., Ltd.	-	Comparative Approach for Listed Companies	-	-
Equity instrument investment: Shanghai Bolatu Information Technology Co., Ltd.	-	Net Asset Approach	-	-
Other non-current financial assets: Ningbo Lanshengqianhui Investment Partnership (Limited Partnership)	22,540	Net Asset Approach	-	-
Other non-current financial assets: Hangzhou Zhitou Equity Investment Partnership (Limited Partnership)	13,111	Net Asset Approach	-	-
Other non-current financial assets: Nantong Xunming Fund Partnership (Limited Partnership)	56,557	Net Asset Approach	-	-
Total	92,208			

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Details of the Company's ultimate controlling party

As of 31 December 2022, the shareholding structure of the Company was relatively diversified, with the shareholding ratio of the highest shareholder not exceeding 30%. There was no controlling shareholder who could control the general meeting and the board of directors, nor was there any common control, and the Company had no actual controller. Shareholders and directors are independent in exercising their voting rights.

As As of 31 December 2022, the shareholdings of shareholders holding more than 10% of the shares were as follows:

Name of company or shareholder	Place of incorporation	Nature of business	Number of shares held	Shareholding in the Company (%)	Proportion of voting rights in the Company (%)
Shanghai Qijin Enterprise Management Partnership (Limited Partnership) ("Shanghai Qijin")	Shanghai	Business Management Consulting	85,200,000	15.56	15.56
Haitong Securities Asset Management No. 1 FOF Single Asset Management Plan of Securities Industry Support for Private Enterprise Development Series	–	–	80,000,000	14.61	14.70
Shanghai Wensheng Asset Management Company Limited (hereinafter referred to as "Wensheng Asset")	Shanghai	Asset Management and Business Management Consulting	21,600,000	3.94	3.94

Shanghai Wensheng Asset Management Company Limited indirectly holds 100% share of Shanghai Qijin Enterprise Management Partnership (Limited Partnership), and Wensheng Asset and Shanghai Qijin constitute parties acting in concert. As of 31 December 2022, Shanghai Qijin and Wensheng Assets held a total of 106,800,000 A-share of the Company, representing 19.5% of the total share capital of the Company, and was the largest shareholder of the Company.

(II) The general information of the subsidiaries is set out in Note VII/(I) Interests in major subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Joint ventures and associates of the Company

Details of the Company's significant joint ventures or associates are set out in Note VII/(II) "Interests in joint venture arrangements or associates".

Other joint ventures or associates with which the Company had related party transactions during the period, or with which the Company had related party transactions in prior periods that resulted in balances, are as follows:

Name of joint venture or associate	Relationship with the Group
Hongche Industrial	Associates
Zhejiang Yuanrui	Associates, sold in 2021

(IV) Information on other related parties

Name of other related parties	Relationship of other related parties with the Company
LACHA FASHION I LIMITED	Subsidiaries lost control in 2020
Naf Naf SAS	Subsidiaries lost control in 2020
Jack Walker (Shanghai) Apparel Co.	Subsidiaries lost control in 2020
Shanghai Hexia Investment Company Limited (hereinafter referred to as "Hexia Investment")	Former controlling shareholder's person in concert
Shanghai Weile	Subsidiaries lost control in 2022
Shanghai Leou	Subsidiaries lost control in 2022
Qixin Property Management	Subsidiaries lost control in 2022
Yixin Retail	Subsidiaries transferred in 2022

(V) Related party transactions

- For the subsidiaries which are controlled by the Company and counted into the consolidated financial statements, the internal and parent company transactions have been offset.
- Sales of goods and services to related parties

Related party	Transaction	Current Period Incurrence	Prior Period Incurred
Zhejiang Yuanrui	Brand-integrated services	-	6,113
Total		-	6,113

Note of related party transaction:

Information above only contains transaction information when it remains as related party.

Notes to the Financial Statements

For the year ended 31 December 2022
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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

3. Asset leasing with related parties

(1) *The Company as lessee*

Name of Lessor	Leasing type	Rental payment		Interest expense on lease liabilities assumed		Increased right-to-use assets	
		Current period	Previous period	Current period	Previous period	Current period	Previous period
Shanghai Weile	House and Buildings	2,985	-	581	-	33,397	-
Total		2,985	-	581	-	33,397	-

Note of related party leasing:

Shanghai Weile, a wholly-owned subsidiary, of the Company entered into a lease agreement with La Chapelle to lease Building 4 in headquarters Buildings, to La Chapelle for the period from 1 April 2018 to 31 March 2027. Shanghai Weile, a wholly-owned subsidiary, was filed for bankruptcy liquidation by its creditors because it was unable to pay its creditors' debts when due. It was taken over by the bankruptcy liquidation administrator appointed by the court on 9 August 2022 and was removed from the scope of consolidated statements.

4. Related party guarantees

(1) *The Company as the guarantee party*

Secured party	Amount of guarantee (in thousand)	Start date of guarantee	Expiry date of guarantee	Whether the guarantee has been fulfilled
LACHA FASHION I LIMITED	EUR37,400	30 November 2019	30 November 2021	No
Total	EUR37,400			

A former subsidiary, Fashion I (taken over on 25 February 2020) has borrowed funds from Gemstone Advantage Limited (previously under the name of HTI ADVISORY COMPANY LIMITED), as of 31 December 2022, Fashion I unable to repay any loan. On 17 January 2023, the Company received lawsuit, (2022) Hu 01 Minchu No.193, against La Chapelle filed by Gemstone Advantage Limited to the Shanghai No.1 intermediate court regarding the guaranteed contract dispute.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

4. Related party guarantees (continued)

(2) *The Company act as guaranteed party*

Guarantor	Guaranteed amount	Date of commencement	Date of maturity	Whether the guarantee has been fulfilled
Xing Jiaxing	88,000	30 April 2020	30 April 2021	No
Xing Jiaxing	40,000	24 June 2020	24 June 2021	No
Xing Jiaxing	70,000	24 June 2020	24 June 2021	No
Xing Jiaxing	400,000	11 September 2019	10 September 2022	No
Xing Jiaxing	200,000	25 November 2019	25 November 2022	No
Xing Jiaxing	225,000	1 September 2019	31 August 2022	No
Xing Jiaxing	150,000	19 October 2018	2 January 2022	No
Xing Jiaxing	550,000	26 November 2019	26 November 2023	No
Shanghai Weile Fashion Co., Ltd.	88,000	30 April 2020	30 April 2021	No
Shanghai Weile Fashion Co., Ltd.	40,000	24 June 2020	24 June 2021	No
Shanghai Weile Fashion Co., Ltd.	70,000	24 June 2020	24 June 2021	No
Shanghai Weile Fashion Co., Ltd.	400,000	11 September 2019	10 September 2022	No
Shanghai Weile Fashion Co., Ltd.	200,000	25 November 2019	25 November 2022	No
Shanghai Weile Fashion Co., Ltd.	225,000	1 September 2019	31 August 2022	No
Shanghai Weile Fashion Co., Ltd.	150,000	1 November 2018	31 August 2022	No
Shanghai Weile Fashion Co., Ltd.	150,000	19 October 2018	2 January 2022	No
Total	3,046,000			

Note of related guarantees:

The total amount of guarantees provided by Mr. Xing Jiaxing, the former controlling shareholder, for the Company in 2022 was RMB1,732,000 thousand, which were outstanding as of 31 December 2022, of which 550,000 thousand was still outstanding and 1,732,000 thousand was in litigation.

Shanghai Weile, a subsidiary of the Company, provided guarantees to the Company in the aggregate amount of RMB1,323,000 thousand by 2022. As of December 31, 2022, none of these guarantees had been fulfilled and RMB1,323,000 thousand was in litigation.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

5. Funds lending with related party

(1) Lending funds to related parties

Related parties	Amount lending	Description
Hongche Industrial	40,000	Expired
Hexia Investment	9,500	Fund appropriated, Expired
Total	49,500	

In 2021, La Chapelle Company's self-investigation found that Shanghai Hexia Investment Co., Ltd, a person acting in concert with Mr. Xing Jiaxing, the former controlling shareholder and actual controller, had appropriated RMB9.5 million of funds from La Chapelle Company. In 2022, the company filed a lawsuit to the Shanghai Xuhui District People's Court on this matter, and on September 27, the Shanghai Xuhui District People's Court ruled that "Shanghai Xiang'an Information Technology Co. and Mr. Xing Jiaxing reimburse La Chapelle for the loss of interest on the funds occupied calculated on the basis of RMB9,500,000 from September 18, 2021 to the date of actual settlement at the standard of the one-year loan market quotation rate published by the National Interbank Offered Rate Center." As of December 31, 2022, the principal and interest on this capital occupied had not been returned.

6. Key management payroll and remuneration

Items	Current Period	
	incurred	Prior period
Key management payroll and remuneration	5,388	5,106

7. Directors' and supervisors' remuneration and interests

(1) List of appointments during the reporting period

2022	Election process	Position	Starting time	Starting time	Newly assigned	Resigned	Ending time	Whether the business pays salaries
				during current period	during current period	during current period	during current period	
I. Directors								
	Zhao Jinwen	2020 Annual General Meeting of Shareholders	Director and Chairman of the Board	2021/6/10	2022/1/1		2022/12/31	Yes
	Zhang Ying	2021 First Extraordinary General Meeting of Shareholders	President and Director	2021/1/11	2022/1/1		2022/12/31	Yes

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(1) List of appointments during the reporting period (continued)

2022	Election process	Position	Starting time	Starting time during current period	Newly assigned during current period	Resigned during current period	Ending time during current period	Whether the business pays salaries
	Zhang Xin	2020 Annual General Meeting of Shareholders	Director	2021/6/10	2022/1/1	2022/4/20		Yes
	Yang Heng	2021 Third Extraordinary General Meeting of Shareholders	Director	2021/7/6	2022/1/1		2022/12/31	No
	Xing Jiangze	2020 Second Extraordinary General Meeting of Shareholders	Independent Director	2020/5/8	2022/1/1		2022/12/31	Yes
	Chow Yue Hwa Jade	2020 Annual General Meeting of Shareholders	Independent Director	2021/6/10	2022/1/1		2022/12/31	Yes
	Zhu Xiaozhe	2020 Second Extraordinary General Meeting of Shareholders	Independent Director	2020/5/8	2022/1/1		2022/12/31	Yes
	Fu Feng	2021 Annual General Meeting of Shareholders	Director	2022/6/29	2022/6/29	2022/12/1		No
	Wang Yan	2022 Second Extraordinary General Meeting of Shareholders	Director	2022/12/30	2022/12/30		2022/12/31	Yes
II. Supervisor	Sun Bin	Staff Congress held on 15 January 2021	Supervisor	2021/1/15	2022/1/1		2022/12/31	Yes
	Gu Zhenguang	2021 Second Extraordinary General Meeting of Shareholders	Supervisor	2021/2/22	2022/1/1		2022/12/31	Yes
	Wang Jiajie	Staff Congress held on 10 June 2021	Supervisor	2021/6/10	2022/1/1		2022/12/31	Yes

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(1) List of appointments during the reporting period (continued)

2021	Election process	Position	Starting time	Starting time during current period	Newly assigned during current period	Resigned during current period	Ending time during current period	Whether the business pays salaries
I. Directors								
	Duan Xuefeng	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1	2021/1/11		No
	Yin Xinzai	2020 Second Extraordinary General Meeting of Shareholders	Executive Director	2020/5/8	2021/1/1	2021/4/30		Yes
	Zhang Danling	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1	2021/6/10		Yes
	Wu Jinying	2021 Second Extraordinary General Meeting of Shareholders	Director	2021/2/22	2021/1/1	2021/6/10		Yes
	Zhang Yujing	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1	2021/1/11		No
	Xing Jiangze	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1		2021/12/31	Yes
	Zhu Xiaozhe	2020 Second Extraordinary General Meeting of Shareholders	Director	2020/5/8	2021/1/1		2021/12/31	Yes
	Xiao Yaming	2020 Second Extraordinary General Meeting of Shareholders	Independent Director	2020/5/8	2021/1/1	2021/1/11		Yes
	Wong Sze Wing	2021 First Extraordinary General Meeting of Shareholders	Independent Director	2021/1/11		2021/1/11	2021/6/10	Yes
	Zhang Ying	2021 First Extraordinary General Meeting of Shareholders	Director and president	2021/1/11		2021/1/11	2021/12/31	Yes
	Zhang Xin	2020 Annual General Meeting of Shareholders	Chairman	2021/6/10		2021/6/10	2021/12/31	Yes

Notes to the Financial Statements

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(1) List of appointments during the reporting period (continued)

2021	Election process	Position	Starting time during current period	Starting time during current period	Newly assigned during current period	Resigned during current period	Ending time during current period	Whether the business pays salaries
	Zhao Jinwen	2020 Annual General Meeting of Shareholders	Director	2021/6/10	2021/6/10		2021/12/31	No
	Chow Yue Hwa Jade	2020 Annual General Meeting of Shareholders	Independent Director	2021/6/10	2021/6/10		2021/12/31	Yes
	Yang Heng	2021 Third Extraordinary General Meeting of Shareholders	Director	2021/7/6	2021/7/6		2021/12/31	No
II. Supervisor								
	Shi Xiaofeng	Staff Congress held on 8 May 2020	Supervisor	2020/5/8	2021/1/1	2021/1/15		Yes
	Wu Jinying	2020 Second Extraordinary General Meeting of Shareholders	Supervisor	2020/5/8	2021/1/1	2021/2/22		Yes
	Ma Yuanbin	Staff Congress held on 8 May 2020	Supervisor	2020/5/8	2021/1/1	2021/6/10		Yes
	Sun Bin	Staff Congress held on 15 January 2021	Supervisor	2021/1/15	2021/1/15		2021/12/31	Yes
	Gu Zhenguang	2021 Second Extraordinary General Meeting of Shareholders	Supervisor	2021/2/22	2021/2/22		2021/12/31	Yes
	Wang Jijie	Staff Congress held on 10 June 2021	Supervisor	2021/6/10	2021/6/10		2021/12/31	Yes

Note: Zhao Jinwen was appointed as Chairman on 20 April 2022.

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(2) Remuneration of Directors, Supervisors and Chief Executive Officer

2022	Remuneration	Salaries and allowances	Pension scheme contributions	Bonus	Other allowances and benefits	Remuneration for other services rendered in connection with the management of the Company or a subsidiary	Share-based payments	Total
I. Executive Directors								
Zhao Jinwen	420	-	-	-	-	-	-	420
Zhang Ying	-	1,933	63	-	-	-	-	1,996
Zhang Xin	180	-	-	-	-	-	-	180
II. Non-Executive Directors								
Yang Heng	-	-	-	-	-	-	-	-
Fu Feng	-	-	-	-	-	-	-	-
Wang Yan	-	-	-	-	-	-	-	-
III. Independent Directors								
Xing Jiangze	200	-	-	-	-	-	-	200
Chow Yue Hwa Jade	200	-	-	-	-	-	-	200
Zhu Xiaozhe	200	-	-	-	-	-	-	200
IV. Supervisors								
Sun Bin	-	208	17	-	-	-	-	225
Gu Zhenguang	-	510	58	-	-	-	-	568
Wang Jijie	-	464	48	-	-	-	-	512
Total	1,200	3,115	186	-	-	-	-	4,501

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(2) Remuneration of Directors, Supervisors and Chief Executive Officer (continued)

Continued:

2021	Remuneration	Salaries and allowances	Pension scheme contributions	Bonus	Other allowances and benefits	Remuneration for other services rendered in connection with the management of the Company or a subsidiary	Share-based payments	Total
I. Executive Directors								
Zhang Xin	-	335	-	-	-	-	-	335
Zhang Ying	-	1,701	57	-	-	-	-	1,758
Wu Jinying	-	385	13	-	-	-	-	398
Yin Xinzai	-	-	-	-	-	-	-	-
Zhang Danling	-	334	24	-	-	-	-	358
II. Non-Executive Directors								
Duan Xuefeng	-	-	-	-	-	-	-	-
Zhang Yujing	-	-	-	-	-	-	-	-
Zhao Jinwen	-	-	-	-	-	-	-	-
Yang Heng	-	-	-	-	-	-	-	-
III. Independent Directors								
Xing Jiangze	200	-	-	-	-	-	-	200
Chow Yue Hwa Jade	111	-	-	-	-	-	-	111
Zhu Xiaozhe	200	-	-	-	-	-	-	200
Wong Sze Wing	83.33	-	-	-	-	-	-	83.33
Xiao Yanming	-	-	-	-	-	-	-	-
IV. Supervisors								
Gu Zhenguang	-	428	47	-	-	-	-	475
Sun Bin	-	233	14	-	-	-	-	247
Wang Jiajie	-	246	21	-	-	-	-	267
Ma Yuanbin	-	531	24	-	-	-	-	555
Wu Jinying	-	112	6	-	-	-	-	118
Shi Xiaofeng	-	34	2	-	-	-	-	36
Total	594	4,339	208	-	-	-	-	5,141

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

7. Directors' and supervisors' remuneration and interests (continued)

(3) *Retirement benefits for directors*

The Company does not have retirement benefits for its directors. The Company only contributes to the state-mandated pension plan for its directors who are based in the People's Republic of China.

(4) *Termination benefits for directors*

The Company does not have any termination benefits for directors.

(5) *Consideration paid to third parties for obtaining the services of directors*

In 2022, there has no consideration paid by the Company to third parties for obtaining the services of directors (2021: None).

(6) There were no loans, similar loans and other transactions made by the Company to directors, legal entities controlled by directors and related parties of directors in 2022 (2021: None).

(7) The top five highest paid members of the Company in fiscal 2022 include 1 member of the Board of Directors (2021: 1 member), whose remuneration details are shown in Note X/(V)/8/(2). Details of the remuneration of the remaining 4 members (2021: 4 members) non-directors with the highest paid employees are set out below:

Item	2022	2021
Salaries, bonuses, and allowances	2,279	3,572
Included: bonus	–	–
Pensions	242	227
Provident fund, medical insurance and other social insurance	273	258
Total	2,794	4,057

Salary range:

	2022	2021
HKD0 to HKD1,000,000 (equivalent to approximately RMB0 to RMB858,000)	3	2
HKD1,000,000 to HKD1,500,000 (equivalent to approximately RMB858,000 to RMB1,287,000)	1	2
Total	4	4

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For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(V) Related party transactions (continued)

8. Receivables and payables of related party

(1) *Receivables from related parties of the Company*

Items	Related party	Closing balance		Opening balance	
		Carrying amount	Bad debt allowance	Carrying amount	Bad debt allowance
Accounts receivable					
	Hongche Industrial	4,284	4,284	4,284	4,284
	Shanghai Weile	263,527	263,527	-	-
Other receivables					
	Jack Walker	-	-	7,752	7,752
	Hexia Investment	10,797	10,797	10,445	10,445
	Hongche Industrial	1,458	1,458	1,778	1,778
	LaCha Fashion I Limited	117,017	117,017	117,017	117,017
	Shanghai Weile	270,325	270,325	-	-
	Shanghai Leou	144,532	144,532	-	-
	Qixin Property Management	11,200	11,200	-	-
Other current assets					
	Jack Walker	-	-	256,570	256,570
	Hongche Industrial	47,869	47,869	47,869	47,869

(2) *Payables to related parties of the Company*

Items	Related party	Closing balance	Opening balance
Accounts payable			
	Shanghai Leou	194,297	-
Other payables			
	Shanghai Weile	142,500	-
	Shanghai Leou	25,913	-
	Qixin property management	10,056	-

Notes to the Financial Statements

For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

XI. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

There are no material commitments of the Company that require disclosure

(II) Significant contingencies existing at the balance sheet date

1. Contingencies arising from pending litigation or arbitration and their financial impact

(1) *The Company as a defendant*

a. *Litigation matters in which judgments are unexecuted*

Serial number	Case type	Case number	Amount involved
1	Service contract disputes	10	4,158
2	Processing contract disputes	113	537,838
3	Construction contract disputes	11	29,800
4	Financial loan contract disputes	6	280,820
5	Labor disputes	8	279
6	Associate contract disputes	1	300
7	Sale and purchase contract disputes	114	406,896
8	Bills disputes	61	11,645
9	Franchise contract disputes	1	150
10	Contract dispute over entrusted loans	1	550,000
11	Transport contract disputes	5	2,218
12	Copyright infringement disputes	1	150
13	Decoration contract disputes	11	7,906
14	Lease contract disputes	40	11,919
	Total	383	1,844,079

As of 31 December 2022, the Company had a total of 383 litigation cases with judgments unexecuted, involving the amount of RMB1,844,079 thousand. The interest of overdue has been calculated on 31 December 2022. Thereafter, interest for the period of late payment is credited to the corresponding fiscal year.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

(1) *The Company as a defendant (continued)*

b. *Unadjudicated litigation matters*

Deadline Judgment Status Case Type	31 December 2022		As of the audit report date(30 March 2023)			
	Pending Cases		Amount involved		Judged Cases	
	Case number	Amount	Pending Cases Case number	Amount	Case number	Amount
Construction Contract Disputes	1	1,700	1	1,700	-	-
Disputes over construction land use right grant contract	1	43,961	1	43,961	-	-
Financial loan contract disputes	2	658,508	2	658,508	-	-
Disputes over purchase and sale contracts	3	36,257	2	35,792	1	465
Disputes over recourse of bills	1	243	1	243	-	-
Trademark transfer contract disputes	2	400	2	400	-	-
Copyright infringement disputes	1	500	1	500	-	-
Lease contract disputes	1	252	1	252	-	-
Total	12	741,821	11	741,356	1	465

As of 31 December 2022, the total number of cases in which the Company was a defendant and had not been adjudicated was 12 cases involving litigation amounting to RMB741,821 thousand.

Notes to the Financial Statements

For the year ended 31 December 2022
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XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

(2) *Company as plaintiff party*

a. *Litigation matters which judgments are unexecuted*

Serial number	Case type	Case number	Amount involved
1	Property Damage Dispute	1	158
2	Disputes over processing and contracting contracts	1	393
3	Associate contract dispute	1	27
4	Sale and purchase contract dispute	1	1,541
5	Other Contract Disputes	1	11,978
6	Trademark license contract disputes	1	4,000
7	Franchise contract dispute	2	21,781
8	Lease contract dispute	4	716
Total		12	40,594

As of 31 December 2022, the total number of unexecuted cases in which the Company was the plaintiff and in which judgment had been rendered was 12, involving an amount of RMB40,595 thousand.

b. *Unjudged litigation matters*

Serial number	Case type	Case number	Amount involved
1	Sale and purchase contract disputes	1	2,572
Total		1	2,572

As of 31 December 2022, the total number of cases in which the Company was the plaintiff and in which judgment was not rendered was 1 case involving RMB2,572 thousand.

(3) On 27 July 2022, the Company received the bankruptcy decision letter from the Shanghai No. 3 Intermediate People's Court in respect of its subsidiary Shanghai Leou, appointing Shanghai Jiehua Law Firm as the administrator. On 19 August 2022, the Company filed creditor's declaration, and the first creditors' meeting was held on 8 September 2022. As of 31 December 2022, Shanghai Le'ou's insolvency liquidation matters were not concluded. The Company has fully impaired the equity investment and receivables to Shanghai Leou. The liquidation does not expect to have a material impact on the Company's existing business.

Notes to the Financial Statements

For the year ended 31 December 2022

(All amounts in RMB'000 unless otherwise stated)

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

1. Contingencies arising from pending litigation or arbitration and their financial impact (continued)

- (4) On 11 July 2022, the Company received the bankruptcy decision letter from the Shanghai No. 3 Intermediate People's Court in respect of its subsidiary Shanghai Weile, appointing Shanghai Huiye Law Firm as the administrator. On 9 August 2022, the Company filed creditor's declaration, and the first creditors' meeting was held on 23 August 2022. As of 31 December 2022, Shanghai Weile's insolvency liquidation matters were not concluded. The Company has fully impaired the equity investment and receivables to Shanghai Weile. The liquidation does not expect to have a material impact on the Company's existing business.
- (5) On 19 July 2022, the Company received the pre-reorganization decision letter from the Taicang People's Court in respect of its subsidiary Lacha Taicang, appointing Jiangsu Xintianlun Law Firm as the temporary administrator. As of 31 December 2022, the pre-reorganization still in progress. Therefore, the impact on the Company is uncertain pending the final pre-reorganization results, as detailed in Note XIV/(III).
- (6) On 25 February 2020, FASHION I, a subsidiary of the Company, was taken over by HTI ADVISORY COMPANY LIMITED (Gemstone Advantage Limited) due to non-payment of loans on schedule, and the Company was unable to exercise any control or influence over it and has lost control effectively. As a result, the Company's subsidiary FASHION I and its subsidiaries APPAREL I, APPAREL II and Naf Naf SAS all have lost control.

Naf Naf SAS, a former wholly owned subsidiary of the Company, was unable to repay the amounts owed to suppliers and the local government, and on 15 May 2020, judicial reorganization proceedings were formally initiated by a local French court and a judicial administrator was appointed to assist in all or part of the business operations of Naf Naf SAS. On 19 June 2020, the local French court ruled in favor of the disposal of certain assets and liabilities of Naf Naf SAS, including intangible assets, fixed assets, inventories, employee accrued rights, leases, franchise agreements, etc. (excluding monetary funds, accounts receivable, accounts payable, bank loans, etc.) for a price of approximately 8,232,700 Euro, and the judicial reorganization proceedings of Naf Naf SAS were transferred to judicial liquidation proceedings. The proceeds of the sale will be included in the judicial liquidation process to pay off its debts. As of 31 December 2022, the above-mentioned liquidation of Naf Naf SAS is not yet complete, the impact to the Company is uncertain pending the final outcome of the liquidation because the Company is unable to obtain further information in relation to the liquidation of Naf Naf SAS.

Notes to the Financial Statements

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XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Significant contingencies existing at the balance sheet date (continued)

2. Contingencies arising from the provision of external debt guarantees and their financial impact

Serial number	Secured party	Subject matter	Amount	Presented under
1	LACHA FASHION I LIMITED	Borrowing Guarantee	EUR37,400	Estimated liabilities
	Total		EUR37,400	

As of 31 December 2022, other than the above-mentioned guarantees, there were no guarantees provided by the Company for other related parties and non-related party units.

Except for the existence of the above contingencies, there has no other material contingencies of the Company as of 31 December 2022, that should be disclosed but were not disclosed.

XII. EVENTS AFTER THE BALANCE SHEET DATE

(I) Effects of new litigation or arbitration

(1) The Company as defendant

Deadline Judgment Status Case Type	30 March 2023		30 March 2023			
	Pending and Judged Cases		Pending Cases		Judged Cases	
	Case number	Amount	Case number	Amount	Case number	Amount
Warranty liability	3	75,600	3	75,600	–	–
Lease contract disputes	4	976	1	939	3	37
Total	7	76,576	4	76,539	3	37

The total number of cases in which the Company was added as a defendant from 1 January 2023 to the date of the audit report was 7, involving a total amount of RMB76,576 thousand. Among them, the total number of litigation cases that have been judged is 3, involving a total amount of RMB37 thousand.

Notes to the Financial Statements

For the year ended 31 December 2022

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XII. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(I) Effects of new litigation or arbitration (continued)

(2) The Company as Plaintiff

Serial number	Defendant	Case number	Amount involved
1	Labor disputes	1	195
2	Trademark license contract dispute	2	4,682
	Total	3	4,877

The total number of cases in which the Company was added as a plaintiff from 1 January 2023 to the date of the audit report was 3, and the amount involved was RMB4,877 thousand.

(II) Description of other events after the balance sheet date

Except for the above-mentioned post-balance sheet events, the Company has no other material post-balance sheet events that should be disclosed but were not disclosed as of the date of approval of the financial report.

XIII. QUALITATIVE AND QUANTITATIVE DISCLOSURES RELATED TO LEASING

(I) Disclosures as a lessee:

Many of the Company's real estate leases contain variable lease payment terms that are tied to the sales volume of the stores being leased. Where possible, the Company uses these terms to match lease payments to the stores that generate more cash flow. For individual stores, up to 100% of the lease payments can be based on variable payment terms and a wide range of sales ratios are used. In some cases, the variable payment terms also include annual payment floors and caps.

As of 31 December 2022, the lease payments and terms are summarized below:

Category	Number of stores	Fixed Payment Amount	Variable payment amount	Total payment amount
Fixed rent only	11	46,484	–	46,484
Variable rent with no minimum	–	–	–	–
Variable rent with minimum standard	–	–	–	–
Total	11	46,484	–	46,484

Notes to the Financial Statements

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XIII. QUALITATIVE AND QUANTITATIVE DISCLOSURES RELATED TO LEASING (CONTINUED)

(II) Disclosures as lessor:

The Company uses some of its buildings and structures for leasing, and according to the lease contract, the rent is subject to annual adjustment based on market rental conditions. The Company generated revenues of RMB50,243 thousand in 2022, see Note V/(XXXIX). The leased-out buildings and structures are not accounted for as investment properties because they cannot be separated and measured separately.

XIV. OTHER SIGNIFICANT EVENTS

(I) Being Filed for bankruptcy liquidation

The Company received (2023) Hu 03 Po No. 64 "Civil Ruling" from Shanghai Third Intermediate Court on 6 February 2023. The court ruled on 2 February 2023 to accept the bankruptcy liquidation case of La Chapelle and appointed King & Wood Mallesons (Beijing), Shanghai Branch as the administrator. Currently, it is in the stage of creditors' declaration of debts and asset verification. The progress of declaration of debts by creditors will be completed before 8 May 2023, and the first meeting of creditors is scheduled to be held on 24 May 2023.

If, after the Court accepted the bankruptcy liquidation of the Company, the debtor or the shareholders contributing to more than one-tenth of the registered capital of the debtor does not apply to the Court for reorganization before the Company is declared bankrupt, or the Court rules not to accept the reorganization of the Company, or the Court rules to accept the reorganization but the draft of the reorganization plan has not been approved by the creditors' meeting, the adjustment plan of shareholders' rights and interests has not been approved by the shareholders' meeting and the draft of the reorganization plan has not been approved by the Court, the Company will be declared bankrupt by the Court. After the declaration of bankruptcy, the administrator will commence the liquidation of the Company in accordance with the law and shall, after receiving rulings of the Court to conclude the bankruptcy procedures, deregister the Company at the company registry. The interest of the shareholders of the Company may be zeroed out after the Company is deregistered.

The Company received the Civil Ruling No. (2023) Hu 03 Po 70 from Shanghai Third Intermediate Court on February 8, 2023. The Shanghai Third Intermediate Court ruled on February 7, 2023 to accept the bankruptcy liquidation case of Shanghai Nuoxing, a wholly-owned subsidiary, and appointed King & Wood Mallesons (Beijing), Shanghai Branch as the administrator. Currently, it is in the stage of creditors' declaration of debts and assets verification. As Shanghai Nuoxing enters into bankruptcy liquidation, there is a risk that the Company's equity investment and other receivables held by Shanghai Nuoxing may not be recovered.

(II) Equity freezes in subsidiaries

Up to now, the equity interests of 15 subsidiaries of the Company have been frozen as a result of the Company's involvement in litigation cases and other impacts, involving a total execution amount of approximately RMB982 million. The freezing of the equity interests of the Company's subsidiaries has not yet had any material impact on the normal operation of the Company and its subsidiaries, but there is a risk that the equity interests of the subsidiaries may be judicially disposed of due to the above matters.

Notes to the Financial Statements

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XIV. OTHER SIGNIFICANT EVENTS (CONTINUED)

(III) Filing for bankruptcy reorganization of subsidiaries

On 19 July 2022, Lacha Taicang received the "Decision Letter" (2022) Su No.0585 Po Shen No.29 and "Decision Letter" (2022) Su 0585 Po Shen No.29 one from the Taicang Court, which decided to start the pre-reorganization of Lacha Taicang and appointed the provisional administrator. On 10 February 2023, the Taicang Court decided to accept the bankruptcy reorganization case of the debtor Lacha Taicang and appointed Jiangsu Xintianlun Law Firm as the administrator. At present, it is in the stage of creditors' declaration of debts and asset verification, and the declaration of creditors' debts will be completed before 12 April 2023, and the first meeting of creditors is scheduled to be held on 25 April 2023. Lacha Taicang has entered into bankruptcy reorganization procedure, and there is a risk of impairment of the Company's equity investment and receivables held by Lacha Taicang.

(IV) Write-off of repurchased shares

The Company held the First Extraordinary General Meeting of Shareholders in 2023, the First Class Meeting of Shareholders of Domestic Shares in 2023 and the First Class Meeting of Shareholders of H Shares in 2023 on January 13, 2023 to consider and approve the proposal to cancel the repurchased shares and reduce the registered capital and to amend the Articles of Association of the Company. The Company intends to cancel all the 3,573,200 domestic shares in the special securities account for repurchase (the Company has repurchased 3,573,200 domestic shares in aggregate through centralized bidding transactions in 2020) and reduce the registered capital of the Company accordingly.

(V) Division Information

The Company determines operating segments based on its internal organizational structure, management requirements, and internal reporting system. An operating segment of the Company is a component that also meets the following conditions:

- (1) The component is capable of generating revenues and incurring expenses in the ordinary course of its activities;
- (2) Management is able to regularly evaluate the operating results of the component in order to decide to allocate resources to it and evaluate its performance;
- (3) It is possible to obtain accounting information related to the financial position, results of operations and cash flows of the component.

Notes to the Financial Statements

For the year ended 31 December 2022
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XIV. OTHER SIGNIFICANT EVENTS (CONTINUED)

(V) Division Information (continued)

The Company determines its reportable segments on the basis of operating segments. An operating segment is determined to be a reportable segment if one of the following conditions is met:

- (1) The segment revenue of that operating segment represents 10% or more of the total revenue of all segments;
- (2) The absolute amount of segment profit (loss) of that segment represents 10% or more of the greater of the aggregate profit of all profitable segments or the absolute amount of the aggregate loss of all loss-making segments.

The Company has a single business, mainly the sale of apparel, brand-integrated services and leasing of some buildings in the country. Management manages this business as a whole and evaluates operating results, therefore, no segment information is presented in these financial statements.

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

Accounts receivable with aging since invoice date are analyzed as follows:

1. Accounts receivable disclosed based on aging

Accounts receivable with aging since invoice date are analyzed as follows:

Aging	Closing balance	Opening balance
Within 90 days	2,272,263	2,529,493
90 days to 1 year	6,324	74,765
1 to 2 years	34,083	15,378
2 to 3 years	44,385	992
3 years above	258,326	10,399
Sub-total	2,615,381	2,631,027
Less: allowance for bad debt	1,140,047	102,730
Total	1,475,334	2,528,297

Notes to the Financial Statements

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

2. Disclosed based on classification of accrual method for bad debts

Categories	Carrying amount		Closing balance Allowance for bad debt		Carrying amount
	Amount	Proportion	Amount	Proportion	
		(%)		(%)	
Accounts receivable with a single accrual for expected credit losses	1,124,018	43	1,124,018	100	–
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	1,491,363	57	16,029	1	1,475,334
Including: credit risk characteristics combined with allowance for bad debts	1,491,363	57	16,029	1	1,475,334
Total	2,615,381	100	1,140,047	44	1,475,334

Continued:

Categories	Carrying amount		Opening balance Allowance for bad debt		Carrying amount
	Amount	Proportion	Amount	Proportion	
		(%)		(%)	
Accounts receivable subjected to accrual for expected credit losses on individual basis	74,675	3	74,675	100	–
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	2,556,352	97	28,055	1	2,528,297
Including: credit risk characteristics combined with allowance for bad debts	2,556,352	97	28,055	1	2,528,297
Total	2,631,027	100	102,730	4	2,528,297

Notes to the Financial Statements

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

3. Accounts receivable subjected to allowance for expected credit losses on individual basis

Name of company	Carrying amount	Closing balance		Reason
		Allowance for bad debt	Carrying amount	
Hongche Industrial	4,284	4,284	100	Note 1
Shanghai Weile Fashion Co., Ltd.	263,527	263,527	100	Note 2
La Chapelle Fashion (Taicang) Co., Ltd.	788,998	788,998	100	
Accounts receivables from merchant	67,209	67,209	100	Note 3
Total	1,124,018	1,124,018		

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

Note 2: On 9 August 2022, Shanghai Weile, a wholly-owned subsidiary of the Company, was taken over by a bankruptcy liquidation administrator designated by the court. As Shanghai Weile is insolvent and has preferential claims, the Company expects that it will be difficult to collect its receivables, and therefore full provision for bad debts has been made. In July 2022, Laxia Taicang, a subsidiary, entered into bankruptcy pre-reorganization proceedings, and the Company expects that it will be difficult to collect its receivables, and therefore a full provision for bad debts has been made.

Note 3: The amounts due from shopping malls for which accrual for bad debts was made were all due to the poor operating conditions of the shopping malls and liquidity problems, some of the shopping malls were in a state of closure and the Group considered that it was difficult to collect the receivables in full and therefore a full accrual for bad debts was made.

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

4. Accounts receivable subjected to accrual for expected credit losses on portfolio basis

(1) *Accrual on portfolio basis*

Aging	Closing balance		Accrual ratio (%)
	Carrying amount	Allowance for bad debt	
Within 90 days	1,483,038	14,856	1
90 days to 1 year	6,145	307	5
1 to 2 years	1,705	512	30
2 to 3 years	302	181	60
3 years above	173	173	100
Total	1,491,363	16,029	1

5. Details of Accrual, recovery and reversal for bad debt in the current period

Category	Opening balance	Changes in the current period			Other changes	Closing balance
		accrual	Recovery or reversal	Write-off		
Accounts receivable subjected to accrual for expected credit losses on individual basis	74,675	1,061,046	-	11,703	-	1,124,018
Accounts receivable subjected to accrual for expected credit losses on portfolio basis	28,055	(12,004)	-	22	-	16,029
Including: credit risk characteristics combined with allowance for bad debts	28,055	(12,004)	-	22	-	16,029
Total	102,730	1,049,042	-	11,725	-	1,140,047

6. Actual write-off of accounts receivable during the reporting period

Items	Write-off amount
Actual written-off accounts receivable	11,725

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For the year ended 31 December 2022
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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(I) Accounts receivable (continued)

7. Details of the top five of accounts receivable at the end of the period

Name of company	Closing balance	As a percentage of the closing balance of accounts receivable (%)	Bad debt Allowance
La Chapelle Fashion (Taicang) Co., Ltd.	788,998	30	788,998
Shanghai La Chapelle Casual Fashion Co., Ltd.	344,149	13	3,441
Fujian Lewei Fashion Co., Ltd.	329,645	13	3,296
La Chapelle Fashion (Tianjing) Co., Ltd.	293,588	11	2,936
Shanghai Youshi Fashion Co., Ltd	289,251	11	2,893
Total	2,045,631	78	801,564

8. There were no accounts receivable derecognized due to the transfer of financial assets during the reporting period

9. There were no assets and liabilities resulting from the transfer of accounts receivable and continued involvement in the reporting period

Notes to the Financial Statements

For the year ended 31 December 2022

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables

1. Disclosure of other receivables by aging

Aging	Closing balance	Opening balance
Within 1 year	495,289	232,930
1 to 2 years	14,094	72,361
2 to 3 years	1,173	49,333
3 years above	33,214	189,045
Subtotal	543,770	543,669
Minus: Provision for bad debt	244,498	272,434
Total	299,272	271,235

2. Classified by characteristic

Nature	Closing balance	Opening balance
Accounts receivable due from subsidiaries	469,180	427,785
Deposits and security deposits	16,652	46,424
Refund of service charge expenses	9,778	9,778
Employee reserve fund	52	42
Property rental fees	2,534	1,374
Uncollectible prepayments	30,482	30,482
Others	15,092	27,784
Total	543,770	543,669

3. Presented by three stages of impairment for financial asset

Item	Closing balance			Opening balance		
	Carrying amount	Allowance for bad debt	Book value	Carrying amount	Allowance for bad debt	Book value
Stage 1	303,422	4,150	299,272	261,711	3,534	258,177
Stage 2	23	23	-	21,870	8,812	13,058
Stage 3	240,325	240,325	-	260,088	260,088	-
Total	543,770	244,498	299,272	543,669	272,434	271,235

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

4. Details of bad debt allowance for other receivables

Bad debt allowance	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses (no credit impairment occurred)	Lifetime expected credit losses (credit impairment occurred)	
Opening balance	3,534	8,812	260,088	272,434
The balance at the beginning of the current period	–	–	–	–
–Transfer to stage 2	–	–	–	–
–Transfer to stage 3	–	–	–	–
–Reverse to stage 2	–	–	–	–
–Reverse to stage 1	–	–	–	–
Accrual	616	(8,789)	24,928	16,755
Reversal	–	–	–	–
Write-off	–	–	44,691	44,691
Other changes	–	–	–	–
Closing balance	4,150	23	240,325	244,498

5. Other receivables actually written off during the reporting period

Items	Write-off amount
Actual write-off of other receivables	44,691

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(All amounts in RMB'000 unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(II) Other receivables (continued)

6. The top five other receivables by party in arrears at the end of the period

Name of unit	Nature of payment	Closing balance	Ageing	As a percentage of the ending balance of other receivables (%)	Impairment for bad debts Closing balance
Shanghai Pinxi Technology Co., Ltd.	Related party receivables	120,657	1 to 3 years	22	1,207
Guangzhou Xichen Clothing Co., Ltd.	Related party receivables	113,228	3 years above	21	113,228
Shanghai Geraopu Fashion Co., Ltd.	Related party receivables	70,272	1 to 2 years	13	703
Shanghai Chongan Fashion Co., Ltd.	Related party receivables	55,130	3 years above	10	55,130
Shanghai La Chapelle Enterprise Management Co., Ltd.	Related party receivables	48,405	1 to 2 years	9	484
Total		407,692		75	170,752

7. There were no other receivables involving government grants in this reporting period
8. There were no other receivables derecognized due to the transfer of financial assets in this reporting period
9. There were no assets or liabilities arising from the transfer of other receivables and their continued involvement in the reporting period

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For the year ended 31 December 2022
(All amounts in RMB'000 unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments

Characteristic	Closing balance			Opening balance		
	Carrying amount	Impairment allowance	Book value	Carrying amount	Impairment allowance	Book value
Investment in subsidiaries	988,250	406,230	582,020	1,048,650	406,230	642,420
Investment in associates and joint ventures	-	-	-	-	-	-
Total	988,250	406,230	582,020	1,048,650	406,230	642,420

1. Investment in subsidiaries

Investee	Opening balance	Addition in the current period	Decrease in the current period	Closing balance	Impairment in the current period	Balance of impairment
LaCha Xiuxian	5,000	-	-	5,000	-	-
Chongqing Lewei	500	-	-	500	-	-
Beijing LaCha	500	-	-	500	-	-
Chengdu LaCha	500	-	-	500	-	-
Shanghai Langhe	5,000	-	-	5,000	-	5,000
Shanghai Xiawei	5,000	-	-	5,000	-	-
Taicang LaCha	95,000	-	-	95,000	-	-
Tianjin LaCha	10,000	-	-	10,000	-	-
Chengdu Lewei	10,000	-	-	10,000	-	-
Shanghai Chong'an	12,750	-	-	12,750	-	12,750
Shanghai Youshi	20,000	-	-	20,000	-	-
Fujian Lewei	10,000	-	-	10,000	-	-
Enterprise Management	800,000	-	-	800,000	-	375,480
Shanghai Nuoxing	10,000	-	-	10,000	-	10,000
Shanghai Jiatuo	1,000	-	-	1,000	-	-
LaCha Naf	3,000	-	-	3,000	-	3,000
Total	988,250	-	-	988,250	-	406,230

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(III) Long-term equity investments (continued)

2. Investments in associates and joint ventures

Investee	Opening balance	Additional investment	Changes in the current period		
			Disinvestment	Return on investment under equity method	Adjustment in other comprehensive profit or loss
I. Associated companies:					
Shanghai Yishan	-	-	-	-	-
Total	-	-	-	-	-

Continued:

Investee	Changes in other equity	Changes in the current period			Closing balance	Balance of impairment
		dividends or profits	Declare payment of cash	Impairment		
I. Associated companies:						
Shanghai Yishan	-	-	-	-	-	
Total	-	-	-	-	-	

3. Notes to long-term equity investments

As of 31 December 2022, Shanghai Yishan has not yet start business activities.

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

(IV) Revenue and cost of sales

1. Revenue, cost of sales

Item	Current period incurrence		Prior period incurred	
	Revenue	Cost	Revenue	Cost
Main business	73,343	22,844	238,094	193,440
Other business	7,678	3,182	3,807	2,908
Total	81,021	26,026	241,901	196,348

2. Income derived from contracts:

Contract classifications	Current period incurrence	Prior period incurred
1. Category of products		
Apparel	51,132	188,185
Brand-integrated services	22,211	51,370
Lease	5,541	2,346
Other	2,137	
2. Classified by business areas		
Domestic	81,021	241,901
Overseas	–	–
3. Classified by the timing of commodity transfer		
Transferred at a point in time	53,269	188,185
Transferred at a point over time	27,752	53,716
Total	81,021	241,901

(V) Investment income

Items	Current period incurrence	Prior period incurred
Long-term equity investment income calculated by equity method	–	(42)
Disposal of long-term equity investments resulting in investment losses	–	(776)
Investment gains/losses from debt restructuring	4,190	25,720
Total	4,190	24,902

Notes to the Financial Statements

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XVI.SUPPLEMENTARY INFORMATION

(I) Summary of non-current profit or loss

Items	Current Period Incurrence	Prior Period Incurred
Gains and Loss from disposal of non-current assets	(2,218)	6,392
Government grants included in current profit or loss (except those closely related to the business of the enterprise and enjoyed in a fixed or quantitative manner in accordance with national uniform standards)	2,836	3,477
Gains and losses on debt restructuring	20,090	147,042
Capital occupation fees	351	3,191
Investment gains arising from the disposal of subsidiaries	(596,449)	–
Gains or losses from changes in fair value	(9,433)	7,591
Non-operating income and expenses other than those mentioned above	(170,534)	(122,311)
Less: Income tax effect	–	–
Effect of minority interests (after tax)	(2,183)	5,166
Total	(753,174)	40,216

(II) Return on net assets and earnings per share

Profit during the reporting period	Weighted average return rate on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	–	(1.97)	(1.97)
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	–	(0.59)	(0.59)