



GXG

Mulsanne Group Holding Limited
慕尚集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1817

GXG



gxg jeans

gxg.kids

Love More

Yatlas

2XU

GLOBAL OFFERING

Joint Sponsors and Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

GXG

Mulsanne Group Holding Limited 慕尚集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 200,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 20,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 180,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price (subject to a Downward Offer Price Adjustment)	: HK\$5.88 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) (If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK\$4.22 per Hong Kong Offer Share)
Nominal value	: HK\$0.01 per Share
Stock code	: 1817

Joint Sponsors and Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on or about Monday, May 20, 2019 and, in any event, not later than Thursday, May 23, 2019. The Offer Price will be not more than HK\$5.88 per Offer Share and is currently expected to be not less than HK\$4.68 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$5.88 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$5.88 per Offer Share.

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on or before Thursday, May 23, 2019 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Please also see the section headed "Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to procure applicants to subscribe or purchase, or to subscribe or purchase, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or other applicable exemptions from, or in transactions not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

May 15, 2019

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under
White Form eIPO service through the designated
website www.eipo.com.hk⁽²⁾11:30 a.m. on Monday, May 20, 2019

Application lists open⁽³⁾11:45 a.m. on Monday, May 20, 2019

Latest time for lodging **WHITE** and
YELLOW Application Forms12:00 noon on Monday, May 20, 2019

Latest time for completing payment of
WHITE Form eIPO applications by
effecting internet banking transfer(s) or PPS
payment transfer(s)12:00 noon on Monday, May 20, 2019

Latest time for giving **electronic application instructions**
to HKSCC⁽⁴⁾12:00 noon on Monday, May 20, 2019

Application lists close⁽³⁾12:00 noon on Monday, May 20, 2019

Expected Price Determination Date⁽⁵⁾Monday, May 20, 2019

Where applicable, announcement of the Offer Price
being set below the bottom end of the indicative
Offer Price range. See the website of the
Stock Exchange at www.hkexnews.hk on or before Monday, May 20, 2019

(1) Announcement of the Offer Price, the level of
indications of interest in the International Offering,
the level of applications in the Hong Kong Public Offering
and the basis of allocation of the Hong Kong Offer Shares
under the Hong Kong Public Offering to be published in
the South China Morning Post (in English) and the
Hong Kong Economic Times (in Chinese) on or beforeFriday, May 24, 2019

(2) Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of channels
as described in the section headed "How to Apply for the Hong Kong
Offer Shares — Publication of Results" in this prospectusFriday, May 24, 2019

(3) A full announcement of the Hong Kong Public Offering
containing (1) and (2) above to be published on the website
of the Stock Exchange at www.hkexnews.hk and our
Company's website at www.gxggroup.cn⁽⁶⁾ fromFriday, May 24, 2019

Results of allocations in the Hong Kong Public Offering
will be available at www.iporesults.com.hk
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a
"search by ID" function fromFriday, May 24, 2019

Dispatch of Share certificates or deposit of the Share certificates
into CCASS in respect of wholly or partially successful applications
pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾Friday, May 24, 2019

Dispatch of refund cheques and White Form e-Refund payment
instructions in respect of wholly or partially successful applications
(if applicable) or wholly or partially unsuccessful applications
pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾Friday, May 24, 2019

Dealings in the Shares on the Stock Exchange expected
to commence onMonday, May 27, 2019

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, May 20, 2019, the application lists will not open or close on that day. See “How to Apply for the Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Monday, May 20, 2019 and, in any event, not later than Thursday, May 23, 2019. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us by Thursday, May 23, 2019, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid certificates of title at 8:00 a.m. on Monday, May 27, 2019 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Agreement and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid certificates of title do so at their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, May 24, 2019 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants’ stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic Application Instructions to HKSCC” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for the Hong Kong Offer Shares — Refund of Application Monies” and “How to Apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Mulsanne Group Holding Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full prospectus. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading fashion menswear company based in China. We operate a new retail platform that focuses on providing customers with a seamless and integrated shopping experience and identifying customers’ needs by integrating offline retail stores with online channels through the support of big data analytics. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. According to CIC, we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Leveraging our leading position in the fashion menswear market in China, we have strategically expanded into the sportswear market and other segments to enrich our brand and product portfolio. Furthermore, the online market has become a new major battlefield for the fashion menswear companies in China. We were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the online market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018.

Net Assets and Liabilities Position

We recorded net assets of RMB1,007.5 million and RMB98.3 million as of December 31, 2016 and 2018, respectively, and recorded net liabilities of RMB230.5 million as of December 31, 2017. The change from 2016 to 2017 was primarily because we distributed to our then sole Shareholder, Glory Cayman, dividends of RMB1,611.6 million in 2017 by obtaining a syndicated banking facility of up to US\$226.0 million. Our dividend distribution also led to our negative reserves position (on a Group basis) as of December 31, 2017. Conyers Dill & Pearman (“Conyers”), our Cayman legal adviser, have advised us that under our articles of association, the Directors may from time to time declare and authorize payment of dividends out of the profits of the Company lawfully available therefor (as permitted by Cayman Islands law), and such a dividend would not violate the memorandum and articles of association of the Company nor any applicable law, regulation, order or decree in the Cayman Islands. Conyers have also advised that a position of accumulated losses at the Company level does not necessarily restrict the Company from declaring and paying dividends, as dividends may still be declared and paid from sums standing to the credit of our share premium account. Such dividend was financed by the cash dividend received from our onshore operating company. Approximately 45%, or HK\$437.9 million, of the net proceeds of the Global Offering will be used to partially repay such bank loans. We have later regained net asset position as of December 31, 2018, primarily due to our profit for the year of RMB374.5 million in 2018 which lead to an increase in our retained profits. See “Financial Information — Analysis of Selected Consolidated Statements of Financial Position Items — Interest-bearing bank and other borrowings”, “Financial Information — Indebtedness” and “Future Plans and Use of Proceeds” for details.

Our New Retail Business Model

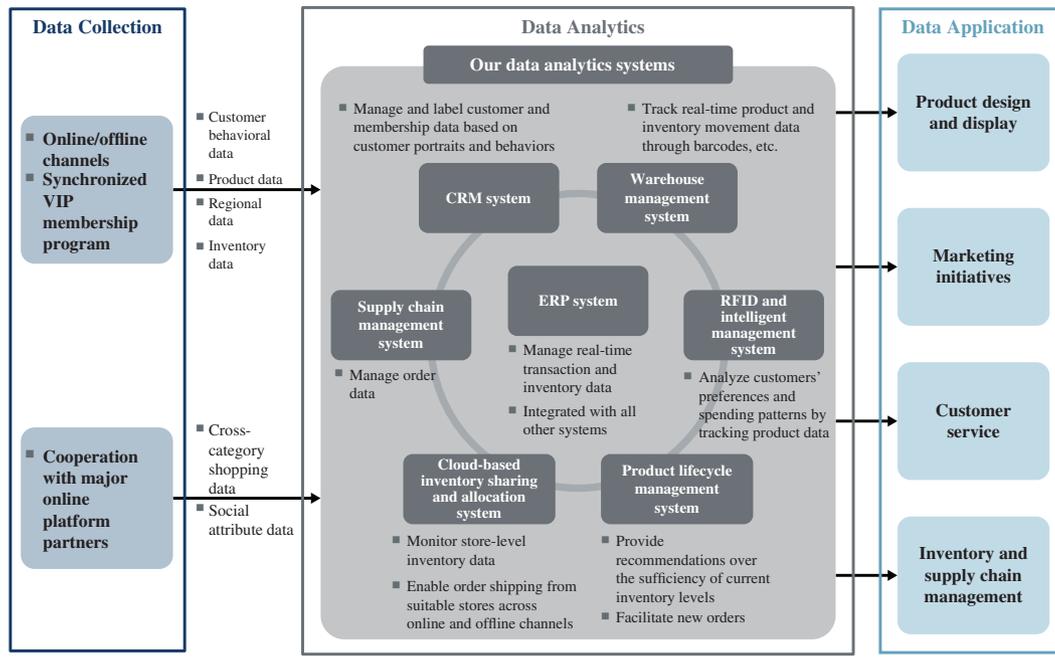
New retail is an integrated omni-channel business model that capitalizes on online and offline strengths, delivers a seamless and consistent customer experience, and increases efficiency in terms of inventory management, supply chain management, product selection and logistics. Moreover, customers become cooperative producers as their needs impact retailers’ product development and innovation. According to CIC, new retail has become a major trend of the apparel industry in China in recent years. Major fashion apparel brands in China including us have been adopting the new retail business model with innovative initiatives, and we are a leader in new retail integration among the brands.

We developed and transformed our business model over time from a traditional retail model to separate, unintegrated online and offline channels, and subsequently to a new retail business model. We first started our business offline in 2007 and expanded into online channels in 2010. Seeing the potential synergies among our two separate channels on customers and products, we began to rethink and explore the possible integration of the two channels to provide customers with a seamless shopping experience. From 2014, we allowed customers to pay online with products

SUMMARY

shipped directly from our offline stores. Furthermore, to ensure the alignment of interests between our online and offline channels, we gradually established a cloud-based inventory sharing and allocation system from 2016 and synchronized our VIP membership program in 2018. With the data gathered and the big data analytics capabilities we developed in-house, we started to upgrade our offline retail stores to smart stores, build our product lifecycle management system and enhance our flexible supply chain capabilities in 2018.

The below chart illustrates the key features of our new retail business model.



During the exploration of our new retail business model, we gradually developed our own big data analytics capabilities with our new retail initiatives by utilizing and integrating the data originally scattered among our different information management systems and channels. We analyze these data and develop our own analytics and solutions to suit our business needs and further apply to our business operation. Our big data capabilities are demonstrated by our data collection, analytics and application.

Data Collection

We collect diversified data, such as (i) customer behavior data: customer portrait, shopping preference and frequency. We collect customer behavior data through customers' feedbacks to offline sales personnel and on online social platforms as well as our synchronized VIP membership program; (ii) product data: products sold to overall in-stock SKU rate and try on rate; (iii) regional data: weather and consumer purchasing power; and (iv) inventory data. Through the cooperation with other major online platforms, we also collect cross-category shopping data and social attribute data to have more thorough understandings of our customers and the markets.

We use API, a set of functions and procedures that allow the creation of applications which access the features or data of an operating system, application or other service, and data table techniques to connect our different systems; therefore, the data we gathered can be shared and further utilized among our front end systems and back office systems.

Data Analytics

As showed in the chart above, our ERP system is the base of our big data analytics systems with various supporting systems fully integrated, including CRM system, warehouse management system, cloud-based inventory sharing and allocation system, product lifecycle management system, RFID and intelligent management system, supply chain management system and others.

For example, after years of experience and development, our CRM system is now integrated with our ERP system. Our CRM system can extract product data real time from our ERP system and match them with the customer behavior data to further tag and categorize customers through their age, gender, region, purchasing power, preferences and shopping frequency. Our RFID and intelligent management system will also record product movement data such as try on rate and combine them with customers' purchasing record in our ERP system to further conduct data analytics.

SUMMARY

In addition, our omni-channel order center is consisted of our inventory, order and settlement system throughout our online and offline channels. The inventory movement real-time data stored in our warehouse management system will transmit to our ERP system, and further to our in-house cloud-based inventory sharing and allocation system, which enables our customers to make purchases on demand even if the particular desired item is out of stock in a particular store. All the order information are stored in our ERP system as a centralized order management center.

To enhance the efficiency of our new orders, we developed our in-house product lifecycle management system to provide recommendations over the sufficiency of current inventory levels. Based on the historical product sales and inventory data stored in our ERP system, we established our own forecast model to develop analytics and system regarding product lifecycle management.

Furthermore, instead of using traditional analytical techniques which can only do sheet and statistics analytics, we installed big data analytical software and products, such as Apache Hive, Sqoop, Tableau series products, HDFS, to support our big data gathering, storage and calculation.

Data Application

Our big data analytics capabilities support our product design and display, marketing initiatives and inventory and supply chain management. Such capabilities enable us to analyze customers' preferences and spending patterns, which help us better serve them and fine tune our product design and marketing strategies.

Product design and display

Our big data analytics could analyze correlations between customers' purchasing behavior against their geographical and demographic distribution by gathering a broad range of data, including offline store traffic, product popularity, customers' purchasing amount, frequency, time and location, membership information and customers' feedbacks. Our design team collects such customer feedbacks and reflects customers' preferences in our design process. After the sale of new products commences, our marketing team closely monitors sales data and customer feedbacks and communicates regularly with our design team. Based on the customer route data to our online and offline channels, we will adjust the user experience design on our online channels and the product display in our offline stores. In addition, we have assembled a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers' preference.

Marketing initiatives

We utilize our in-house data analytics systems to better locate our potential customers and implement targeted marketing strategies including sending out personalized promotion vouchers which could be redeemed online and offline, thus achieving a closed-loop marketing. We also pre-sell certain new products online since sales data on major online platforms can provide us with fast market responses and timely customer reviews.

Customer service

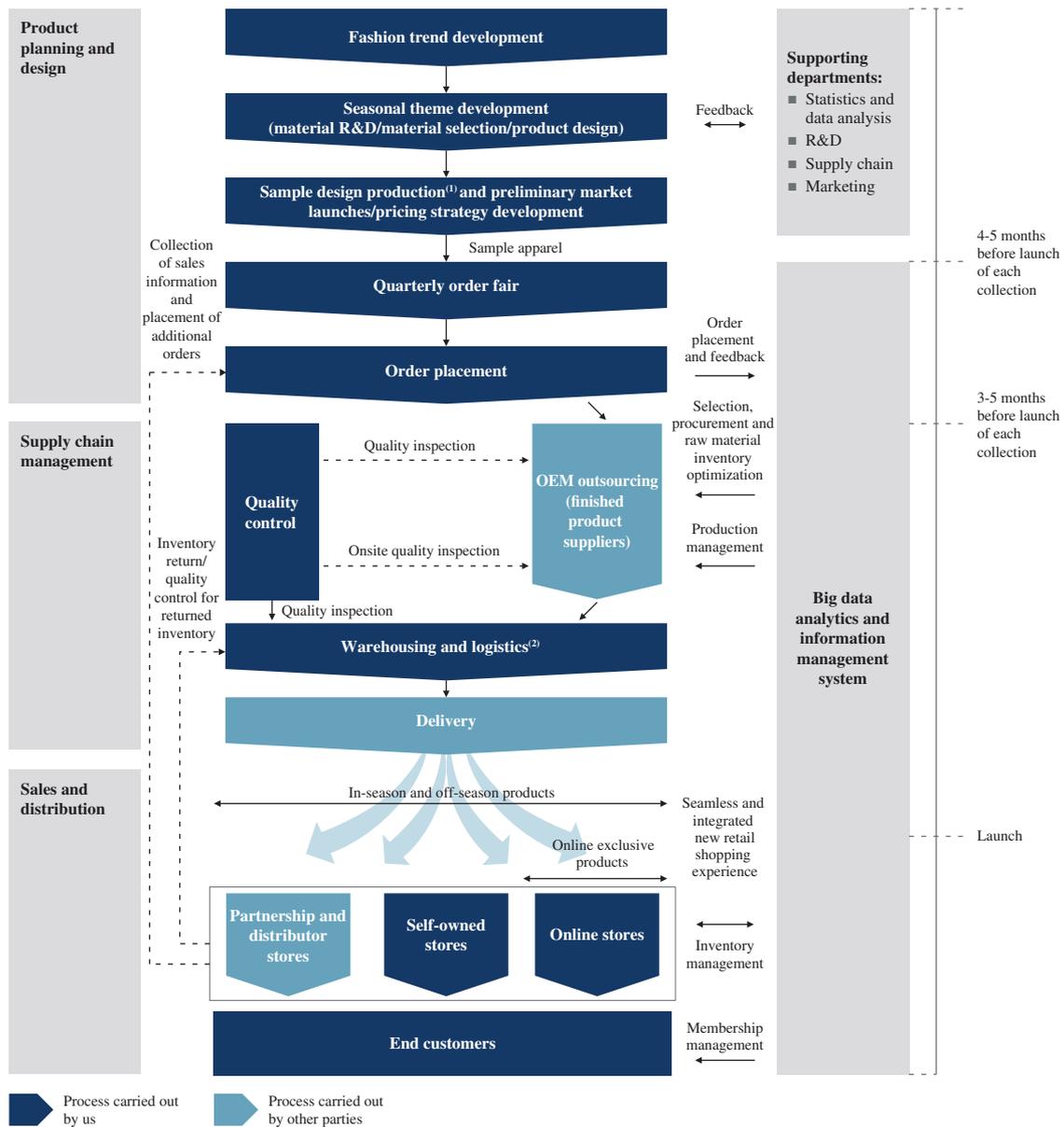
Supported by our new retail platform, which focuses on customer needs, we offer customers convenience to browse our products and make purchases both online and offline, and choose among different pickup or delivery options. The customer behavior data collected can send customer portraits to our online and offline sales personnel through our CRM system and they can provide targeted marketing and increase service quality accordingly.

Inventory and supply chain management

Our new retail platform can help us better manage our inventory and supply chain between online and offline channels to achieve greater operational efficiency. We use our online channels to test market acceptance for new products and plan inventory levels based on the sales performance of such products. We utilize supply chain and inventory analytics which are tightly integrated with our POS and ERP system to receive transaction and inventory data from each store, providing greater accuracy and visibility for inventory movement across the supply chain. We monitor raw material prices closely with big data analytics and advance or hedge orders at appropriate times based on anticipated production and sales forecasts.

SUMMARY

The below chart illustrates our new retail business model within the industry value chain.



Notes:

- (1) Production of sample design styles carried out by OEM suppliers
- (2) An additional third-party warehouse has also been engaged for e-commerce products to manage sales of products through online network

Our Brands and Products

Our brands mainly target at mid- to high-end customers who pursue trendiness and value fashion. Our core brand portfolio currently comprises two main categories — (i) GXG series: GXG, gxg jeans and gxg.kids, and (ii) sportswear: Yatlas and 2XU, each targeting a distinct customer segment and having a design identity. The following table sets forth a breakdown of our revenue by brand, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

SUMMARY

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
GXG series						
<i>GXG</i>	1,990,677	66.0	2,357,787	67.2	2,504,720	66.1
<i>gxm jeans</i>	633,776	21.0	683,481	19.5	753,942	19.9
<i>gxm.kids</i>	285,072	9.4	357,236	10.2	387,252	10.2
Sportswear						
<i>Yatlas</i>	65,419	2.2	87,468	2.5	97,712	2.6
<i>2XU</i> ⁽¹⁾	—	—	3,249	0.1	14,304	0.4
Others	42,894 ⁽²⁾	1.4	21,080 ⁽³⁾	0.5	29,112	0.8
Total revenue	<u>3,017,838</u>	<u>100.0</u>	<u>3,510,301</u>	<u>100.0</u>	<u>3,787,042</u>	<u>100.0</u>

Notes:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.
- (2) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.
- (3) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up, and our newly developed brands.

The following table sets forth a breakdown of the gross profit and gross profit margin by brand for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
GXG series						
<i>GXG</i>	1,105,874	55.6	1,319,498	56.0	1,393,630	55.6
<i>gxm jeans</i>	325,000	51.3	344,896	50.5	383,538	50.9
<i>gxm.kids</i>	140,055	49.1	171,841	48.1	186,946	48.3
Sportswear						
<i>Yatlas</i>	43,290	66.2	56,266	64.3	51,127	52.3
<i>2XU</i> ⁽¹⁾	—	—	1,508	46.4	6,994	48.9
Others	3,391 ⁽²⁾	7.9	5,470 ⁽³⁾	25.9	9,972	34.3
Total gross profit	<u>1,617,610</u>	<u>53.6</u>	<u>1,899,479</u>	<u>54.1</u>	<u>2,032,207</u>	<u>53.7</u>

Notes:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.
- (2) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.
- (3) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up, and our newly developed brands.

Gross profit margin of GXG increased from 2016 to 2017, primarily due to an increase in revenue contribution from self-owned stores that have higher gross profit margin than other channels. Gross profit margin of GXG decreased from 2017 to 2018, primarily due to our efforts in improving the quality of our products which increased our cost of purchase while the prices remained stable.

Gross profit margin of gxm jeans slightly decreased from 2016 to 2017, primarily due to an increased portion of sales from online channel, which had a relatively lower gross profit margin than our self-owned stores. Gross profit margin of gxm jeans increased from 2017 to 2018, primarily due to (i) a decrease in discount rate of our self-owned stores and online channels, especially our cross-over products, and (ii) higher gross profit margin for online channels due to more offerings of online exclusive SKUs, which have higher margins than online off-season products.

SUMMARY

Gross profit margin of gxx.kids decreased from 2016 to 2017, primarily because we adopted a marketing strategy in November 2016 by offering more discounts in order to boost sales. Gross profit margin of gxx.kids remained relatively stable from 2017 to 2018.

Gross profit margin of Yatlas decreased during the Track Record Period, primarily because we adjusted the recommended retail price of our products in 2017 and increased our discount rate in 2018, both due to brand repositioning.

We started sales of 2XU via online channels and distributor multi-brands sports stores in September 2017. Gross profit margin of 2XU increased from 2017 to 2018, primarily because we had more domestic suppliers in 2018, and the domestic suppliers charged us relatively lower prices as compared to overseas suppliers.

Sales and Distribution

We distribute our products through a variety of sales channels across China, including multiple online and offline sales networks. As of December 31, 2018, our distribution platform consisted of (i) online channels, including major online platforms, such as Tmall, Taobao, WeChat mini program and Vipshop, and (ii) an offline network of 2,250 retail stores across China, including 720 self-owned stores, 532 partnership stores and 998 distributor stores.

The table below sets forth the breakdown of revenue by our sales channels, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of apparel products						
Online channels	715,439	23.7	1,209,569	34.5	1,350,314	35.7
Offline channels	2,259,505	74.8	2,286,860	65.2	2,423,925	64.0
Self-owned stores	957,602	31.7	1,133,146	32.3	1,193,064	31.5
Partnership stores	296,961	9.8	377,796	10.8	397,277	10.5
Distributor stores	1,004,942	33.3	775,918	22.1	833,584	22.0
Sales of other products⁽¹⁾	42,894	1.5	13,872	0.3	12,803	0.3
Total revenue	<u>3,017,838</u>	<u>100.0</u>	<u>3,510,301</u>	<u>100.0</u>	<u>3,787,042</u>	<u>100.0</u>

Note:

(1) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Sales of apparel products						
Online channels	314,655	44.0	573,516	47.4	603,108	44.7
Offline channels	1,299,564	57.5	1,325,120	57.9	1,428,217	58.9
Self-owned stores	654,707	68.4	771,119	68.1	825,081	69.2
Partnership stores	122,401	41.2	167,758	44.4	186,392	46.9
Distributor stores	522,456	52.0	386,243	49.8	416,744	50.0
Sales of other products⁽¹⁾	3,391	7.9	843	6.1	882	6.9
Total gross profit	<u>1,617,610</u>	<u>53.6</u>	<u>1,899,479</u>	<u>54.1</u>	<u>2,032,207</u>	<u>53.7</u>

Note:

(1) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.

SUMMARY

The increase in gross profit margin of our online channels from 2016 to 2017 was primarily due to the increases in our online sales and more offerings of online exclusive SKUs, which have higher margins than online off-season products. The decrease in gross profit margin of our online channels from 2017 to 2018 was primarily due to change in revenue mix: in May 2018, we opened new online stores that focus on old inventories in order to clear the inventories returned from VIP distributors during the period from 2017 to the first quarter of 2018. For details, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.” The gross profit margin of our self-owned stores remained relatively stable during the Track Record Period. The gross profit margin of our partnership stores increased from 2016 to 2017, primarily due to (i) our increased bargaining power against partners, and (ii) an increase in revenue contribution from partnership stores that have higher gross profit margin than other partnership stores. The gross profit margin of our partnership stores increased from 2017 to 2018, primarily due to an increase in revenue contribution from partnership stores that have higher gross profit margin than other partnership stores. The gross profit margin of our distributor stores decreased from 2016 to 2017, primarily due to higher discount we offered to distributors in 2017. The gross profit margin of our distributor stores increased from 2017 to 2018, primarily because we reduced the amount of subsidy provided to and number of returns from the distributors. During the Track Record Period, our gross profit margins for offline channels were generally higher than the gross profit margins for online channels, primarily because (i) there was increased revenue contribution from self-owned stores which have higher gross profit margin among the three offline channels; and (ii) in general we offer higher discount rates in online channels for the off-season products sold online to clear our old inventories and even for the online exclusive SKUs, as compared to the products sold offline. Products sold on our offline channels mainly include in-season products which generally have higher gross profit margin.

Retail Pricing Strategy

Our headquarter in Ningbo sets uniform retail pricing for our products that applies to our self-owned, partnership and distributor stores as well as online channels. We price our products based on market research and analysis, including the spending power and consumption propensity of our target customers and market trends, as well as costs of purchases from our OEM suppliers and raw material suppliers.

Our headquarter determines all product promotional discount policies and programs of our self-owned stores and provides guidance to our partnership and distributor stores. Regional partnership and distributor stores can make adjustments to such guidance based on their respective situation. We conduct promotional sales based on analysis of sales data to better manage our inventories at the end of each season.

Product Planning and Design

Our design, research and development team included 113 designers across our brands as of the Latest Practicable Date. We employ a dedicated product design, research and development team for each of our own brands to craft the distinct brand image to ensure distinctiveness and independence of each brand. We also assemble a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers' preference. Our design team is responsible not only for the styling and design of products, but also for the development and identification of the fabrics used together with our procurement team. We collect and implement customer feedbacks and preferences into our design process through our big data analytics on customer shopping habits and behaviors. We hold design meetings at the end of each quarter to review customer feedbacks and the performance of our products.

Our Customers and Suppliers

Our customers mainly include our partners, distributors and end customers. Sales to our largest customer accounted for 3.9%, 5.5% and 5.2%, respectively, of our total revenue in 2016, 2017 and 2018, while sales to our five largest customers in aggregate accounted for 13.0%, 10.6% and 11.2%, respectively, of our total revenue during the same years. As of December 31, 2018, our major customers generally had over eight years of relationship with us.

Our major suppliers are categorized into two types: (i) suppliers providing raw materials procurement service only; and (ii) OEM suppliers. Our OEM suppliers process raw materials and fabrics purchased by themselves and provide us with finished products. For certain products, we provide OEM suppliers with raw materials directly. In 2016, 2017 and 2018, we had 112, 123 and 142 OEM suppliers, respectively, all of which were located in the PRC. As of December 31, 2018, our major OEM suppliers had over three years of relationship with us. Purchase amounts from our five largest suppliers together accounted for 20.9%, 23.8% and 28.0%, respectively, of our total purchase cost in 2016, 2017 and 2018, while purchase amounts from our largest supplier for the same years accounted for 6.2%, 7.1% and 6.7%, respectively, of our total purchase cost.

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Inventory Control

Our inventory system is able to produce real time information of inventories. All of our retail stores are equipped with a standard information management system (including POS terminals). Each product is barcoded and linked to the warehouse management system. Through scanning the barcode, store sales information is collated and uploaded to our information management system on a real-time basis.

We also have an inventory sharing and allocation system, through which we closely monitor inventory levels. When a certain product is out of stock in a given retail store, the system enables that store's staff to quickly locate an available item from another store nearby, place an order and ship the item directly to the consumer.

OUR STRENGTHS

We have achieved our success due to the following competitive strengths:

- leadership in the rapidly growing fashion menswear industry in China;
- new retail platform comprising online and offline channels;
- multi-brand strategy to achieve sustainable growth in various growing market segments;
- flexible and innovative marketing strategies with highly active loyal fans community;
- product design and supply chain empowered by big data analytics; and
- highly experienced management and investor teams driven by entrepreneurialism and professionalism.

BUSINESS STRATEGIES

We intend to maintain and strengthen our position as a leading fashion menswear company and continue to develop our leading position in the broader apparel market in China. Specifically, we plan to pursue the following strategies to achieve our objectives:

- continue to maintain our industry leading position by optimizing new retail platform and further enhance customer experience and brand awareness;
- continue to develop the sales potentials in athleisure and performance sportswear industry through YAtlas and 2XU;
- steadily expand our offline retail network and structure as well as optimize our online and offline channel mix and integration;
- continue to strengthen and integrate our online and offline VIP membership program with big data analytics;
- strengthen our supply chain management and enhance warehousing and logistics infrastructure; and
- further implement our multi-brand strategy and seek potential cooperation opportunities.

COMPETITION

We operate in the highly competitive and fragmented apparel industry. We compete with a broad range of fashion menswear brands. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. We compete with our main competitors mainly on product design, new retail integration and sustainable growth of online business. According to CIC, the top five players accounted for 14.4% of total market share in 2018, and we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Through our new retail platform, we were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the omni-channel market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018.

RISK FACTORS

Our business and the Global Offering involve certain risks, some of which are set out in the section headed "Risk Factors." You should read that section in its entirety carefully before you decide to invest in the Offer Shares. Some of the major risks we face include:

- We operate in the competitive apparel industry both online and offline in China. If we fail to compete effectively and successfully, our customer base, market share and profit margins may be materially and adversely affected.

SUMMARY

- Our business depends significantly on market recognition of our brands. If we are not able to maintain or enhance our brand recognition, keep up with the latest fashion trends, and particularly, maintain sales of our GXG series, our business, financial condition and results of operations may be materially and adversely affected.
- We may not be able to successfully maintain and expand our offline retail network and our online sales network.
- We may not be able to achieve same store sales growth.
- Failure to maintain optimal inventory levels and lower sales return rates could increase our inventory holding costs, lead to channel stuffing, cause us to lose sales or decrease our profit margins.
- We may not be able to continue to successfully expand our brand and product portfolio.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Summary Consolidated Statements of Profit or Loss

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Revenue	3,017,838	100.0	3,510,301	100.0	3,787,042	100.0
Gross profit	1,617,610	53.6	1,899,479	54.1	2,032,207	53.7
Other income and gains ⁽¹⁾	25,680	0.9	30,625	0.9	64,359	1.7
Operating profit	573,450	19.0	616,155	17.6	602,747	15.9
Profit before tax	573,309	19.0	587,403	16.8	507,684	13.4

Non-IFRSs Measure

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Profit for the year	399,680	421,791	374,502
Offshore financing expenses	—	25,178	84,964
Listing expenses	—	5,796	19,537
Foreign exchange (gains)/losses	(8,915)	(1,888)	3,533
Adjusted net profit ⁽²⁾	390,765	450,877	482,536

Notes:

- (1) Our other income and gains primarily consist of government grants, foreign exchange gains, penalty charges received from distributors and bank interest income. See “Financial Information — Principal Components of Consolidated Statements of Profit or Loss — Other income and gains” for details.
- (2) We derive adjusted net profit from profit for the year by (i) adding offshore financing expenses, (ii) adding listing expenses, and (iii) adjusting for foreign exchange gains/losses. Please refer to the section headed “Financial Information — Non-IFRSs Measure.”

Our management considers the offshore financing expenses, listing expenses and foreign exchange (gains)/losses to be non-operating in nature and not indicative of the operating performance. Our management also does not track such items as key operating or financial metrics internally when reviewing our performance. Therefore, by eliminating the impacts of such items in the calculation of adjusted profit, this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year.

For offshore financing expenses, we only incurred offshore financing expenses in 2017 and 2018. Therefore, such adjustment would make the Track Record Period financials more comparable. The offshore loan, which led to our offshore financing expenses in 2017 and 2018, was not used in our ordinary course of business but to pay dividends to Shareholders. We are planning to use approximately 45% of the net proceeds from the Global Offering to repay part of the outstanding amount in May 2019. Listing expenses are not related to our ordinary course of business and are non-recurring in nature. Foreign exchange (gains)/losses are related to our offshore assets and liabilities, which did not involve our ordinary course of business in China.

SUMMARY

Summary Consolidated Statements of Financial Position

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Total assets	2,446,731	2,962,967	3,176,976
Total equity/(net deficiency in assets)	1,007,480	(230,497)	98,311
Total liabilities	1,439,251	3,193,464	3,078,665
Net current assets	698,161	801,828	998,242

Summary Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities . . .	91,372	416,354	203,500
Net cash used in investing activities	(62,666)	(134,063)	(36,594)
Net cash generated from/(used in) financing activities	236,129	(194,237)	(117,033)
Net increase in cash and cash equivalents	264,835	88,054	49,873
Effect of foreign exchange rate changes, net . . .	1,419	(5,314)	9,719
Cash and cash equivalents at beginning of the year	244,916	511,170	593,910
Cash and cash equivalents at end of the year . .	<u>511,170</u>	<u>593,910</u>	<u>653,502</u>

MAJOR FINANCIAL RATIOS

The following table sets forth a summary of our major financial ratios as of the dates or for the years indicated. For further details of our major financial ratios, see “Financial Information — Major Financial Ratios.”

Financial Ratios	Formulae	As of/for the year ended December 31,		
		2016	2017	2018
Profitability ratios:				
1. Return on equity	Profit for the year/ Average total equity x 100%	50.9%	N/A ⁽¹⁾	N/A ⁽¹⁾
2. Return on total assets . . .	Profit for the year/ Average total assets x 100%	18.0%	15.6%	12.2%
Liquidity ratios:				
1. Current ratio	Current assets/Current liabilities	1.5	1.4	1.5
2. Quick ratio	(Current assets — Inventories)/Current liabilities	0.9	0.9	1.0
Capital adequacy ratios:				
1. Gearing ratio	(Total interest-bearing bank and other borrowings — cash and cash equivalents)/ Total equity x 100%	Net Cash	N/A ⁽¹⁾	856.5%
2. Interest coverage	Profit before interest and tax/Net finance cost	4,067.0x	21.4x	6.4x

Note:

(1) The above ratios were not meaningful since we had net deficiency in assets as of December 31, 2017, primarily because we distributed dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017. We have later regained positive equity position as of December 31, 2018.

SUMMARY

Our interest coverage ratio decreased during the Track Record Period, primarily as a result of an increase in offshore finance expenses primarily due to our new borrowings in 2017.

OUR INVESTORS

We have two pre-IPO investors, L Catterton and Crescent Point. L Catterton (through Great World Glory) and Crescent Point (through Crescent Glory) have invested in our Company since October 2016. Immediately following the completion of the Capitalization Issue and the Global Offering, L Catterton and Crescent Point will be interested in 364,087,500 Shares and 134,662,500 Shares, respectively, representing approximately 38.32% and 14.18% of the issued share capital of our Company. Please see “Our History and Development — Pre-IPO Investments” for further details.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), Great World Glory will be entitled to exercise voting rights of approximately 38.32% of the issued share capital of our Company. Great World Glory is a private limited company incorporated in Singapore that is majority owned by L Capital Asia 2, a private equity fund managed by L Catterton, an investment manager licensed by the Financial Services Commission of Mauritius and advised by L Catterton Singapore Pte. Ltd., an investment adviser licensed by the Monetary Authority of Singapore. Accordingly, Great World Glory and L Capital Asia 2 are our Controlling Shareholders pursuant to the Listing Rules. Please see “Our History and Development” and “Relationship with Controlling Shareholders” for further details.

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain agreements with associates of L Capital Asia 2, being 2XU Pty Ltd. (a company in which L Capital Asia 2 controls the exercise of 30% or more of the voting power at the general meetings) and 2XU HK Limited (a company wholly-owned by 2XU Pty Ltd.). The agreements include (i) a manufacturing agreement with 2XU Pty Ltd. and (ii) a distribution agreement with 2XU Pty Ltd. and 2XU HK Limited. The transactions contemplated under these agreements will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers under Rule 14A.35 of the Listing Rules from strict compliance with the announcement requirements. In particular, the duration of the manufacturing agreement with 2XU Pty Ltd. (from May 5, 2017 to December 31, 2024) and the distribution agreement with 2XU Pty Ltd. and 2XU HK Limited (from May 5, 2017 to December 31, 2024) will exceed three years and are not subject to Rule 14A.52 of the Listing Rules. Our Directors are of the view that the manufacturing agreement and the distribution agreement were entered into on normal commercial terms and that entering into such agreements with a duration of over three years is in line with normal business practice, such a longer term of the agreements is beneficial to our Company. Please see “Connected Transactions” for further details.

RECENT DEVELOPMENT

Between December 31, 2018 and the Latest Practicable Date, we added 18 self-owned stores, 16 partnership stores and 22 distributorship stores. 12 self-owned stores, nine partnership stores and 20 distributorship stores were closed. In total, the number of our retail stores amounted to 2,265 as of the Latest Practicable Date.

For the two months ended February 28, 2019, our unaudited revenue decreased by approximately 11% to RMB571.4 million and our gross profit decreased by approximately 15% to RMB290.5 million, compared to the corresponding period in 2018. We believe the possible major reasons include (i) the earlier occurrence of the Chinese New Year in 2019 on February 5 compared to February 16 in 2018, as we typically record lower sales figures after the Chinese New Year, (ii) more rainy days in east China during the two months ended February 28, 2019 with 30 average raining days in Hangzhou, Hefei, Nanjing, Ningbo and Shanghai of east China compared to 19 average raining days during the same period in 2018, which we believe may have negative impact on our offline sales in this region, one of our major regional markets, and (iii) improved supply chain management with optimized product replenishment, shipment coordination and inventory control, which allowed us to achieve shorter supply chain lead time. Such improvement benefited by our enhancement of flexible supply chain capabilities in the second half of 2018 gives us the flexibility to postpone the delivery of some of our summer collection products to our distributors from February to March when the level of demand for the products are clearer, causing our revenue for such sales to be recognized in March rather than in February. The drop in our revenue during the two months ended February 28, 2019 was mainly caused by the decrease in our offline sales due to the above three reasons. In addition, our profit for the period dropped significantly, which we believe was primarily due to the above three reasons, and fair value loss on derivative financial instruments from the depreciation of U.S. dollars against RMB during the two months ended February 28, 2019.

SUMMARY

The financial information for the two months ended February 28, 2019 as mentioned above is extracted from our interim financial information for the two months ended February 28, 2019, which has been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. However, the financial information for the two months ended February 28, 2018 is mainly based on our management accounts and has not been audited or reviewed by our reporting accountants.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that there has not been any material adverse change in our financial, operational or trading position since December 31, 2018 and up to the date of this prospectus.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of RMB32.9 million (HK\$38.4 million), of which RMB25.3 million (HK\$29.5 million) was recognized as administrative expenses in our consolidated statement of profit or loss for the Track Record Period, and RMB7.6 million (HK\$8.9 million) was capitalized as current assets in our consolidated statements of financial position as of December 31, 2018 and recognized as a prepayment. We expect to incur additional listing expenses of approximately RMB38.3 million (HK\$44.6 million) after December 31, 2018 (assuming that the Global Offering is conducted at the mid-point of the Offer Price range), of which RMB13.6 million (HK\$15.8 million) is expected to be recognized as administrative expenses in 2019 and RMB24.7 million (HK\$28.8 million) is expected to be recognized as a deduction in equity directly. Our Directors do not expect such expenses to have a material adverse impact on our financial results in 2019.

OFFERING STATISTICS

	Based on an Offer Price of HK\$4.22 per Offer Share, after Downward Offer Price Adjustment of 10%	Based on an Offer Price of HK\$4.68 per Offer Share	Based on an Offer Price of HK\$5.88 per Offer Share
Our Company's capitalization upon completion of the Global Offering ⁽¹⁾	HK\$4,009.0 million	HK\$4,446.0 million	HK\$5,586.0 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$0.92	HK\$1.01	HK\$1.26

Notes:

- (1) The calculation of the market capitalization is based on 950,000,000 Shares expected to be in issue and outstanding immediately upon completion of the Capitalization Issue and the Global Offering.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus and on the basis of 950,000,000 Shares in issue and outstanding at the respective Offer Price of HK\$4.68 and HK\$5.88, assuming that the Shares issued pursuant to the Global Offering were issued on December 31, 2018.

FUTURE PLANS AND USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$5.28 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$973.0 million, after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by us in connection with the Global Offering.

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is at HK\$5.28 per Offer Share (being the mid-point of the indicative Offer Price range):

- (i) approximately 45%, or HK\$437.9 million, will be used to repay our existing indebtedness and reduce our financial expenses;
- (ii) approximately 15%, or HK\$146.0 million, will be used to expand our brand and product portfolio by pursuing brand acquisitions or strategic alliances;
- (iii) approximately 10%, or HK\$97.3 million, will be used to upgrade our offline retail stores to smart stores;

SUMMARY

- (iv) approximately 20%, or HK\$194.6 million, will be used to establish an advanced smart logistics center; and
- (v) approximately 10%, or HK\$97.3 million, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a *pro rata* basis in the event that the Offer Price is at a higher or lower level compared to the mid-point of the estimated Offer Price range.

We estimate that the net proceeds to be received by the Over-allotment Grantors from the sale of the Shares to be sold pursuant to the Over-allotment Option (after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by the Over-allotment Grantors in relation to the Global Offering, and assuming an Offer Price of HK\$5.28 per Offer Share, being the mid-point of the Offer Price range in this prospectus and the Over-allotment Option is fully exercised) are approximately HK\$152.9 million.

We will not receive any of the proceeds from the Shares to be sold pursuant to the Over-allotment Option.

For further information relating to our use of proceeds from the Global Offering, see “Future Plans and Use of Proceeds.”

DIVIDENDS

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our total profit for the year attributable to the Group for any particular fiscal year. Assuming the Listing occurs, 2019 will be the first year for which our total profit for the year attributable to the Group will be used for purposes of declaring and paying dividends as set forth in the foregoing sentence. We may distribute dividends by way of cash or by other means that we consider appropriate. The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. A detailed discussion of our dividend policy is set forth in “Financial Information — Dividends.”

We did not declare dividends in 2016. We declared and settled dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017. As of December 31, 2018, we had no dividend payables.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2XU Agreement”	the agreement entered into among Chisage Mulsanne, Mulsanne Maisi, 2XU Pty Ltd. and 2XU HK Limited on May 5, 2017, pursuant to which the parties agreed to form TwoXu Sports
“Alpha Sonic”	Alpha Sonic Ltd, a company incorporated in the Cayman Islands with limited liability on August 1, 2017 and a direct wholly-owned subsidiary of our Company
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the Articles of Association of our Company (as amended from time to time), conditionally adopted with effect from the Listing Date on May 27, 2019, a summary of which is set out in “Summary of the Constitution of Our Company and Cayman Companies Law — 2. Articles of Association” in Appendix III to this prospectus
“Beijing Yuexing”	Beijing Chisage Yuexing Brand Management Co., Ltd. (北京中哲悦行品牌管理有限公司), a limited liability company incorporated in the PRC on June 29, 2015, and an indirect wholly-owned subsidiary of our Company
“Board” or “Board of Directors”	the board of directors of our Company
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 749,800,000 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on April 26, 2019” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant

DEFINITIONS

<i>“CCASS Custodian Participant”</i>	a person admitted to participate in CCASS as a custodian participant
<i>“CCASS Investor Participant”</i>	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
<i>“CCASS Participant”</i>	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
<i>“China” or “the PRC”</i>	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
<i>“Chisage Mulsanne”</i>	Ningbo Chisage Mulsanne Holding Co., Ltd. (寧波中哲慕尚控股有限公司), previously known as Ningbo Hehe Jessica Lucy Women Clothing Co., Ltd. (寧波合和杰斯卡露茜女裝有限公司), a limited liability company incorporated in the PRC on August 4, 2011 and an indirect wholly-owned subsidiary of our Company
<i>“Chisage Mulsanne E-commerce”</i>	Ningbo Chisage Mulsanne E-commerce Co., Ltd. (寧波中哲慕尚電子商務有限公司), previously known as Ningbo Hehe Jessica E-commerce Co., Ltd. (寧波合和杰斯卡電子商務有限公司), a limited liability company incorporated in the PRC on August 26, 2010 and an indirect wholly-owned subsidiary of our Company
<i>“CIC”</i>	China Insights Consultancy, the industry consultant
<i>“CIC Report”</i>	an industry report on the Chinese apparel market in general and China’s fashion menswear market in particular commissioned by us, issued by CIC, a summary of which is set forth in the section headed “Industry Overview” in this prospectus
<i>“Companies Ordinance”</i>	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
<i>“Companies (Winding Up and Miscellaneous Provisions) Ordinance”</i>	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
<i>“Company” or “our Company”</i>	Mulsanne Group Holding Limited, a company incorporated in the Cayman Islands with limited liability on November 20, 2015, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
<i>“Controlling Shareholders”</i>	Great World Glory and L Capital Asia 2

DEFINITIONS

<i>“Core Trust”</i>	The Core Trust Company Limited, an independent and professional trust company incorporated under the laws of Hong Kong on September 25, 2012
<i>“Crescent Glory”</i>	Crescent Glory Singapore Pte. Ltd., a company incorporated in Singapore with limited liability on September 25, 2015
<i>“Crescent Point”</i>	Crescent Fund Management Pte. Ltd., a company incorporated in Singapore with limited liability on December 17, 2012
<i>“CSRC”</i>	the China Securities Regulatory Commission (中國證券監督管理委員會)
<i>“Deed of Indemnity”</i>	the deed of indemnity dated May 10, 2019 and entered into by GXG Trading in favor of our Company (for itself and as trustee for its subsidiaries), further information of which is set out in the section headed “Business – Legal and Compliance – Deed of Indemnity”
<i>“Deed of Non-competition”</i>	the deed of non-competition dated May 9, 2019 and entered into by Mr. Yang in favor of our Group, further information of which is set out in the section headed “Relationship with Controlling Shareholders”
<i>“Director(s)”</i>	the director(s) of our Company
<i>“Downward Offer Price Adjustment”</i>	an adjustment that has the effect of setting the final Offer Price at up to 10% below the low end of the indicative Offer Price range
<i>“EIT”</i>	enterprise income tax
<i>“EIT Implementation Rules”</i>	the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》)
<i>“EIT Law”</i>	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)
<i>“Global Offering”</i>	the Hong Kong Public Offering and the International Offering
<i>“Glorious Cayman”</i>	Glorious Cayman Ltd., a company incorporated in the Cayman Islands with limited liability on February 25, 2016
<i>“Glory Cayman”</i>	Glory Cayman Holding Limited, a company incorporated in the Cayman Islands with limited liability on November 24, 2015

DEFINITIONS

<i>“Great World Glory”</i>	Great World Glory Pte. Ltd., a company incorporated in Singapore with limited liability on September 18, 2015, majority owned by L Capital Asia 2, and is one of our Controlling Shareholders
<i>“GREEN Application Form(s)”</i>	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
<i>“Group”, “our Group”, “GXG”, “we”, “our” or “us”</i>	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
<i>“GXG Macau”</i>	GXG Macau Limited (GXG(澳門)一人有限公司), a company incorporated in Macau on June 29, 2017 and an indirect wholly-owned subsidiary of our Company
<i>“GXG Trading”</i>	GXG Trading Limited, a company incorporated in the BVI with limited liability on May 2, 2017 and wholly-owned by Madison International
<i>“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”</i>	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
<i>“HKSCC”</i>	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
<i>“HKSCC Nominees”</i>	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
<i>“Hong Kong” or “HK”</i>	the Hong Kong Special Administrative Region of the PRC
<i>“Hong Kong Offer Shares”</i>	the 20,000,000 Shares being made available by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
<i>“Hong Kong Public Offering”</i>	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
<i>“Hong Kong Share Registrar”</i>	Computershare Hong Kong Investor Services Limited
<i>“Hong Kong Underwriters”</i>	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus

DEFINITIONS

<i>“Hong Kong Underwriting Agreement”</i>	the underwriting agreement dated May 13, 2019, relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and our Company as further described in the section headed “Underwriting — Underwriting Agreement and Expenses” in this prospectus
<i>“IFRS”</i>	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
<i>“independent third party(ies)”</i>	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined under the Listing Rules
<i>“International Offer Shares”</i>	the 180,000,000 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be sold by the Over-allotment Grantors pursuant to the exercise of the Over-allotment Option, subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus
<i>“International Offering”</i>	the offer of the International Offer Shares by the International Underwriters at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or other applicable exemptions from, or in transactions not subject to, registration requirements of the U.S. Securities Act, as further described in “Structure of the Global Offering”
<i>“International Underwriters”</i>	the group of underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
<i>“International Underwriting Agreement”</i>	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Global Coordinators, the International Underwriters, our Company and the Over-allotment Grantors on or about May 20, 2019, as further described in the section headed “Underwriting — International Offering” in this prospectus

DEFINITIONS

<i>“Joint Bookrunners” or “Joint Lead Managers”</i>	Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only), CMB International Capital Limited, Haitong International Securities Company Limited and China Industrial Securities International Capital Limited
<i>“Joint Global Coordinators” or “Joint Sponsors”</i>	Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Asia Limited and CMB International Capital Limited
<i>“Joy Sonic”</i>	Joy Sonic Limited (悦潤有限公司), a company incorporated in Hong Kong with limited liability on November 19, 2015 and a direct wholly-owned subsidiary of our Company
<i>“Labor Dispatch Provisions”</i>	Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》)
<i>“Latest Practicable Date”</i>	May 7, 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
<i>“L Capital Asia 2”</i>	L Capital Asia 2 Pte. Ltd., a company incorporated in Singapore with limited liability on July 19, 2013, a major shareholder of Great World Glory, and is one of our Controlling Shareholders
<i>“L Capital Asia 2 Lock-up Deed”</i>	the lock-up deed dated April 26, 2019 entered into by L Capital Asia 2 in favor of the Underwriters in respect of the Shares beneficially owned by L Capital Asia 2
<i>“L Catterton”</i>	L Catterton Asia Advisors, previously known as L Capital Asia Advisors, a company incorporated in Mauritius on March 26, 2009, which was formed through the partnership of Catterton, LVMH and Group Arnault and manages L Capital Asia 2, one of our Controlling Shareholders
<i>“Listing”</i>	the listing of the Shares on the Main Board of the Stock Exchange
<i>“Listing Committee”</i>	the Listing Committee of the Stock Exchange
<i>“Listing Date”</i>	the date, expected to be on or about May 27, 2019, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
<i>“Listing Rules”</i>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
<i>“Macau”</i>	the Macau Special Administrative Region of the PRC

DEFINITIONS

“ <i>Madison International</i> ”	Madison International Limited, a company incorporated in Hong Kong with limited liability on August 3, 2015 and owned by Mr. Yang (45.72%), Mr. Yu (35.23%), Mr. Zhu Zhaoguo (10.00%) and Ms. Tu Guangjun (9.05%)
“ <i>Main Board</i> ”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“ <i>Memorandum</i> ” or “ <i>Memorandum of Association</i> ”	the memorandum of association of our Company (as amended from time to time), adopted on November 7, 2018, a summary of which is set out in “Summary of the Constitution of Our Company and Cayman Companies Law — 1. Memorandum of Association” in Appendix III to this prospectus
“ <i>Modu E-commerce</i> ”	Ningbo Mulsanne Modu Brand Management Co., Ltd. (寧波慕尚末都品牌管理有限公司), previously known as Ningbo Mulsanne Modu E-commerce Co., Ltd. (寧波慕尚末都電子商務有限公司), a limited liability company incorporated in the PRC on February 9, 2017 and formerly an indirect non-wholly owned subsidiary of our Company, which was transferred to an independent third party on June 26, 2018
“ <i>MOFCOM</i> ”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“ <i>MOP</i> ”	Macanese pataca, the lawful currency of Macau
“ <i>Mr. Yang</i> ”	Mr. YANG Herong (楊和榮), a non-executive director of our Company
“ <i>Mr. Yu</i> ”	Mr. YU Yong (余勇), an executive director and the chief executive officer of our Company
“ <i>Mulsanne E-commerce</i> ”	Ningbo Mulsanne E-commerce Co., Ltd. (寧波慕尚電子商務有限公司), a limited liability company incorporated in the PRC on December 5, 2012 and an indirect wholly-owned subsidiary of our Company
“ <i>Mulsanne Maisi</i> ”	Ningbo Mulsanne Maisi Brand Management Co., Ltd (寧波慕尚麥斯品牌管理有限公司), a limited liability company incorporated in the PRC on February 14, 2017 and an indirect non-wholly owned subsidiary of our Company
“ <i>Mulsanne Yue Garment</i> ”	Ningbo Mulsanne Yue Garment Co., Ltd. (寧波慕尚悅製衣有限公司), a limited liability company incorporated in the PRC on May 6, 2019 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

<i>“Muxin-buer E-commerce”</i>	Ningbo Muxin-buer E-commerce Co., Ltd. (寧波慕新不二電子商務有限公司), a limited liability company incorporated in the PRC on July 19, 2017 and an indirect wholly-owned subsidiary of our Company
<i>“NDRC”</i>	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
<i>“New Shares”</i>	Shares offered for subscription by our Company pursuant to the Global Offering
<i>“Ningbo Yuexing”</i>	Ningbo Yuexing Brand Management Co., Ltd. (寧波悅行品牌管理有限公司), a limited liability company incorporated in the PRC on March 27, 2012 and an indirect wholly-owned subsidiary of our Company
<i>“Offer Price”</i>	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$5.88 and expected to be not less than HK\$4.68, at which Hong Kong Offer Shares are to be subscribed and to be determined in the manner further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
<i>“Offer Share(s)”</i>	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be sold by the Over-allotment Grantors pursuant to the exercise of the Over-allotment Option
<i>“Over-allotment Grantors”</i>	Great World Glory and Crescent Glory, which will grant the Over-allotment Option (not any other options) to the International Underwriters
<i>“Over-allotment Option”</i>	the option expected to be granted by the Over-allotment Grantors to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which the Over-allotment Grantors may be required to sell up to an aggregate of 30,000,000 additional Shares at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this Prospectus
<i>“PBOC”</i>	People’s Bank of China (中國人民銀行)
<i>“PRC Government” or “State”</i>	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them

DEFINITIONS

<i>“PRC Legal Advisers”</i>	Jingtian & Gongcheng Attorneys at Law, the legal advisers to our Company as to the laws of the PRC
<i>“Price Determination Agreement”</i>	the agreement to be entered into by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
<i>“Price Determination Date”</i>	the date, expected to be on or about May 20, 2019, on which the Offer Price will be determined, or such later time as the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company may agree, but in any event, not later than May 23, 2019
<i>“prospectus”</i>	this prospectus being issued in connection with the Hong Kong Public Offering
<i>“QIB”</i>	a qualified institutional buyer within the meaning of Rule 144A
<i>“QIPO”</i>	an initial public offering of our Shares by way of an offer of our Shares to the public and/or professional and/or other investors for cash (with warrants or other securities, if appropriate) and the grant of listing of, and permission to deal in, our Shares on the Stock Exchange
<i>“Regulation S”</i>	Regulation S under the U.S. Securities Act
<i>“Representatives of the International Underwriters”</i>	Credit Suisse (Hong Kong) Limited, Citigroup Global Markets Limited and CMB International Capital Limited
<i>“RMB”</i>	Renminbi, the lawful currency of the PRC
<i>“RSU”</i>	a restricted share unit awarded to a participant under the RSU Scheme
<i>“RSU Nominee”</i>	Glory Kingdom Limited, a company incorporated in the BVI on November 27, 2017, a wholly-owned subsidiary of the Core Trust which will hold the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme
<i>“RSU Scheme”</i>	the restricted share unit scheme of the Company approved and adopted by our Board on April 26, 2019, the principal terms of which are set out in the section headed “Statutory and General Information — D. Share Incentive Scheme” in Appendix IV
<i>“Rule 144A”</i>	Rule 144A under the U.S. Securities Act
<i>“SAFE”</i>	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

DEFINITIONS

“SAFE Circular No. 37”	the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE on July 4, 2014
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the People’s Republic of China (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shanghai Yuexing”	Shanghai Yuexing Brand Management Co., Ltd. (上海悅行品牌管理有限公司), a limited liability company incorporated in the PRC on September 14, 2012 and an indirect wholly-owned subsidiary of our Company
“Share(s)”	ordinary shares in the capital of our Company with nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Shares
“Shenzhen Yuexing”	Shenzhen Yuexing Brand Management Co., Ltd. (深圳悅行品牌管理有限公司), a limited liability company incorporated in the PRC on April 20, 2016 and an indirect wholly-owned subsidiary of our Company
“Stabilizing Manager”	Credit Suisse (Hong Kong) Limited
“State Council”	the PRC State Council (中華人民共和國國務院)
“Stock Borrowing Agreements”	the stock borrowing agreements expected to be entered into between the Stabilizing Manager and Great World Glory and Crescent Glory, respectively on or about the Price Determination Date as further described in “Structure of the Global Offering — Stock Borrowing Arrangements”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Track Record Period”	the years ended December 31, 2016, 2017 and 2018
“TwoXu Sports”	TwoXu Sports (Ningbo) Co., Ltd. (途迅運動用品(寧波)有限公司), a limited liability company incorporated in the PRC on June 21, 2017 and an indirect non-wholly owned subsidiary of our Company
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Withdrawal Mechanism”	a mechanism which requires the Company, among other things, to (a) issue a supplemental prospectus as a result of material changes in the information (e.g., the Offer Price) in the prospectus; (b) extend the offer period and allow potential investors, if they so desire, to confirm their applications using an opt-in approach (i.e., requiring investors to positively confirm their applications for shares despite the changes)
“Yatlas Shanghai”	Yatlas (Shanghai) Brand Management Co., Ltd. (亞銳(上海)品牌管理有限公司), a limited liability company incorporated in the PRC on May 5, 2014 and an indirect wholly-owned subsidiary of our Company
“%”	per cent.

In this prospectus, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names (as appropriate) shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

GLOSSARY

This glossary contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ <i>Apache Hadoop</i> ”	a collection of open-source software utilities that facilitate using a network of many computers to solve problems involving massive amounts of data and computation. It provides a software framework for distributed storage and processing of big data using the MapReduce programming model
“ <i>Apache Hive</i> ”	a data warehouse software project built on top of Apache Hadoop for providing data query and analysis. Apache Hive gives an SQL (structured query language)-like interface to query data stored in various databases and file systems that integrate with Apache Hadoop
“ <i>API</i> ”	application programming interface, a set of functions and procedures that allow the creation of applications which access the features or data of an operating system, application, or other service
“ <i>CRM system</i> ”	customer relationship management system
“ <i>ERP system</i> ”	enterprise resource planning system
“ <i>GDP</i> ”	gross domestic product
“ <i>GMV</i> ”	gross merchandise volume, indicating a total sales dollar value for merchandise sold through a particular marketplace over a certain time frame
“ <i>HDFS</i> ”	Hadoop Distributed File System, which is designed to reliably store very large files across machines in a large cluster
“ <i>MapReduce</i> ”	MapReduce is a programming model and an associated implementation for processing and generating big data sets with a parallel, distributed algorithm on a cluster. A MapReduce program is composed of a map procedure, which performs filtering and sorting, and a reduce method, which performs a summary operation
“ <i>new retail</i> ”	an integrated omni-channel model that capitalizes on online and offline strengths, and increases efficiencies in terms of inventory management, supply chain management, product selection and logistics
“ <i>OEM</i> ”	original equipment manufacturer, a company that manufactures a product in accordance with its customer’s designs which ultimately will be branded by its customer for sale

GLOSSARY

<i>“online penetration rate”</i>	contribution of online to total retail revenue
<i>“POS”</i>	electronic funds transfer system at point of sale
<i>“recommended retail price”</i>	price before any discount
<i>“RFID”</i>	radio frequency identification technology
<i>“same store sales growth rate for online channels”</i>	The same store sales growth rate provides a year-to-year comparison of store performance as it excludes the growth due to the opening of new stores by only comparing the operational and financial performance of those stores that have been in operation in both years. We define our same store base to be those online channels that were in operation throughout the relevant years and with no material interruption
<i>“SKU”</i>	stock keeping unit, a unique identifier for each distinct product, as distinguished by style, size and color, that can be purchased
<i>“Sqoop”</i>	a command-line interface application for transferring data between relational databases and Apache Hadoop
<i>“Tableau serious products”</i>	interactive data visualization products focused on business intelligence
<i>“tier one cities”</i>	as of the Latest Practicable Date, includes Beijing, Shanghai, Guangzhou and Shenzhen for the purpose of this prospectus
<i>“tier two cities”</i>	as of the Latest Practicable Date, includes Hangzhou, Chengdu, Chongqing, Wuhan, Changsha, Xi’an, Tianjin, Harbin, Dalian, Tsingdao, Zhengzhou, Suzhou, Wuxi, Ningbo and Xiamen for the purpose of this prospectus

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets we operate;
- changes to the regulatory environment and general outlook in the industry and markets we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

RISKS RELATING TO OUR BUSINESS AND INDUSTRIES

We operate in the competitive apparel industry both online and offline in China. If we fail to compete effectively and successfully, our customer base, market share and profit margins may be materially and adversely affected.

We operate in the fashion menswear industry in China, which is highly competitive and relatively fragmented. Participants in this market include international and domestic brands as well as online and offline retailers that compete on, among other things, brand recognition and loyalty, product variety, marketing and promotion, retail network coverage, e-commerce operational capabilities, price and the ability to meet delivery commitments to distributors and partners. According to CIC, the top five players in China fashion menswear industry accounted for 14.4% of the total market share in 2018.

We face a variety of competitive challenges from both existing and new competitors in the fashion menswear industry in China. These challenges include:

- the ability to continue to design and launch attractive products to meet changing trends and consumer demands;
- the ability to position our products to maintain market appeal and attract new consumers;
- the ability to establish broad retail network coverage;
- the ability to manage our online and offline channels;
- the ability to maintain and strengthen the efficient management of our supply chain; and
- the ability to recruit and retain experienced and committed personnel for our management team.

Some of our competitors may possess stronger brand recognition, larger consumer bases, more advanced logistics or warehouse capabilities, or greater financial, marketing and/or other resources than us. Our competitors may be acquired by, receive investment from or enter into strategic relationships with larger, more established and better capitalized companies or investors. Some of our competitors may be able to secure merchandise from suppliers on more favorable terms, devote greater resources to marketing and brand promotion, adopt more aggressive pricing policies, or devote substantially more resources to online platforms, e-commerce and information technology systems than us. In particular, although we have established comprehensive and integrated sales and distribution platform to facilitate consumer purchases of our products via both our online and offline channels, we may lose sales to competitors that provide more advanced and efficient online shopping platforms and door-to-door delivery services than us. There is also a risk of new entrants entering China's fashion menswear market and developing new products that are more popular with our consumers. Increased competition could result in increased marketing expenditures and loss of market share, any of which could have a material adverse effect on our results of operations and financial condition, including, but not limited to, declines in our customer base, market share, revenues and profit margins. There can be no assurance that we will be able to address these challenges and compete successfully against current and future competitors, and those competitive pressures may have a material adverse effect on our business, growth prospects, financial condition and results of operations.

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Our business depends significantly on market recognition of our brands. If we are not able to maintain or enhance our brand recognition, keep up with the latest fashion trends, and particularly, maintain sales of our GXG series, our business, financial condition and results of operations may be materially and adversely affected.

We believe our brand image has contributed significantly to the success of our business. Therefore, maintaining and enhancing the recognition, image and acceptance of our brands as well as keeping up with the latest fashion trends are critical to our ability to differentiate our products and services from and to compete effectively with our peers. Our brand image could be jeopardized if we fail to maintain high product quality, pioneer and keep pace with evolving fashion trends, or timely fulfill orders for popular items. In addition, any negative publicity or disputes regarding our products, services, us or our management could also materially harm our brand image.

To implement our multi-brand strategy and capture business opportunities in the fast growing fashion menswear market, our core brand portfolio currently comprises two main categories — (i) GXG series: GXG, gxg jeans and gxg.kids, and (ii) sportswear: Yatlas and 2XU, each targeting a distinct customer segment and having a design identity. Each of our brands has its own designs, features and characteristics that fit the tastes and needs of our target consumer groups. However, the apparel market experiences significant changes in fashion trends, customers' preferences and tastes over time. Our brand image may be negatively affected if the products offered under any of our brands are unable to keep up with the latest fashion trends or meet customers' expectations with respect to quality or style. If we fail to promote any of our brands or to enhance the brand recognition and awareness among our customers, or if we are subject to events or negative allegations affecting our brand image or publicly perceived position of our brands, our business, operating results and financial condition could be materially and adversely affected.

In particular, we rely heavily on the market recognition of our GXG series, which have a well-established operating history and strong brand recognition. Our Directors believe that our business growth in the production and sales of our products depends heavily on the public perception of our GXG series, and we anticipate that we will continue to rely on our GXG series in our future business. During the Track Record Period, we generated over 95% of our revenue from the GXG series and over 65% from the GXG brand. If we fail to maintain or enhance the brand recognition and awareness of our GXG series, our business, operating results and financial condition could be materially and adversely affected.

We may not be able to successfully maintain and expand our offline retail network and our online sales network.

Our sales and distribution platform, which comprises offline retail stores and online sales network, has been a critical factor in driving our business growth and achieving strong operating results. As of December 31, 2018, our offline retail network consisted of 2,250 retail stores across China, including 720 self-owned stores, 532 partnership stores and 998 distributor stores. Apart from physical stores, we also provide customers with access to our products through major online platforms, including Tmall, Taobao, WeChat mini program and Vipshop.

To further increase our market share, we plan to continue to evaluate the geographic coverage of our current retail stores in China, open different types of retail stores, and increase our brand awareness especially in our target markets. We will also convert some of our partnership and distributor stores to self-owned stores to have better control over our offline retail network or terminate our cooperation with them if they fail to meet our performance targets. On the other hand, we intend to continue to work with a broad range of major online platforms, which provide us with access to a wider customer base, and cooperate with them on terms commercially acceptable to us. However, we may not be successful in any of these respects. The success of the expansion of our sales and distribution platform depends on a number of factors, including, without limitation:

- our ability to maintain relationships with local property owners and major online platforms;
- our ability to respond to the changes in internet and mobile penetration as well as the online marketing industry in China;

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- the reliability of the major online platforms; and
- the availability of related network infrastructure, such as online payment platforms and delivery.

If we are unable to effectively expand or maintain our sales and distribution platform, our results of operations, growth potential and profitability could be materially and adversely affected.

We may not be able to achieve same store sales growth.

During the Track Record Period, our same store sales growth rates amounted to 18.9% and 5.6%, respectively, in 2017 and 2018. For our online channels, same store sales growth rates amounted to 57.9% and 13.3%, respectively, in 2017 and 2018. For our offline retail stores, same store sales growth rates amounted to 0.3% and -0.4%, respectively, in 2017 and 2018. Same store sales growth rates of our self-owned stores amounted to 4.2% and 1.5%, respectively, in 2017 and 2018. We plan to continue to enhance the performance of our existing stores by taking measures such as upgrading our offline retail stores to smart stores, improving store design and appearance, raising service quality, enhancing value-added experiences for our customers, optimizing information management system, devoting greater efforts to maximizing synergies and building flexible supply chain for more popular SKUs. We will also enhance our store operation and inventory management capabilities. In addition, we plan to devote more efforts to selling our new products through our online channels. However, these initiatives contain many uncertainties and we may not be successful in any of these respects, which will have a material adverse impact on our business, operating results and financial condition.

Failure to maintain optimal inventory levels and lower sales return rates could increase our inventory holding costs, lead to channel stuffing, cause us to lose sales or decrease our profit margins.

Maintaining an optimal level of inventory and low sales return rates are critical to the success of our business. In 2016, 2017 and 2018, our inventory turnover days were 195, 197 and 194, respectively. Our provision for finished goods was RMB58.6 million, RMB83.5 million and RMB62.2 million as of December 31, 2016, 2017 and 2018, respectively. Our expected sales return rate amounted to 21.1%, 35.0% and 29.6% in 2016, 2017 and 2018, respectively. Our actual sales return rate amounted to 24.2%, 26.8% and 35.0% in 2016, 2017 and 2018, respectively. The unchanged trend in our overall inventory turnover days during the Track Record Period and the decrease in expected sales return rate from 2017 to 2018 were mainly caused by our efforts to control procurement volume. The increase in actual sales return rate from 2017 to 2018 was primarily because our VIP distributors, who were allowed to return all our products during the period from 2017 to the first quarter of 2018, mostly returned the products in 2018. We are also exposed to other inventory risks as a result of a variety of factors beyond our control, including changing fashion trends and consumer needs, uncertainty of success of product launches, products returned by our distributors or partners pursuant to our policies or relevant agreements, weather conditions and seasonality.

Especially, we generally accept the return of all our products from partners, and the permitted return rate for all distributors as of the Latest Practicable Date ranged from 20% to 100%, with GXG and gxcg jeans ranging from 20% to 25%, gxcg.kids ranging from 35% to 100% and Yatlas ranging from 30% to 100%. We also allowed certain distributors to return all our products in the first season to facilitate their new business. Furthermore, due to our channel optimization to convert our sub-distributors to distributors, some VIP distributors lost the additional benefit of selling our products to sub-distributors and, as a result, had difficulty in selling out our products completely after reorganization of the multi-layered distribution network. Though they have their own channels to sell obsolete stock, they would be able to sell more in-season products with higher profit margins within their own channels if they could return these inventories. Therefore, during the transition period from 2017 to the first quarter of 2018, we allowed these VIP distributors to return all our products to liquidate their surplus inventory and maintain our relationship with them. Though the permitted return rate of substantially all our distributors ranged from 20% to 35% and these VIP

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distributors can no longer return all our products starting from the second quarter of 2018 and we monitor our return rates carefully, the aforementioned return policies may still cause material impact on our inventory level. We might not be able to effectively enforce such inventory management and returns policies. In view of our high sales return rates during the Track Record Period, there are potential risks of channel stuffing, which may affect our financial performance in the subsequent periods, and risks of experiencing increased inventory provisions on goods returned from distributors. During the Track Record Period, we estimated that the inventory provision on goods returned from distributors accounted for 30% to 45% of the total inventory provision. In addition, if we fail to manage our inventory and lower sales return rates effectively, we may be subject to a heightened risk of having obsolescent and off-season inventories which we may not be able to move swiftly. The slow movement of our inventories may lead to an increase in our inventory level and thus an increase in our inventory holding costs and provision for impairment of inventory. Further, we may be forced to rely on markdowns or promotional activities to dispose of obsolescent and off-season inventories, which would lower our profit margins. As a result of the above, our financial condition and results of operations may be materially and adversely affected.

The nature of our business requires us to have stocks of distinct products in different designs, colors and sizes for display to satisfy the demand from customers in our retail stores. Moreover, we generally estimate the demand for our products ahead of production and the actual time of sale. We cannot assure you that we can accurately predict these trends and events and avoid under- or overstocking inventory. In addition, we remain vulnerable to the frequently changing trends and customers' preferences associated with the fashion menswear industry. Any unexpected change in demand for our products may result in our having out-of-stock or over-stocked items, which will have a direct impact on our sales and pricing plans. Increased inventories may adversely affect our pricing strategies, and we may be forced to rely on markdowns or promotional activities to dispose of unsold items, which in turn may adversely affect our financial condition and results of operations. Increased inventories may also lead to an increase in provision for impairment of inventory. As a result, our financial condition and results of operations could be materially and adversely affected.

We may not be able to continue to successfully expand our brand and product portfolio.

Historically, a significant portion of our revenue has been generated from sales of menswear. Over the years, we have gradually diversified our product offerings to include other product categories, such as sportswear and kidswear. Going forward, our goal is to develop our comprehensive design-driven platform as well as further expand and diversify our brand and product portfolio. However, any new brands or product categories that we may launch may not achieve anticipated performance targets. To support our product expansion plan, we will need to find suitable sales channels, recruit more personnel with expertise in managing different brands and product categories, and enhance our operational and financial systems, procedures, controls and information management system. Moreover, we will need to devote significant financial and managerial resources to the research and development of new brands and products. We will also need to engage suitable OEM suppliers to design and/or manufacture new brands and products and develop new marketing strategies to promote new brands and products. All of these endeavors involve risks, and require substantial planning, skillful execution and significant capital expenditures and costs. We may also fail to integrate new brands or new product categories into our existing brand and product portfolio. We cannot assure you that we will be able to anticipate and respond quickly to the evolving customers' product requirements or that our new products will be launched on time, or at all, or gain market acceptance. In addition, we cannot guarantee that any new brand or product category that we may launch will be able to generate positive cash flows.

The majority of our extensive offline retail network comprises retail stores that are operated by partners and distributors, which we have no control over, and they might improperly use our brand names.

As of December 31, 2018, our offline retail network included 532 partnership stores and 998 distributor stores, accounting for 68.0% of our total retail stores. In 2016, 2017 and 2018, revenue generated from these partnership and distributor stores totaled RMB1,301.9 million, RMB1,153.7

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million and RMB1,230.9 million, respectively, accounting for 43.1%, 32.9% and 32.5% of our total revenue for the respective years. We may not be able to monitor the retail stores operated by distributors and partners as directly and effectively as our self-owned stores. We seek to manage our network of these retail stores through distribution and partnership agreements, which set forth specific guidelines for distributors and partners to follow. For example, distributors are required to implement our policies on pricing and store appearance. In addition, they are required to operate within their respective designated territories. However, there can be no assurance that our distributors and partners will always comply with their obligations under the applicable agreements. Furthermore, if our distributors and partners improperly use our brand names, it could damage our reputation and brand image, undermine our customers' confidence in us and reduce long-term demand for our products, which will cause a material adverse effect on our business, financial condition and results of operations. Moreover, we failed to collect, save and file some of our distribution agreements and partnership agreements. We cannot assure you that our distributors and partners will follow our agreements with them if such agreements cannot be retrieved. Also, our operation relies on some of our distributors and partners' operating licenses, but we cannot assure you that they comply with the relevant laws and regulations. Additionally, the distributors largely determine the inventory levels of the retail stores they operate, and such inventory levels might not correspond to actual market demand and could lead to under- or overstocking in the retail stores operated by them. Therefore, although we try to monitor levels of inventory in these retail stores to the extent that we can, we cannot assure you that there will not be under- or overstocking in these stores.

Many of our retail stores are in the form of concession stores located within department stores subject to the terms of concession agreements, and we may not be able to renew concession agreements on the same or more favorable terms and we may not be able to enforce the terms of concession agreements.

As of December 31, 2018, 516 out of 720 of our self-owned stores were in the form of concession stores. Our concession stores are typically located within well-known department stores. In 2016, 2017 and 2018, concession fees amounted to RMB134.1 million, RMB155.6 million and RMB151.5 million, respectively, representing 4.4%, 4.4% and 4.0%, respectively, of our revenue for the same years. The concession agreements stipulate the rights and duties of both parties, including the key business terms agreed among the department stores and us. However, primarily due to the department stores' prolonged and cumbersome renewal procedures or their willingness to cooperate, as of the Latest Practicable Date, 161 out of the 507 department stores we cooperated with did not sign back the concession agreements. According to the Contract Law of the People's Republic of China (《中華人民共和國合同法》), where the lessee continues to use the leased property after the expiration of the lease term, and the lessor does not raise any objection, the original lease agreement shall remain effective, provided that the lease becomes a non-fixed term lease, which could be terminated by either party at any time. Nevertheless, due to the aforementioned reasons and the greater bargaining powers the department stores generally have, we cannot guarantee that our concession agreements with department stores can be renewed in a timely manner; therefore, our relationship with them may not be protected effectively by the concession agreements, and we may not be able to enforce the terms accordingly.

Furthermore, the majority of our concession agreements have a term of one year and are not automatically renewed upon expiration. We have long-term and beneficial relationships with department stores and we generally renew our concession agreements with them annually. However, under certain concession agreements, department stores are entitled to terminate the concession agreements if our concession stores fail to meet the specified minimum monthly sales targets for a specified period of time within one year. Department stores may require increases in the concession fees charged to us in response to our request to renew the concession agreements or may assign us to a less desirable area of the department store when we seek to renew our agreements with them. Department stores may experience increases in rental expenses or other expenses, which they may seek to pass on to us by increasing concession fees. We cannot guarantee that we will be able to

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renew our concession agreements on the same terms or on terms that are more favorable to us, in a timely manner or at all, or that certain of our concession agreements will not be terminated. If any of these situations happens, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our sales are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate.

Our industry has historically experienced seasonality, which we expect to continue. We typically achieve higher revenue from the sales of our autumn and winter collections and lower revenue from the sales of our spring and summer collections due to the higher average unit selling price for our autumn and winter apparel as the materials for producing our autumn and winter apparel are comparatively more costly. We also record higher sales typically before holiday seasons such as Chinese New Year and during major promotion periods such as Alibaba's Singles' Day (雙十一). In addition, extreme or unusual weather conditions, such as extended periods of warm weather during the winter season or cool weather during the summer season could render a portion of our products incompatible with such unseasonable conditions, and thus may affect our sales and inventory. High levels of rainfall will also affect the willingness of consumers who prefer to go offline shopping to go to our offline retail stores, which we believe may have negative impact on our offline sales. As a result, any comparison of our sales and operating results between different periods within a single financial year, or between different periods in different financial years are not necessarily meaningful and cannot be relied on as indicators of our performance. Our results of operations are likely to continue to fluctuate due to seasonality.

We may not be able to maintain or increase our profitability.

During the Track Record Period, our business expanded significantly. Our revenue increased by 16.3% from RMB3,017.8 million in 2016 to RMB3,510.3 million in 2017, and further increased by 7.9% to RMB3,787.0 million in 2018. Our adjusted net profit increased from RMB390.8 million in 2016 to RMB482.5 million in 2018, representing a CAGR of 11.1% from 2016 to 2018. Our profit for the year increased by 5.5% from RMB399.7 million in 2016 to RMB421.8 million in 2017. However, our profit for the year decreased by 11.2% from RMB421.8 million in 2017 to RMB374.5 million in 2018, primarily due to an increase in interest on bank loans resulting from our new borrowings in 2017. Furthermore, for the two months ended February 28, 2019, our unaudited revenue decreased by approximately 11% to RMB571.4 million, our gross profit decreased by approximately 15% to RMB290.5 million and our profit for the period dropped significantly, compared to the corresponding period in 2018. See "Financial Information — Recent Development Subsequent to the Track Record Period" for details. Our results of operations may be, directly and indirectly, affected by a number of factors, including the development and the competitive landscape of the apparel market, the economic conditions in China, government policies, our expansion plans and our multi-brand strategy. Some of these factors are beyond our control and may cause fluctuations in our results of operations. There can be no assurance that our historical growth rates will be sustainable or that we will not experience fluctuations or declines in the growth of our revenue and profit in the future.

Adverse changes in customers' preferences, perception and market dynamics could materially affect our growth and profitability.

Customers' preferences, spending habits and economic conditions may differ or change from time to time in the market we operate. We operate in the fashion menswear industry, where adverse changes in customers' preferences towards brands generally, and adverse changes to our brand philosophy in particular, can affect the level of customer spending on our products. We cannot guarantee that we will be able to maintain our historical growth rates of revenue and profit, or remain profitable, if such adverse changes in customers' preferences towards our brands or brand philosophy occur, particularly if the retail environment is stagnant or retail revenue in general declines in the event of a recession or slowdown in the general economy.

We may not be able to maintain our current relationships with distributors and partners or to attract new distributors and partners.

Although we seek to maintain stable relationships with the majority of our distributors and partners, we cannot assure you that our distributors and partners will continue their business relationships with us by renewing the distribution or partnership agreements upon their expiry on terms

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acceptable to us, or at all. If any of our distributors or partners terminate or do not renew its agreement with us, we may not be able to replace such distributor or partner with a new and effective alternative in a timely manner, on terms acceptable to us, or at all. Even if our distributors or partners decide to renew their agreement with us, we cannot guarantee that such agreement can be renewed in a timely manner; therefore, our relationship with them may not be protected effectively by the distribution or partnership agreement accordingly. Further, we cannot assure you that our distributors and partners will continue to purchase our products at historical levels in the future. In the event that a significant number of our distributors and partners substantially reduce their volume of purchases or fail to fulfill their obligations under the distribution and partnership agreements, or if we lose a significant number of our distributors and partners and are unable to effectively replace them in a timely fashion, our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to risks in relation to the collectability of our trade and notes receivables. If our business partners default on their payments to us, our profitability and cash flow will be adversely affected.

We generally grant our business partners, including partners, distributors, department stores and some of our online platforms such as Vipshop, a credit period of 30 days to 90 days for cash payment after recognizing the revenue. They may also settle in commercial acceptance bills, and we will record notes receivables accordingly. These notes receivables are generally settled within four to six months. As of December 31, 2016, 2017 and 2018, our gross trade and notes receivables amounted to RMB503.2 million, RMB617.2 million and RMB848.8 million, respectively, and our allowance for doubtful debts amounted to RMB8.5 million, RMB1.2 million and RMB18.0 million, respectively.

There is no assurance that our business partners will settle our invoices on time and in full. Especially, a majority of the payments from the sales of our products in our concession stores are typically collected by department stores. Department stores are then required to transfer the monthly sales proceeds to us within a certain period after we issue invoices for the payments. We may be affected by the financial health of the department stores from which we have outstanding receivables. If the financial position of any of our business partners deteriorates, the risk of default on their payments to us will increase. For 2016, 2017 and 2018, our average trade and notes receivables turnover days were 60 days, 57 days and 70 days, respectively. Any difficulty in collecting a substantial portion of our trade and notes receivables could materially and adversely affect our profitability, working capital and cash flow.

An increase in the level of rents will increase our operating expenses and may adversely affect our operations and profitability.

As of December 31, 2018, 204 out of 720 of our self-owned stores were standalone stores operated on leased premises. In addition, we also lease properties for our offices and warehouses. Therefore, our business is to a certain extent affected by the fluctuation of our rents. We enter into lease agreements with shopping malls and other lessors for our rights to open and operate our standalone stores and business operations on leased properties. In 2016, 2017 and 2018, our total operating lease rental expenses, categorized under selling and distribution expenses and administrative expenses, amounted to RMB163.8 million, RMB200.5 million and RMB262.5 million, respectively, representing 5.4%, 5.7% and 6.9%, respectively, of our revenue for the same years. In recent years, property prices and levels of rents in China have substantially increased and we expect they may continue to increase in the near future. The increase in the level of rents may increase operating expenses related to our newly opened retail stores or when we renew the leases of our existing retail stores. The lease agreements typically have terms of one to three years. We cannot assure you that third-party lessors will not increase the rents charged to us when leases are renewed or when we request for better locations for our retail stores, or that we will be able to renew the leases on the same terms or on terms that are more favorable to us or at all. Any material increase in the level of our rents may have a material adverse impact on our business, financial condition, results of operations and prospects.

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We, our distributors or partners may not be able to renew current leases or locate desirable alternatives for retail stores, offices and warehouses.

A large number of our retail stores across China and our offices and warehouses are presently located on leased premises. Most of the leases for our premises are renewable every one to three years. The ability of us, our distributors or partners to renew existing leases upon their expiry is crucial to our operations and profitability, especially for retail stores in locations with a high volume of pedestrian traffic. At the end of each lease term, we, our distributors or partners may not be able to negotiate an extension or renewal of the lease and may therefore be forced to move to a less favorable location. Due to the rental increases in China in recent years, particularly in larger cities, we, our distributors or partners may not be able to renew our existing leases at reasonable prices or on terms and conditions that are commercially acceptable to us. In addition, we compete with other businesses, including our competitors, for premises at desirable locations and/or of desirable sizes. Therefore, we, our distributors or partners may not be able to obtain new leases at desirable locations or renew existing leases on acceptable terms, in a timely fashion or at all, which could materially and adversely affect the sales of our products, which, in turn, would materially and adversely affect our business and results of operations.

The risk management and internal control measures with respect to the business operations may not fully protect us against various risks inherent in our business.

During the Track Record Period, we have noticed several internal control deficiencies, including failing to collect, save and file the required licenses for store opening and operation. According to the relevant laws and regulations, we may be fined for operating without relevant requisite licenses. Yet, the risk is remote, provided such licenses have been obtained and we have not been under any related investigations by relevant PRC authorities, and we have established risk management and internal control measures consisting of the relevant organizational framework policies and procedures. See “Business — Risk Management” and “Business — Internal Control Measures” for details. However, we may not be successful in implementing our risk management and internal control measures. Notwithstanding our effort to continuously enhance our risk management and internal control measures, we cannot guarantee that our risk management and internal control measures will be adequate or effective to protect us against various risks inherent in our business. Any failure to address any potential risks and internal control deficiencies could adversely affect our business and results of operations.

Since our risk management and internal control measures depend on the implementation by our employees and subcontracting personnel, we cannot guarantee that our employees or subcontracting personnel will, in their individual capacity, adhere to our risk management and internal control policies and procedures, and the implementation of such policies and procedures may involve human errors and mistakes. We are unable to guarantee that our risk management and internal control measures will effectively prevent the occurrence of such errors or mistakes. Moreover, the growth and expansion may affect our ability to implement stringent risk management and internal control measures as our business evolves. If we fail to adopt, implement and modify risk management and internal control measures on a timely basis, our business and results of operations could be adversely affected.

We engage outsourcing firms to provide outsourced services and have engaged dispatched employees for our operations. We have limited control over these services and may be liable for violations of applicable PRC labor laws and regulations.

Since March 2018, we entered into service outsourcing arrangements with third-party service providers and such third-party service providers utilized approximately 1,584 staff, including sales representatives, store managers and supporting staff, as of the Latest Practicable Date, to provide us with the relevant services. We entered into these arrangements since March 2018 mainly to replace the dispatched employees which were not in compliance with relevant rules and regulations. According to the Labor Dispatch Provisions promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees

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and dispatched employees, and dispatched employees can be used only for temporary, ancillary or substitutable positions. The Labor Dispatch Provisions further require any employer who is not in compliance with such requirements to rectify by March 1, 2016. During the Track Record Period and prior to February 28, 2018, we did not fully comply with the Labor Dispatch Provisions. However, we entered into a service outsourcing agreement with Qianjin Network Information Technology (Shanghai) Co., Ltd. (前錦網絡信息技術(上海)有限公司) on March 1, 2018 to rectify this non-compliance. As of the Latest Practicable Date, we had rectified the non-compliance and ceased using dispatched employees, and we had not received any notifications or administrative penalties in respect of labor dispatch from the competent authorities. Our PRC Legal Advisers are of the opinion that the risk of us being penalized for failing to rectify the non-compliance in respect of labor dispatch by March 1, 2016 is remote. However, if we are found not to have rectified such non-compliance within the specified time limit, we may be subject to a fine of RMB5,000 to RMB10,000 per dispatched employee. See “Business — Sales and Distribution — Our Offline Channels — Self-owned stores — Management of self-owned stores” and “Business — Employees” for details.

As we grew our business, these service outsourcing arrangements can also enable our management team to focus on our core missions. We may need more outsourced services and our service outsourcing fees may increase accordingly along with our business expansion. We have implemented various measures to monitor the implementation of our guidelines by the outsourcing firms, including monitoring the performance of the personnel from the outsourcing firms through our information technology system and routine inspections. However, we have no control over the management of the personnel who provide outsourced services to our operations. Outsourcing firms’ failure to comply with our guidelines or termination of the cooperation may result in a material adverse effect on our business, results of operations and financial condition. Moreover, we may also be liable for violations of applicable PRC labor laws and regulations as a result of outsourcing firms’ failure to comply with relevant laws and regulations or our failure to exercise effective control.

Our service outsourcing fees amounted to RMB164.7 million for the year ended December 31, 2018, primarily due to the outsourcing arrangements. We may need more outsourced services to support our business growth in the future, and if the outsourcing firms are unable to provide enough qualified personnel to provide services to us in a timely manner, or at all, or asks for an increase in service outsourcing fees charged to us, our selling and marketing expenses may increase substantially or the expansion plan of our business may be interrupted. If any of these events occurs, we may lose business opportunities and our business, financial condition and results of operations may be materially and adversely affected.

We may incur significant costs for marketing efforts, and some marketing campaigns may not be effective in attracting or retaining customers.

We intend to continuously invest in our brand to increase our brand recognition and acceptance. We rely on different marketing efforts tailored to our target customer groups to increase our sales. We market our brands mainly through fashion catalogs and the presentation of our store image. In addition, we seek opportunities to attend fashion shows in order to convey our design essence and brand philosophy worldwide. We also take part in certain art and cultural events that we deem appropriate and could have a positive influence on our brand image. Our advertising expenses amounted to RMB112.0 million, RMB171.1 million and RMB179.2 million, respectively, in 2016, 2017 and 2018, representing 3.7%, 4.9% and 4.7%, respectively, of our total revenue during the same years. However, we cannot guarantee that our marketing efforts will be well-received by customers and result in higher levels of sales. In addition, marketing approaches and tools in the consumer products market in China are evolving, which requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customers’ preferences. Failure to refine our marketing approaches or to adopt new, more cost-effective marketing techniques could negatively affect our business, growth prospects and results of operations.

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Any product quality problems or any negative publicity or media reports relating to our raw materials, products or the apparel industry could adversely affect our reputation and our ability to sell our products.

Any negative claim against us, even if meritless or unsuccessful, could divert our management's attention and other resources from other business concerns, which may adversely affect our business and operations. Negative media coverage regarding the quality of our products, and the resulting negative publicity, may potentially affect customer perception of our products and business. In addition, adverse publicity about us could damage our reputation and brand image, undermine our customers' confidence in us and reduce long-term demand for our products, even if such publicity is unfounded or not material to our operations. As a result, we may experience declines in our revenue and customer traffic from which we may not be able to recover.

We may be exposed to product liability claims and any serious product liability claims against us may adversely affect our reputation and business.

Under applicable PRC law, we may be liable for product defects or quality issues despite the fact that our products are manufactured by third parties. During the Track Record Period and as of the Latest Practicable Date, our brands have been fined in aggregate of approximately RMB4,300 for failing to meet the relevant product standards. Such incidents were isolated and the penalties were not material to our business. In addition, as of the Latest Practicable Date, save as disclosed above, we have not been fined for any product defects or quality issues. Still, we believe that the risk of potential product liability claims against us may increase as consumer protection laws develop and the concept of product liability begins to develop and mature among consumers in China. Since we outsource our production to selected domestic OEM suppliers, we may not have sufficient control over the quality of our products, and there can be no assurance that there will not be a successful product liability claim against us.

In the event we seek indemnities from relevant OEM suppliers for any claims for defective products they provided to us, such indemnities may be limited and the claims against them may be subject to certain conditions precedent which may not be satisfied. Further, our contracts with OEM suppliers usually do not have provisions to cover lost profits and indirect or consequential losses. If no claim can be asserted against OEM suppliers, or amounts that we claim cannot be recovered from them, to the extent that our insurance coverage is insufficient, we may be required to bear such losses at our own costs. This could have a material adverse effect on our business, financial condition and results of operations.

We rely heavily on our selected OEM suppliers for production of our products and any shortage or delay of supply by the OEM suppliers could materially and adversely affect our business.

We outsource the production of all our products to selected domestic OEM suppliers. For 2016, 2017 and 2018, cost of apparel products accounted for 97.2%, 99.2% and 99.3% of our total cost of sales, respectively. A majority of our OEM suppliers are located in Zhejiang, Jiangsu and Guangdong provinces. Their operations might be affected by industry downturns, natural disasters or other catastrophic events. The occurrence of any such industry downturn, changes in regulatory requirements, natural disaster or catastrophic event could cause shortages or delay of product supply by our OEM suppliers. In addition, although we strictly control the quality of our operations, we may not be able to monitor the production quality of the OEM suppliers as directly and effectively as with our own production. If the OEM suppliers fail to supply products in accordance with our delivery schedule, quality standards or product specifications, we may be forced to provide these products on a delayed basis or cancel our product offering, either of which could harm our reputation and our relationships with distributors, partners and customers and potentially expose us to litigation and damage claims.

RISK FACTORS

We may not be able to maintain our current relationships with our suppliers or to find replacements for our suppliers in a timely manner.

Although we believe that we can engage alternative suppliers within a short period of time to replace any existing ones because there are a large number of apparel manufacturers available in China, qualified suppliers within our budget may not always be readily available when we experience significant increases in demand or need to replace a significant number of our suppliers. For 2016, 2017 and 2018, purchases from our five largest suppliers in aggregate accounted for 20.9%, 23.8% and 28.0% of our purchase cost, respectively, while purchases from our largest supplier accounted for 6.2%, 7.1% and 6.7% of our total purchase cost for the respective years. If we are unable to retain our current major suppliers or contract new qualified suppliers at reasonable costs in a timely manner, or at all, our business and financial results could be impaired.

Fluctuations in the price, availability and quality of raw materials or labor cost could cause production delays and increase in costs of goods sold.

Changes in the costs of raw materials or labor affect our cost structure. We outsource our production to selected domestic OEM suppliers and depending on the type of product outsourced, we either provide our OEM suppliers with raw materials directly, or require them to procure raw materials from suppliers approved by us before commencing production. The prices of various raw materials for our products fluctuated during the Track Record Period and may continue to fluctuate in the future. To minimize our exposure to raw material prices, we or our OEM suppliers may advance or hedge orders in advance based on anticipated production and sales requirements, which might not be at the most optimal timing or price. On the other hand, increases in labor cost directly affects our employee benefits expenses. In addition, we bear such cost indirectly as part of other expenses, including, among others, finished goods purchased of OEM suppliers. If we are unable to control our costs, our business, results of operations and financial condition would be materially and adversely affected.

We rely on third-party logistics service providers to deliver our products. Disruption in logistics may prevent us from meeting customer demands and our business, financial condition and results of operations may suffer as a result.

We deliver products from our self-owned Central Distribution Center (“CDC”) or an e-commerce warehouse in Ningbo, Zhejiang province directly to each store or a place designated by our distributors and partners by land or air transportation through independent third-party logistics service providers who typically bear the risks and losses associated with the delivery. Disputes with or a termination in our contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. There can be no assurance that we can continue or extend relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics service providers, it may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. If there is any breakdown in our relationships with our preferred logistics service providers, we cannot guarantee that no interruptions would occur or that they would not materially and adversely affect our business, prospects and results of operations.

As we do not have any direct control over these logistics service providers, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products or any other issue, we may lose customers and sales and our brand image may be tarnished. In addition, our OEM suppliers sometimes deliver products to us through engaging independent third-party logistics service providers. Delays in delivery due to transportation shortages, infrastructure congestion or other factors could adversely impact our OEM suppliers’ ability to deliver products to us timely, which could consequently delay our delivery to our distributors and partners.

RISK FACTORS

If we fail to protect our intellectual property rights, know-how, confidential information and trade secrets from unauthorized copying, use or disclosure, our business, financial conditions and results of operations would be severely harmed.

Our intellectual property rights, know-how, confidential information and trade secrets are vital to our success and future development. We rely on trademark law, company information protection policies and confidential agreements with our employees, distributors, partners, OEM suppliers and others to protect the value of our intellectual assets. As of the Latest Practicable Date, we had 208 trademarks registered in China and 32 trademarks registered in other countries or regions. As of the same date, we also had 45 and 39 pending applications to register trademarks in China and other countries or regions, respectively. Despite the precautions we have taken, we cannot assure you that those procedures will provide effective prevention from unauthorized third-party copying, use or disclosure. The protection of intellectual property rights, know-how, confidential information and trade secrets under PRC laws has historically been insufficient as a result of ineffective implementation and enforcement and inconsistent interpretation. There can be no assurance that we will receive effective protection if our intellectual property rights, know-how, confidential information and trade secrets are infringed by third parties.

We are specifically susceptible to the sale of counterfeit products in similar designs or using similar trademarks or trade names by third parties. The sale of such counterfeit products, which are inferior in design and quality, may harm our reputation and brand image and may lead to reduced customer confidence and loss of sales. In addition, we may be from time to time involved in legal proceedings, which may be time consuming and we may be required to devote substantial time and resources to achieve a favorable outcome. For example, during the Track Record Period, we were involved in a trademark litigation dispute, in which our brand 2XU was sued for trademark infringement and asked to compensate an amount of approximately RMB1.0 million. Though the plaintiff has withdrawn the case and we are in the process of settlement, the plaintiff still has the right to file a lawsuit again. In addition, even 2XU Pty Ltd. and 2XU HK Limited will indemnify us for the relevant losses according to our agreement, we may still suffer from a certain degree of damages. If we fail to timely identify illicit copying, use or disclosure of our intellectual property rights, know-how, confidential information and trade secrets or if we are unsuccessful in legal proceedings, it could damage the reputation of our brands and products and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our success depends upon our key management personnel. Our inability to attract, retain and motivate qualified personnel could adversely affect our growth and business prospects.

The talent, experience and leadership of our key management team are critical to the success of our business. In particular, our chief executive officer, Mr. Yu, has been pivotal to our success. Other members of our senior management team also have substantial experience and expertise in the fashion industry and have made significant contributions to the growth and success of our business. The unexpected loss of services of one or more of these individuals could have a material adverse effect on us.

Our future success also depends substantially on our ability to recruit, train and retain qualified management, designers and other qualified personnel. For example, our business is dependent on talented designers to create appealing and fashionable apparel. We are especially reliant on skilled chief designers for our brands and their team leaders who are responsible for developing our products. The departure of any of these individuals could have an adverse effect on our business and prospects. Competition for talent in the fashion industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. Significant increases in employee turnover rates, which is generally high in China fashion industry, or significant increases in labor costs, due to competition for talents or unfavorable changes in labor and healthcare laws, could have a material adverse effect on our results of operations and financial condition.

RISK FACTORS

Our business relies on the proper operation of our information technology systems. Any failure to maintain the satisfactory performance of our website and systems could materially and adversely affect our business and reputation.

Our business relies on the proper functioning of our information technology systems. We rely on our information technology platform to integrate our CRM system, POS terminals, warehouse management system and order management system. Such platform enables us to quickly and efficiently retrieve and analyze our operational data and information, including procurement, sales, inventory, logistics, customer and membership data and financial data, on a real time basis, as well as to provide information technology support to all our retail stores and compile and analyze their operational and financial data on a daily basis. We use our information technology systems to assist us in planning and managing our product design, budgeting, human resources, inventory control, retail management and financial reporting. As a result, our information technology system is critical for us in monitoring the inventory and sales levels and results of operation of our retail stores and for our retail stores to place orders with us. We need to constantly upgrade and improve our information technology systems to keep up with the continuous growth of our operations and business. During the Track Record Period, we have conducted major information technology system upgrades. Although we did not experience any information technology system breakdown during the Track Record Period, we cannot assure you that our information technology system will always operate without interruption. Moreover, we cannot guarantee that the information security measures we currently maintain are adequate or that our information technology system can withstand intrusions from or prevent improper usage by third parties. Moreover, our integrated new retail platform collects, stores and processes personal and other sensitive data from our customers. Our security measures may be breached due to employee error, malfeasance, system errors or vulnerabilities, or otherwise. Outside parties may also attempt to gain access to our data. As hacking and data theft techniques are continuously evolving, our anti-virus systems and security measure may not be able to adjust to these changes in a timely manner.

As our retail network is highly integrated, any malfunction to a particular part of our information technology system may result in a breakdown throughout our network and our ability to continue our operations smoothly may be negatively affected, which in turn could adversely affect our results of operations. In addition, we may not always be successful in developing, installing, running or implementing new software or advanced information technology systems as required by our business development. Even if we are successful in this regard, significant capital expenditure may be required, and we may not be able to benefit from the investment immediately. All of these may have a material adverse impact on our profitability.

Furthermore, the PRC government has established stricter supervision requirements for e-commerce operators like us to conduct online business, and there is no guarantee that our website or system would be able to meet all these supervision requirements in a cost-effective manner, or at all. As an example, the E-Commerce Law of the PRC (《中華人民共和國電子商務法》) (the “**E-Commerce Law**”), which was promulgated by the SCNPC on August 31, 2018 and came into effect on January 1, 2019, provides that an e-commerce operator shall not only display search results of commodities or services to its consumers according to their interests, preferences, consumption habits and other personal characteristics, but shall also provide such consumers with search options irrespective of their personal characteristics as well, failing which such e-commerce operator will be ordered by the market administration authority to rectify within a required time limit. If there is illegal income, such illegal income shall be confiscated. In addition, the e-commerce operator may be additionally fined up to RMB200,000, which, in a severe case, could be increased to RMB500,000. Such new law may result in additional compliance obligations and costs for the Group, and may constrain the ways we operate our website and information systems in the future, and may materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

Our online operations through major online platforms are subject to numerous risks that could materially and adversely affect our business, financial condition and results of operations.

Our online operations rely heavily on the security measures adopted by major online platforms. However, their cybersecurity measures may not detect or prevent all attempts to compromise their systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in and transmitted or that they otherwise maintain. Breaches of cybersecurity measures could result in unauthorized access to their systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. We have not experienced significant breaches in the past. However, we cannot assure you that similar events will not occur in the future. Any compromise of the information security could have a material and adverse effect on our reputation, business, prospects, financial condition and results of operations.

We are subject to the risk of leakage of confidential information, which could materially and adversely affect our business, financial condition and results of operations.

During our business operation, we collect our customer data through customers' feedbacks to offline sales personnel and on online social platforms as well as our synchronized VIP membership program. We collect diversified data, such as customer basic background information including name, gender, telephone number and delivery address, behavior data, product data and regional data. Through the cooperation with other major online platforms, we also collect cross-product shopping data and social attribute data to have more thorough understandings of our customers.

We and these online platforms we cooperate have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information. However, since we collect customer data through our online channels, our customer data might be improperly used or disclosed by our employees. Though we have set different levels of access authorizations within our internal information management system for processing and use of our customers' personal data, there is no assurance that our employees would not disclose such data intentionally or negligently and as a result our customers' confidential information might be leaked. Furthermore, advances in technology, the expertise of hackers, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology used to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold. Such individuals or entities obtaining our customers' confidential or private information may further engage in various other illegal activities using such information. As such, our security control may not be able to prevent improper leakage of such confidential information. Our security measures may be circumvented, resulting in misappropriation of proprietary information or interruptions in our operations. A security breach, such as hacking or any other attempt to harm our systems, that leads to leakage of confidential information could adversely affect our reputation. Any actual or perceived failure of us to comply with the existing and evolving government regulations and other legal obligations relating to data privacy could adversely affect our business and we may be required to incur significant costs and resources to prevent security breaches or alleviate problems caused by such breaches. All of the above events might have a material and adverse effect on our business, financial condition and results of operations.

Fluctuations in amounts of government grants may lead to volatility in our profit.

Our government grants amounted to RMB11.1 million, RMB19.5 million and RMB40.4 million, or 0.4%, 0.6% and 1.1% of our revenue, for 2016, 2017 and 2018, respectively. Such government grants were calculated based on our tax contribution. Government grants increased during the Track Record Period primarily because our tax contribution by Chisage Mulsanne E-commerce increased. There can be no assurance that we will continue to receive significant amounts of government grants, or at all. We may experience future fluctuations in our government grants, which may lead to volatility in our profit. For more information, see "Financial Information — Principal Components of Consolidated Statements of Profit or Loss — Other income and gains" and Note 5 to the Accountant's Report in Appendix I.

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We recorded net deficiency in assets and negative reserves as of December 31, 2017.

We recorded net deficiency in assets of RMB230.5 million and negative reserves of RMB230.3 million as of December 31, 2017, respectively. The net deficiency in assets and negative reserves were primarily due to our payment of dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017. While we have later regained positive equity position as of December 31, 2018, we cannot assure you that we will be able to maintain a positive equity position going forward, which in turn may have a material adverse effect on our financial condition and results of operations as well as the value of the Shares.

We are uncertain about the recoverability of our deferred tax assets, which may affect our financial positions in the future.

As of December 31, 2016, 2017 and 2018, our deferred tax assets amounted to RMB103.5 million, RMB106.8 million and RMB95.0 million, respectively, which represent the allowance for impairment of trade and other receivables, impairment of inventories, provision of sales return, accrued employee benefits, accrued sales rebate, accrued expenses, decelerated depreciation for tax purposes, impairment of property, plant and equipment, losses available for offsetting against future taxable income and unrealized profit from inter-company transactions. For details of the movements of our deferred tax assets during the Track Record Period, please see Note 28 to the Accountant's Report in Appendix I. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets, and to what extent they may affect our financial positions in the future.

We are exposed to the risks of fair value change for financial assets at fair value through profit or loss and fair value change of our derivative securities.

In the ordinary course of our business, we hold financial assets at fair value through profit or loss and available-for-sale investments. As of December 31, 2017, available-for-sale investments of RMB50.0 million and financial assets at fair value through profit or loss of RMB13.6 million represented investments in certain financial assets issued by licensed financial institutions in the PRC whose fair values were derived from quoted price in an active market. We have recorded investment income from financial assets at fair value through profit or loss of RMB0.8 million in 2018, and fair value loss on derivative financial instruments of RMB4.5 million in 2017 and fair value gain on derivative financial instruments of RMB9.1 million in 2018. See Notes 5 and 22 to the Accountant's Report in Appendix I for details. We may continue to incur fair value loss in the future. General economic and market conditions affect the value of these financial assets. Any material and adverse changes in the value of these financial assets may have a material and adverse effect on our business, financial condition and results of operations.

We may be involved in legal or other proceedings arising out of our operations from time to time and may face significant liabilities as a result.

We may be involved from time to time in disputes with, including but not limited to, our distributors, partners, OEM suppliers, employees, logistics service providers, customers, insurers and banks. These disputes may lead to legal or other proceedings, which may result in damages to our reputation, substantial costs and diversion of our resources and management's attention. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavorable results, and result in liabilities and delays relating to our production or product launch schedules. We cannot assure you as to the outcome of such legal proceedings, and any negative outcome may materially and adversely affect our business, financial condition and results of operations.

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We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations.

Under relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make in full the social insurance fund and housing provident fund contributions for employees of our subsidiaries. As of December 31, 2016, 2017 and 2018, the carrying amount of our provisions for social insurance fund and housing provident fund contributions amounted to RMB83.2 million, RMB74.8 million and RMB49.7 million, respectively. As advised by our PRC Legal Advisers, in respect of outstanding social insurance contributions, the relevant PRC authorities may demand us to pay the outstanding social insurance funds within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable for a fine of one to three times the amount of the outstanding contributions. In respect of the outstanding housing provident fund contributions, we may be demanded by the relevant authorities to pay the underpaid amount to the housing provident fund within a prescribed time limit, failing which we may be subject to the compulsory enforcement by the People's Court. Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and house provident funds in full amount in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities. As of the Latest Practicable Date, we had not received any notification from the relevant authorities demanding payment of the social insurance funds and the housing provident funds. See "Business — Legal and Compliance" for details.

However, we cannot assure you that we will not be subject to any order to rectify non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the social insurance funds and the housing provident funds against us, or that we will not receive any claims in respect of the social insurance funds and housing provident funds under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities.

Failure to commence development of land that we have been granted rights to use within the required timeframe and the inconsistency between the stipulated use of the land and that of the buildings on the land may subject us to penalties and default liabilities under land use right grant contracts and cause us to lose such land use rights, and the inconsistency between the use of the buildings and the use of the land on which they were constructed may subject us to the loss of the building ownerships and fines.

We have the land use right over a parcel of land with the site area of approximately 13,576 sq.m. located in Yuanjia Village and Tuanjia Village, Panhuo Subdistrict, Yinzhou District, Ningbo. Pursuant to the supplemental land use right grant contract, we are required to commence development on or prior to January 30, 2020, and complete the construction by January 29, 2023. As of the Latest Practicable Date, we have not yet commenced the construction on the land in accordance with the land use right grant contract. We intend to use such parcel as our headquarter and obtain the construction permit for the construction of our office building on the land before January 30, 2020. However, we cannot assure you that we will be able to successfully obtain the construction permit before January 30, 2020, failing which we may be subject to the idle land fee or be deprived of the land use right without compensation. If either event occurs, our financial condition and results of operations could be adversely affected.

During our acquisition of the land use right over this same parcel of land, its stipulated use was changed from "Industry Purpose" to "Commerce and Finance Purpose" by the local governmental authority, while the use of the buildings on such land remained "Industry Purpose", which caused the inconsistency between the stipulated use of the land and that of the buildings on the land. The buildings were already on the land when we acquired the land through a public bidding process in May 2013. Pursuant to the PRC Urban and Rural Planning Law, we may be demanded by the competent planning authority to rectify and eliminate any influence caused by such inconsistency within a prescribed time limit and be fined 5% to 10% of the construction cost; if such influence

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cannot be eliminated, we may be ordered to tear down the buildings within a prescribed time limit; and if the buildings cannot be torn down, we may be deprived of the ownership of such buildings or any illegal income therefrom, and could be fined no more than 10% of the construction cost. For more information, see “Business — Properties — Owned Properties.” As of the Latest Practicable Date, we had not received any notice of penalty or be subject to any related government investigations. Our PRC Legal Advisers are of the opinion that since the inconsistency was mainly caused by the change of the use of the land while use of our buildings remain unchanged, and we are about to demolish the buildings once we commence construction on the land, the risk of us being penalized by the competent planning authority is remote. However, we cannot assure you that we will not be subject to any fines set by the competent planning authority or be deprived of the ownership of the buildings. If either event occurs, our financial condition and results of operations could be materially and adversely affected.

Our rights to use our leased properties could be challenged by third parties, or we may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties.

As of the Latest Practicable Date, 162 properties with a total gross floor area of approximately 89,660 sq.m. were leased from lessors who were unable to provide sufficient or valid ownership certificates or other ownership documents, or who had mortgaged their properties before leasing them to us and informed us of such accordingly in writing when or prior to the execution of the lease agreements. As of the Latest Practicable Date, these leased properties accounted for approximately 31.8% of our leased properties by gross floor area. These leased properties are being used as our self-owned stores, offices and warehouses. Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate our self-owned stores, offices and warehouses occupying these properties. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. Any relocation could disrupt our operations and adversely affect our business, financial condition, results of operations and growth prospects. Based on information currently available to us, if we were required to relocate our retail stores that are located on these leased properties, we estimate that the costs would be ranged from approximately RMB0.2 million to RMB0.4 million for each retail store. Once we identify a new location, we believe that generally it would take us less than one month to relocate or reopen a retail store to a new location. As for the offices and warehouses, we believe that there are alternative properties at comparable rental rates readily available on the market and the estimated total relocation cost and time will not be material. As advised by our PRC Legal Advisers, in case any such lease is deemed void due to the claim of rights by any third party over the property we leased from the lessor who was unable to provide sufficient and valid ownership certificate or other ownership documents, and we therefore can no longer use such property and are required to relocate, pursuant to Article 228 of the PRC Contract Law, we are entitled to demand a deduction of the rent or not to pay the rent. And in case the property we leased is transferred due to the enforcement of the mortgage over it, which had been set before the property was leased to us, and we have been informed of the mortgage in writing on or before the execution of the lease agreement, the lessor would be excused from compensating us for the losses incurred therefrom. In addition, there can be no assurance that the PRC government will not amend or revise existing property laws, rules or regulations to require additional approvals, licenses or permits, or impose stricter requirements on us to obtain or maintain relevant title certificates for the properties that we use. For more details of these legal irregularities, see “Business — Properties — Leased Properties.”

As of the Latest Practicable Date, we had not completed the administrative filings of the lease agreements relating to 205 properties we leased. These properties had an aggregate floor area of approximately 270,443 sq.m. According to applicable PRC administrative regulations, the lessor and the lessee of a lease agreement are required to file the lease agreement with relevant governmental authorities within 30 days after the execution of the lease agreement. If the filing is not made, the governmental authorities may require that the filing be made within a stated period

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of time, failing which, they may impose a fine ranging from RMB1,000 to RMB10,000 for each agreement that has not been properly filed. It is not clear under PRC law if the fine will be borne by the lessor or lessee. According to applicable PRC administrative regulations, lessors of the related leases need to provide us with certain documents (such as their business licenses or identification information) in order to complete the administrative filing. There can be no assurance that the lessors of our leased properties will be cooperative in the process of completing the filings. If we fail to complete the administrative filings within a period required by the relevant governmental authorities and relevant authorities determine that we shall be liable for failing to complete the administrative filings of all the relevant lease agreements, we might be subject to total fines ranging from RMB205,000 to RMB2,050,000.

We may be subject to penalties from the PBOC or adverse judicial rulings as a result of extending loans to related companies during the Track Record Period.

During the Track Record Period, we entered into three loan agreements with TwoXu Sports, YAtlas Shanghai and Mulsanne Maisi, respectively, pursuant to which Chisage Mulsanne agreed to provide loans for TwoXu Sports, YAtlas Shanghai and Mulsanne Maisi, which was not compliant with certain PRC laws and regulations. The loan was non-trade in nature and unsecured with a pre-agreed annual interest rate of 4.35%. The loan was made for the purpose of funding certain of the general working capital of TwoXu Sports, YAtlas Shanghai and Mulsanne Maisi.

According to the General Lending Provisions (《貸款通則》) promulgated by PBOC in 1996, only financial institutions may legally engage in the business of extending loans, and loans between companies that are not financial institutions are prohibited. The PBOC may impose penalties equivalent to one to five times of the income generated (being interests charged) from loan advancing activities between enterprises. However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the “Provisions”) which became effective on September 1, 2015, loans among companies are legal if extended for purposes of financing production or business operations. PRC courts will also support a company's claim for interest in respect of such a loan as long as the annual interest rate does not exceed 24%.

We have terminated the previous loan arrangement as described above and will provide loans in compliance with PRC laws and regulations going forward. As advised by our PRC Legal Advisers, since we have agreed not to charge any interests under these loan agreements, the risk of us, as the lenders, consequently being fined or penalized under the General Lending Provisions (《貸款通則》) is remote. Although we are not aware of any plans of the PBOC to levy such a fine or other penalties on us, there is no assurance that the PBOC will not take such action in the future and in such event, our results of operations and financial conditions may be adversely affected.

Future acquisitions could expose us to risks that may have a material adverse effect on our business, reputation and results of operations.

In the future, we may acquire additional businesses, brands or stores that complement our existing businesses and expand our business scale. The integration of new businesses, brands or stores may prove to be expensive and time-consuming. We can offer no assurance that we will be able to successfully integrate the newly acquired businesses, brands or stores or operate them in a profitable manner. Our failure to locate an appropriate acquisition target, to successfully integrate and operate acquired businesses, brands and stores, or to identify substantial liabilities associated with acquired businesses brands and stores, may materially and adversely impact our operations and profits.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your investment in us may be negatively impacted.

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities and the estimated net proceeds available to us from the Global Offering, our Directors believe that we have sufficient working capital for our present requirements and for at least the next

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12 months from the date of this prospectus. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There can be no assurance that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in us may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be adversely affected.

We are required to adhere to national health and safety standards, and in the event that we are unsuccessful in meeting these standards, our business, results of operations and brand image would be negatively affected.

We cannot guarantee that our procedures, safeguards and training will be completely effective in meeting all relevant health and safety requirements. For example, in 2016, we encountered a fire accident in our leased warehouse in Ningbo due to improper operation of our adjacent warehouse occupied by a third party with the fire spreading to our warehouse, which caused damage to our goods but no casualties. See “Business — Environmental, Health and Safety Matters” for details. Though we have well-established health and safety procedures in place and have adopted more approaches to prevent future recurrence, there is no assurance that our employees or business partners will always follow our procedures. A failure to meet relevant government requirements could occur in our operations or those of our distributors, partners or suppliers. This could result in fines, suspension of operations, loss of production permits, and in more extreme cases, criminal proceedings against us and/or our management. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims. Any of these failures or occurrences could negatively affect our business and financial performance.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

As of the date of this prospectus, we have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in China. For more details on our insurance policies, see “Business — Insurance.” However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

If we fail to maintain and observe a robust system of internal controls, we may not be able to adequately address business control failures or accurately report our financial results in a timely manner, which could cause current and potential shareholders to lose confidence in our financial reporting and in turn affect the trading price of our Shares.

We have established a risk management framework and an internal control system to protect us from various risk exposure. We launched an information system to support a centralized database, and revamped our risk management policies and procedures in an effort to improve our overall risk management capabilities. However, as these systems, policies and procedures require constant and

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ongoing testing and maintenance, there is no assurance that these current systems are fully adequate to protect us from all kinds of risks. In addition, our risk management capabilities are limited by the information, tools or technologies available to us.

Although we have taken various measures to improve and upgrade our overall risk management system, policies and procedures, due to the inherent limitations of our systems, we may not adequately or effectively identify or mitigate our risk exposure in all market environments or against all types of risks. As a result, our risk management methodologies and techniques may not be effective and we may not be able to manage and control our risks in a timely and appropriate manner, which could cause current and potential shareholders to lose confidence in our financial reporting and in turn affect the trading price of our Shares.

RISKS RELATING TO DOING BUSINESS IN THE PRC

The economic, political and social conditions in China, as well as government policies, laws and regulations, could affect our business, financial condition and results of operations.

Substantially all our business operations are in China and substantially all our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. China's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented measures emphasizing market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in China is still owned by the PRC government. The PRC government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All these factors could affect the economic conditions in China and, in turn, our business.

While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven across both geographic regions and the various sectors of the economy, growth rates have begun to decelerate, and growth may not continue. We cannot predict whether our results of operations and financial condition could be materially and adversely affected by changes in economic conditions in China, or the PRC governmental monetary policies, interest rate policies, tax regulations or policies and regulations.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

Our operating subsidiaries are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. As substantially all our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds from the Global Offering or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans provided by us to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our PRC subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered or filed on record. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be filed with the local counterpart of the MOFCOM. We cannot assure you that we will be able to accomplish these government registrations or filing procedures on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals or fail to complete such filing procedures, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We conduct all our business through our combined subsidiaries incorporated in China. We rely on dividends paid by these combined subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC laws and regulations each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. Our statutory reserves are not distributable as loans, advances or cash dividends. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

In addition, under the EIT Law, the EIT Implementation Rules, the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates (《國家稅務總局關於下發協定股息稅率情況一覽表的通知》), or Notice 112, which was issued on January 29, 2008, the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排(國稅函[2006]第884號)》), or the China-Hong Kong Tax Arrangement, which became effective on December 8, 2006, and the Announcement of the State Administration of Taxation on Issues Concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (the “**Announcement 9**”), which became effective on April 1, 2018, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if our Hong Kong subsidiary is considered as a “beneficial owner” that is generally engaged in substantial business activities and entitled to treaty benefits under the China-Hong Kong Tax Arrangement. According to the Announcement 9, the PRC tax authorities must evaluate whether an applicant qualifies as a “beneficial owner” on a case-by-case basis. We are actively monitoring the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

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Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Under the EIT Law and EIT Implementation Rules, our foreign corporate Shareholders may be subject to a 10% income tax upon any gains realized from the transfer of their Shares and dividend distributable to such foreign corporate Shareholder, if such income is regarded as income from “sources within the PRC.” According to the EIT Implementation Rules, whether income generated from transferring equity investments is to be regarded as sources within the PRC or from foreign territory shall depend upon the locations in which the enterprises accepting the equity investment are located. However, it is unclear whether income received by our Shareholders will be deemed to be income from sources within the PRC and whether there will be any exemption or reduction in taxation for our foreign corporate Shareholders due to the promulgation of the EIT Law. If our foreign corporate Shareholders are required to pay PRC income tax on the transfers of our Shares that they hold or on the gains on the sale of our Shares by them, the value of our foreign corporate Shareholders’ investments in our Shares may be materially and adversely affected.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The EIT Law provides that enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》國稅發[2009]82號) issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the enterprise income tax, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular mentioned above sets out criteria for determining whether “de facto management bodies” are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all our management is currently located in China, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our Company to be a PRC resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a “resident enterprise”, we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC Shareholders as well as capital gains recognized by them with respect to the sale of our Shares may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC Shareholders.

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.

Under the EIT Law and the EIT Implementation Rules, dividend payments from PRC subsidiaries to their foreign shareholders, if the foreign shareholder is not deemed as a PRC tax resident enterprise under the EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and

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the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. If certain conditions and requirements under the China-Hong Kong Tax Arrangement are met, the withholding rate could be reduced to 5%. However, the Announcement 9, promulgated by SAT on February 3, 2018 provides that tax treaty benefits will be denied to companies without business substance, and a beneficial ownership analysis will be adopted to determine whether or not to grant the tax treaty benefits. It is unclear whether Announcement 9 applies to dividends from our PRC operating subsidiaries paid to us through Joy Sonic, our direct wholly-owned subsidiary incorporated in Hong Kong which holds our PRC entities. If, under Announcement 9, Joy Sonic was not considered the “beneficial owner” of any such dividends, such dividends would, as a result, be subject to income tax withholding at the rate of 10% rather than the more favorable 5% rate applicable under the China-Hong Kong Tax Arrangement. In that case, our financial position and results of operations may be materially and adversely affected.

We face uncertainty relating to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“SAT Circular No. 7”) issued by the SAT.

On February 3, 2015, the SAT issued the SAT Circular No. 7, which abolished certain provisions in the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises’ Share Transfers (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“SAT Circular No. 698”), previously issued by the SAT on December 10, 2009. SAT Circular No. 7 provides comprehensive guidelines relating to indirect transfers by a non-PRC resident enterprise of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”). For example, SAT Circular No. 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets. The PRC tax authorities may disregard the existence of such overseas holding company and consider the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC EIT and lack any reasonable commercial purpose. Although SAT Circular No. 7 contains certain exemptions (including (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where a non-resident enterprise had directly held and disposed of such PRC Taxable Assets, and the income from the transfer could be exempted from PRC EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under SAT Circular No. 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside China involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying SAT Circular No. 7. SAT Circular No. 7 may be determined by the tax authorities to be applicable to our reorganization, if such transaction were determined by the tax authorities to lack reasonable commercial purpose. As a result, we may be subject to tax under SAT Circular No. 7 and may be required to expend valuable resources to comply with SAT Circular No. 7 or to establish that we and our non-resident subsidiaries should not be taxed under SAT Circular No. 7, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

On October 17, 2017, the SAT issued the Circular on the Source of Deduction of Income Tax for Non-Resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (the “SAT Circular No. 37”), which became effective on December 1, 2017 and abolished SAT Circular No. 698 as well as certain provisions in SAT Circular No. 7. Pursuant to SAT Circular No. 37, where the party responsible to deduct such income tax did not or was unable to make such deduction, the non-resident enterprise receiving such income should declare and pay the taxes that should have been deducted to the relevant tax authority. The taxable gain is calculated as the income from such transfer net of the net book value of equity interest.

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We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation by the PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

Most of our Directors and executive officers reside within China, and substantially all our assets and the assets of those persons are located within China. It may not be possible for investors to effect service of process upon us or those persons inside China or to enforce against us or them in China any judgments obtained from non-PRC courts unless in accordance with the provisions of the international treaties concluded or acceded to by the foreign country and the PRC. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom, Japan or most other western countries. However, judgments rendered by Hong Kong courts may be recognized and enforced in China if the requirements set forth by the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) are met. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions other than Hong Kong in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

Fluctuations in the value of the Renminbi and the PRC government's control over foreign currency conversion may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all our revenue and expenditures are denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rates between the Renminbi and the Hong Kong dollars or U.S. dollars will affect the relative purchasing power in Renminbi terms. Fluctuations in the exchange rates may also cause us to incur foreign exchange losses and affect the relative value of any dividend distributed by us. In order to mitigate our exposure to foreign exchange risk, we engage in hedging transactions. We use financial instruments for risk management and not for speculative purposes. However, hedging could fail to protect us or could adversely affect us because, among others: (i) the available hedging instruments may not correspond directly with the risk for which protection is sought; (ii) the duration or nominal amount of the hedge may not match the duration or amount of the related liability; (iii) our hedge counterparty may default on its obligation to pay us; (iv) the credit quality of our hedge counterparty may be downgraded to such an extent that it impairs the ability of the relevant member of the Group to sell or assign its side of the hedging transaction; and (v) the value of the derivatives used for hedging may be adjusted from time to time in accordance with applicable accounting rules to reflect changes in fair value, and any downward adjustments would reduce our net assets and profits. In addition, hedging involves transaction costs. These costs may increase as the period covered by the hedging increases and during periods of rising and volatile foreign exchange rates. In periods of extreme volatility, it may not be commercially viable to enter into hedging transactions due to the high costs involved, which may in turn increase our exposure to financial risks. Any of the above factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and

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achieve certain exchange rate targets and policy goals. From mid-2008 to mid-2010 Renminbi traded within a narrow range against U.S. dollars. In June 2010 the People's Bank of China announced the removal of the *de facto* peg. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against Hong Kong dollars or U.S. dollars in the future.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we shall have sufficient foreign exchange to meet our foreign exchange needs. Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved by or registered with SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy any other foreign exchange obligation. If we fail to obtain approvals from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our potential offshore capital expenditure plans and even our business, may be materially and adversely affected.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from being able to distribute profits or inject capital and could expose us and our PRC resident Shareholders to liability under the PRC laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular No. 37”), which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (“PRC Resident”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Offshore SPV”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent.

Inflation in China could negatively affect our profitability and growth.

Economic growth in China has, during certain periods, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the Chinese economy, including increasing interest rates and capital reserve thresholds at Chinese commercial banks. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that commenced in 2008 and the continued growth in the overall economy since then have resulted in sustained inflationary pressures. If these inflationary pressures continue and are not mitigated by PRC government measures, our cost of sales will likely increase, and our profitability could be materially reduced, as there is no assurance that we would be able to pass any cost increases onto our customers. Measures adopted by the PRC government to control inflation may also slow economic activity in China and reduce demand for our products and decrease our revenue growth and adversely affect our results of operations.

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We face risks of health epidemics and other natural disasters, which could severely disrupt our business operations.

Our business could be affected by the outbreak of H1N1, or the swine flu, avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. Beginning in 2013, there were reports of outbreaks of highly pathogenic avian flu, caused by the H7N9 virus, in various parts of China. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economy and financial markets of China. Additionally, any recurrence of SARS, similar to the occurrence in 2003 which affected the PRC, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries and regions, would also have similar adverse effects. Such disruptions could adversely affect our business operations and earnings.

Our operations are also vulnerable to natural disasters or other catastrophic events, including wars, terrorist attacks, snowstorms, earthquakes, typhoons, fire, floods, power failures and shortages, water shortages, hardware failures, computer viruses, and similar events which may or may not be foreseeable or otherwise within our control. If any natural disaster or catastrophic event were to strike in the future in China, especially in the areas where our operations are located, we might suffer losses as a result of business interruptions and our business, financial condition and results of operations might be materially and adversely affected. For example, natural disasters or other catastrophic events that affect our warehouses could result in, among others, loss of inventory, delayed delivery of products, decrease in revenue and reputational damages.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market may not develop.

Prior to the Global Offering, there has not been a public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Joint Global Coordinators on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop or be sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. As a result, you may not be able to resell your Shares at prices equal to or greater than the price paid for the Shares in the Global Offering.

The market price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The market price of our Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- recruitment or loss of key personnel by us or our competitors;
- market developments affecting us or the fashion industry;
- regulatory or legal developments, including litigation;

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- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in Hong Kong, China and elsewhere in the world.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, the price of our Offer Shares could fall below the Offer Price when the trading commences.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall below the Offer Price when the trading commences as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, we may issue additional Shares or equity-related securities in the future under our RSU Scheme or to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Our future dividend policy is subject to the discretion of our Directors.

The amount of dividends which we may declare in the future will be subject to the discretion of our Board of Directors depending on our results, working capital, cash position, future operations, profitability, surplus and capital requirements, as well as our general financial condition and any other factors which our Board of Directors may consider to be relevant. Therefore, our historical dividend distributions are not indicative of our Company's future dividend distribution policy.

There can be no assurance if and when we will pay dividends in the future.

Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under IFRSs, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See "Financial Information — Dividends" for more details of our dividend policy.

RISK FACTORS

Our Controlling Shareholders may exert substantial influence over our operation and may not act in the best interests of our independent Shareholders.

Immediately upon completion of the Global Offering, our Controlling Shareholders will together control approximately 38.32% of our issued share capital (assuming the Over-allotment Option is not exercised). Therefore, it will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of Directors and the approval of significant corporate transactions. It will also have veto power with respect to any shareholder action or approval requiring a majority vote except where it is required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of the Controlling Shareholders may not always coincide with our Company or your best interests. If the interests of the Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Our Company was incorporated under the laws of the Cayman Islands and these laws could provide different protections to minority Shareholders than the laws of Hong Kong.

Our corporate affairs are governed by the Memorandum and the Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interest of minority Shareholders could differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences could mean that the minority Shareholders could have different protections than they could have under the laws of Hong Kong.

Sale, or perceived sale, of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

The Shares held by our existing Shareholders are subject to certain lock-up periods expiring six and 12 months after the date on which trading in our Shares commences on the Stock Exchange, details of which are set out in "Underwriting". Our existing Shareholders may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

Possible setting of the Offer Price after making a Downward Offer Price Adjustment.

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Offer Share. It is therefore possible that the final Offer Price will be set at HK\$4.22 per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the final Offer Price is set at HK\$4.22, the estimated net proceeds we will receive from the Global Offering will be reduced to HK\$768.5 million and such reduced proceeds will be used as described in the section headed "Future Plans and Use of Proceeds — Use of Proceeds."

Facts and statistics in this prospectus relating to the Chinese economy and the industry we operate may not be fully reliable, and statistics in the prospectus provided by CIC are subject to assumptions and methodologies set forth in the "Industry Overview."

Facts and statistics in this prospectus relating to China and the industry we operate, including those relating to the Chinese economy and the fashion industry in China, are derived from various publications of governmental agencies or industry associations, or an industry report prepared by CIC and commissioned by us. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that

RISK FACTORS

any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and/or media regarding us, our business, our industry and the Global Offering. None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other person involved in the Global Offering has authorized the disclosure of information about the Global Offering in any press or media and none of these parties accepts any responsibility for the accuracy or completeness of any such information or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our Shares, the Global Offering, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed in any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, you should make your investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since substantially all of our Company's business operations and management are located in the PRC, there is no need to appoint executive Directors based in Hong Kong. As our executive Director Mr. Yu currently resides in the PRC, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Yu, our executive Director and Ms. Ng Sau Mei, our joint company secretary. Both of the authorized representatives: (i) are, and will be, readily contactable by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange; (ii) have the means to contact all the Directors (including the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters; and (iii) are to act at all times as the principal channel of communication between the Stock Exchange and us. Our Company will inform the Stock Exchange promptly in respect of any change in our authorized representatives and compliance advisers;
- (b) Anglo Chinese Corporate Finance, Limited, our compliance advisers, will act as an additional channel of communication with the Stock Exchange and will advise on on-going compliance requirements and other issues pursuant to Rule 3A.23 for a period commencing from the Listing Date until at least the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date; and
- (c) our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong for business purposes and will be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice. In addition, each Director has provided his contact details, including mobile phone numbers, office phone numbers, email addresses and fax numbers, to the authorized representatives and to the Stock Exchange.

WAIVER IN RELATION TO COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of our Company must be individuals who, by virtue of their academic or professional qualifications or relevant experience, are, in the opinion of the Stock Exchange, capable of discharging the functions of company secretaries.

According to Note 1 of Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Further, under Note 2 of Rule 3.28 of the Listing Rules, the Stock Exchange will consider the following factors of the individual in assessing “relevant experience”:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules (i.e. taking no less than 15 hours of relevant professional training in each financial year of the Company); and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Ding Dade as one of the joint company secretaries of our Company. Mr. Ding is the Chief Financial Officer and vice president of finance of our Group. He is primarily responsible for making major operational and management decisions, providing financial advice on our Group’s operations, management, business development and project investment, and advising on risk management. Mr. Ding has been a director of Chisage Mulsanne E-commerce since September 2010 and Mulsanne E-commerce since August 2014. He was appointed as the Chief Financial Officer and vice president of finance of Chisage Mulsanne in September 2016. See “Directors and Senior Management” for details. However, Mr. Ding does not possess the qualifications as stipulated in the notes of Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements of the Listing Rules. Nonetheless, our Company believes that, having regard to Mr. Ding’s knowledge and past experience in handling our corporate matters, he has a thorough understanding of the operations of our Company and is able to perform his duties as a joint company secretary of our Company. Ms. Ng Sau Mei, another joint company secretary, will provide guidance and assistance to Mr. Ding for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. Further, Mr. Ding undertakes to take no less than 15 hours of relevant professional training in each financial year of our Company.

Ms. Ng will work closely with Mr. Ding to jointly discharge the duties and responsibilities as joint company secretaries and assist Mr. Ding to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. In addition, we will ensure Mr. Ding has access to relevant training and support to familiarize himself with the Listing Rules and the duties required for a joint company secretary of a Cayman Islands issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date and will be revoked immediately if Ms. Ng ceases to provide assistance and guidance to Mr. Ding as our joint company secretary during the three years after the Listing Date or upon the expiry of the three-year period after the Listing, whichever occurs first. Prior to the end of the three-year period, our Company will liaise with the Stock Exchange. The Stock Exchange will revisit the situation and the expectation that our Company should be able to demonstrate to the Stock Exchange’s satisfaction that Mr. Ding, having had the benefit of Ms. Ng’s assistance for the last three years, will have acquired the relevant experience within the meaning of Rules 8.17 and 3.28 of the Listing Rules, so that a further waiver will not be necessary.

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. See “Connected Transactions”.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is material change in circumstances not disclosed in this prospectus.

If it is intended to set the final Offer Price at more than 10% below the low end of the indicative Offer Price range, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and in the Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering.

No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Monday, May 27, 2019. The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares will be 1817.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

Dealings in our Shares registered on our Hong Kong register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

CSRC APPROVAL AND OTHER RELEVANT PRC AUTHORITIES APPROVAL

The Listing does not require the approval of the CSRC or any other PRC government authorities under the current PRC laws, regulations and rules.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following exchange rates: RMB1.00: HK\$1.1650 and US\$1.00: HK\$7.8450.

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Capitalization Issues and the Global Offering assume that the Over-allotment Option is not exercised.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Chairman and Non-Executive Director</i>		
HUANG Hanji (黃晗躋)	Apartment A, 11/F Residence Bel-Air Block 3, Phase 1 28 Bel-Air Avenue, Island South Hong Kong	Chinese
<i>Executive Director</i>		
YU Yong (余勇)	Flat 301, No. 67, Block 18 Upper House, Haishu District Ningbo, Zhejiang Province PRC	Chinese
<i>Other Non-Executive Directors</i>		
YANG Herong (楊和榮)	No. 577-163, Siming Middle Road Ningbo, Zhejiang Province PRC	Chinese
LIN Lin (林林)	Room 2102, No.168 Lane No.1038, Huashan Road Shanghai PRC	Chinese
ONG Yew Thiong, Gilbert	21 Woodleigh C1, No.14-02 Singapore 357916	Singaporean
Ravinder Singh THAKRAN	27A Swettenham Road Singapore 248128	Indian
<i>Independent Non-Executive Directors</i>		
GU Jiong (顧炯)	Flat A28-2, Jianian Villa 3333 Hongmei Road Minhang District Shanghai PRC	Chinese
YUAN Tao (袁濤)	37-101, Lane Bridge Villa 9 Laiguangying East Road Chaoyang District Beijing PRC	Chinese
Paolo BODO	Suite 3208, 32/F, Sutton Court Gateway Apartments Harbour City Hong Kong	Italian

Further information about the Directors and other senior management members are set out in the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors and Joint Global Coordinators

Credit Suisse (Hong Kong) Limited
Level 88, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Citigroup Global Markets Asia Limited
50/F Champion Tower
Three Garden Road
Central
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Credit Suisse (Hong Kong) Limited
Level 88, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Citigroup Global Markets Asia Limited
(in relation to the Hong Kong Public Offering only)
50/F Champion Tower
Three Garden Road
Central
Hong Kong

Citigroup Global Markets Limited
(in relation to the International Offering only)
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

China Industrial Securities International Capital Limited
7/F, Three Exchange Square
8 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to Our Company

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC laws:

Jingtian & Gongcheng Attorneys at Law

Level 34, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing, 100025,
China

As to Cayman Islands laws:

Conyers Dill & Pearman

PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal Advisers to the Joint Sponsors and the Underwriters

As to Hong Kong and U.S. laws:

Sullivan & Cromwell (Hong Kong) LLP

28th Floor
Nine Queen's Road Central
Hong Kong

As to PRC laws:

Tian Yuan Law Firm

10/F China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing 100032
China

Auditor and Reporting Accountant

Ernst & Young

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Independent Property Valuer

**Ningbo Zheng Ping Assets
Evaluation Co., Ltd.**

125 Chun Yuan Road
Yinzhou District
Ningbo

Industry Consultant

China Insights Consultancy

10F, Tomorrow Square
399 West Nanjing Road
Huangpu District
Shanghai
China

Receiving Bank

Bank of China (Hong Kong) Limited

1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters	No. 111, Shanshan Road Wangchun Industrial Park Haishu District Ningbo, Zhejiang Province PRC
Principal Place of Business in Hong Kong	31/F., Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Company's Website	<u>www.gxggroup.cn</u> <i>(The information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. DING Dade (丁大德) No. 111, Shanshan Road Wangchun Industrial Park Haishu District Ningbo, Zhejiang Province PRC Ms. NG Sau Mei (伍秀薇) (HKICS) Flat A, 7/F., Block 5 East Point City Tseung Kwan O Hong Kong
Authorized Representatives	Mr. YU Yong (余勇) Flat 301, No. 67, Block 18 Upper House, Haishu District Ningbo, Zhejiang Province PRC Ms. NG Sau Mei (伍秀薇) Flat A, 7/F., Block 5 East Point City Tseung Kwan O Hong Kong
Audit Committee	Mr. GU Jiong (Chairman) Mr. YUAN Tao Mr. Paolo BODO

CORPORATE INFORMATION

Remuneration Committee	Mr. GU Jiong (<i>Chairman</i>) Mr. YUAN Tao Mr. Paolo BODO Mr. YANG Herong Mr. LIN Lin
Nomination Committee	Mr. HUANG Hanji (<i>Chairman</i>) Mr. GU Jiong Mr. YUAN Tao
The Cayman Islands Principal Share Registrar and Transfer Office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Advisers	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place, Central Hong Kong
Principal Banks	China Construction Bank Corporation 18 Taiju Lane and 500 Taikang Middle Road Shounan Street, Yinzhou District Ningbo, PRC Industrial and Commercial Bank of China Limited 69 Zhongshan West Road Haishu District, Ningbo PRC

INDUSTRY OVERVIEW

The information and statistics set forth in this section and elsewhere in this prospectus have been derived from various official and government publications, publicly available market research sources and from the market research report prepared by China Insights Consultancy, which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, any other party involved in the Global Offering or any of our or their respective directors, officers, representatives, affiliates or advisers and no representation is given as to its correctness, accuracy and completeness. Certain information and statistics included, including those excerpted from official and government publications and sources in China, may not be consistent with other information and statistics compiled within or outside China by third parties.

SOURCE OF INFORMATION

In connection with the Global Offering, we have commissioned CIC, an independent third party, to conduct research and analysis of, and to produce a report on the Chinese apparel market in general and China's fashion menswear market in particular. The report we commissioned, or the CIC Report, has been prepared by CIC independently. We paid CIC a fee of RMB960,000 for the preparation of the report, which we believe to be consistent with market rates. CIC is a consulting firm founded in Hong Kong, with an office in Shanghai. CIC has an industry expert network database and provides professional industry consulting across multiple industries. The CIC Report that we commissioned includes information on the Chinese fashion menswear market, the new retail concept and economic data, which have been quoted in this prospectus. CIC's independent research was undertaken through both primary and secondary research through various resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources.

The market projections in the commissioned report are based on the following key assumptions: (i) China's economy and industry development are likely to maintain a steady growth over the next decade; (ii) related key industry drivers are likely to drive continued growth of the Chinese apparel market and major segments during the forecast period; and (iii) there is no extreme force majeure or industry regulation by which the market may be affected dramatically or fundamentally. Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

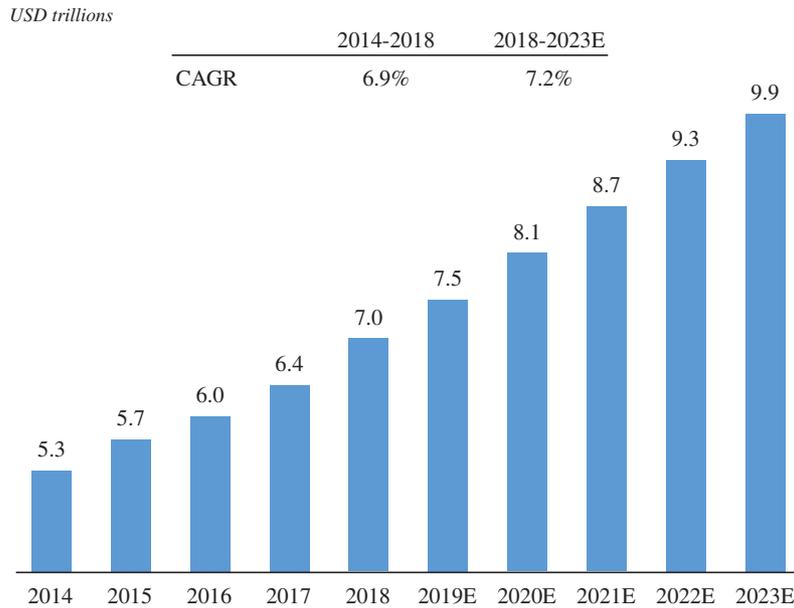
OVERVIEW OF CHINA'S ECONOMY

China's Consumption Expenditure Growth

China has seen rapid growth in its economy, which contributes to the increase in its consumption expenditure. The total consumption expenditure in China rose at a CAGR of 6.9% from US\$5.3 trillion in 2014 to US\$7.0 trillion in 2018, and is expected to grow at a CAGR of 7.2% to reach US\$9.9 trillion in 2023. The growth is mainly attributed to the rise of China's middle class, consumers' increasing spending power and their growing willingness to upgrade their consumption habits. The chart below sets forth the historical and projected total consumption expenditure in China from 2014 to 2023.

INDUSTRY OVERVIEW

Total consumption expenditure China, 2014-2023E

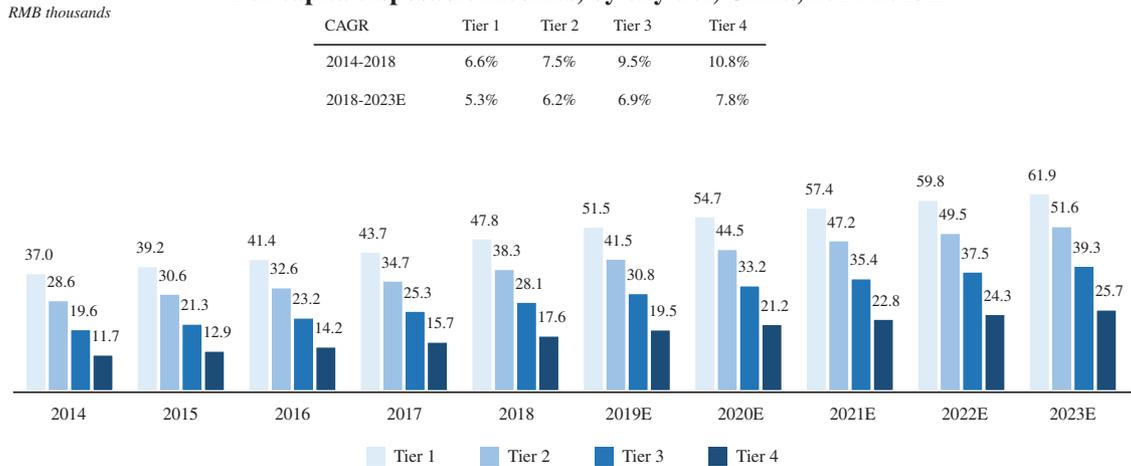


Sources: National Bureau of Statistics of China; World Bank; International Monetary Fund; CIC

Growth in Per Capita Disposable Income

Rising GDP per capita has driven strong growth in per capita disposable income in China. In particular, per capita disposable incomes in tier two and tier three cities have achieved a rapid and noticeable income, closing the gap with tier one cities. Per capita disposable income in tier two cities grew at a CAGR of 7.5% from RMB28.6 thousand in 2014 to RMB38.3 thousand in 2018, while that in tier three cities grew at a CAGR of 9.5% from RMB19.6 thousand in 2014 to RMB28.1 thousand in 2018. The chart below sets forth the historical and projected per capita disposable income by city tier in China from 2014 to 2023.

Per capita disposable incomes, by city tier, China, 2014-2023E



Sources: National Bureau of Statistics of China; CIC

Online Shopping in China

Improvements in spending power and a fast-growing online shoppers base are the major driving forces behind the rapid growth in China's online shopping GMV, which increased from RMB2,821.1 billion in 2014 to RMB9,201.3 billion in 2018, and is expected to further reach RMB16,350.8 billion in 2023. In particular, the online shopping GMV for apparel, which includes

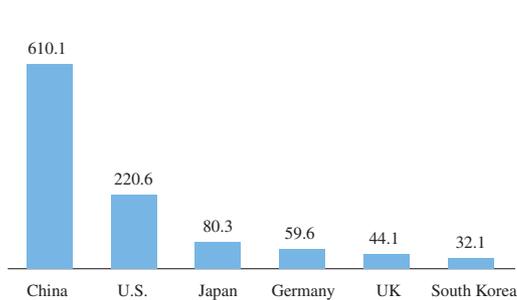
INDUSTRY OVERVIEW

both online wholesale and online retail revenue, and does not exclude the refunding of apparel products purchased online, increased from RMB637.6 billion in 2014 to RMB1,527.4 billion in 2018, being the largest category of approximately 16.6% of the total online shopping GMV in 2018. Such growth accords with the expansionary trend in the overall online retail market and the continual consumption upgrade, and the online shopping GMV for apparel is projected to reach RMB2,426.8 billion in 2023.

As of 2018, China leads the global online retail market in volume and number of online shoppers, totaling an online shopping GMV of US\$1,373.3 billion and an online-shopper base of 610.1 million. Compared with developed economies like the UK, Japan, Germany, the US, and South Korea, China's online shopping penetration rate is relatively low at 43.7%. Given China's online-shopper base and consumers' increasing spending power, there is room and potential for further penetration and growth in the online shopping market in China. The charts below set forth the number of online shoppers and the online shopping penetration rates in key global markets in 2018.

Number of online shoppers, key global markets, 2018

Millions of people



Sources: Eurostat; Japan Statistic Bureau; Korean government statistics; CIC

Online shopping penetration, key global markets, 2018

% = # of online shoppers / total population



Sources: Eurostat; Japan Statistics Bureau; Korean government statistics; CIC

OVERVIEW OF CHINA'S NEW RETAIL MODEL

New Retail Model and its Application

New retail is an integrated omni-channel model that capitalizes on online and offline strengths, and increases efficiencies in terms of inventory management, supply chain management, product selection and logistics. New retail redefines and aims to transform “customers” from passive shoppers to active market participants and marketers, transcend “products” from commodities to comprehensive shopping experience, and expand places from limited retail venues to unlimited digitalized touch points. The new retail model disrupts the value chain by transforming the linear and one-way traditional retail value chain to an interactive and multi-dimensional value chain among brands, distributors and customers, which delivers an interconnected, consistent and seamless shopping experience with increased numbers of touch points and enables targeted marketing with higher efficiency.

Comparison with Traditional Retail Model and Pure Online Player

In a traditional retail model, customers shop in a settled place, visiting an offline retail store. In a pure online model, product offerings are only made available on online platforms without physical and personal service. Customers view the products as offered and make purchase decisions based on a limited range of choices. With the help of data analytics and seamless IT systems, the new retail model provides a seamless and integrated shopping experience for customers and focuses on customer needs and shopping experience. Products are customized accordingly and marketed through targeted and personalized means. Unlike traditional retail or pure online model that has a limited number of touch points with customers, new retail allows retailers to interact with customers and make use of their information and purchasing habits through a greater number of touch points, including but not limited to big data collected through offline stores and online channels such as customers' browser histories, search queries, try-on experiences in offline stores and online interactive promotions.

Key Success Factors of Adopting New Retail Model

Online and offline brand, product and experience consistency. Companies should be able to run a sharing inventory system, have the same prices both online and offline, and provide the same availability in terms of models to enable greater consistency of brand awareness and image.

INDUSTRY OVERVIEW

Alignment of interests between online and offline. Companies must fully address conflicts of interest between online and offline channels, be adept at information and analytics to enable faster innovation and timely reactions to the ever-changing market needs. Overall management infrastructure should accommodate and cater for the needs of online, offline and overall channel.

Big-data driven IT and analytics platform. The IT system and analytics platform should be fully integrated across online and offline sales channels in terms of real-time and cross-regional monitoring. With customer insights generated from big data, retailers can make wiser decisions regarding a number of key business areas such as choosing the site for a physical store, modifying the product design and improving customers' needs and supply chain flexibility.

Full integration with suppliers, logistics and inventory management. Companies are encouraged to develop a closed-loop ecosystem where partners from all segments along the value chain are connected and integrated. Such ecosystem can enhance the flexibility of supply chain and improve the efficiency of logistics and inventory management to achieve quicker response to the market, shorter production cycle and higher inventory turnover.

OVERVIEW OF APPAREL MARKET IN CHINA

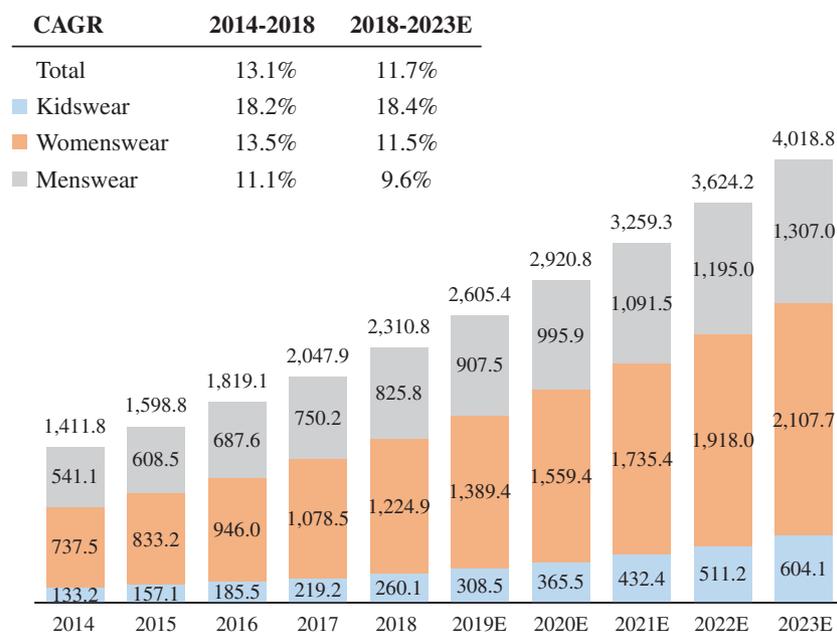
Apparel products are defined as textile materials worn on the body, and consist of three major segments: (i) womenswear, (ii) menswear and (iii) kidswear. There are four major distribution channels of apparel: (i) department stores, (ii) standalone stores, (iii) shopping malls and (iv) online platforms.

Market Size

Retail revenue generated in the Chinese apparel market increased at a CAGR of 13.1% from RMB1,411.8 billion in 2014 to RMB2,310.8 billion in 2018, driven in part by the increasing consumer spending power, a more diversified environment for various apparel brands, and a boost of demand from increasingly easier access to online shopping. With these drivers expected to maintain their momentum in the next several years, retail revenue of the Chinese apparel market is therefore projected to reach RMB4,018.8 billion in 2023, increasing at a CAGR of 11.7% from 2018 to 2023. The chart below sets forth the historical and projected retail revenue in the Chinese apparel market by gender and age from 2014 to 2023.

**Retail revenue in the Chinese apparel market,
by menswear, womenswear and kidswear, 2014-2023E**

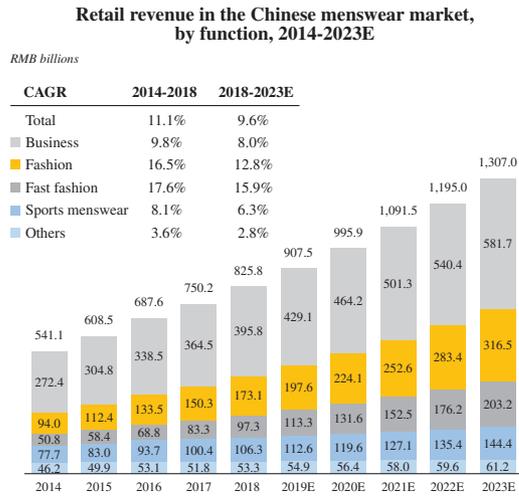
RMB billions



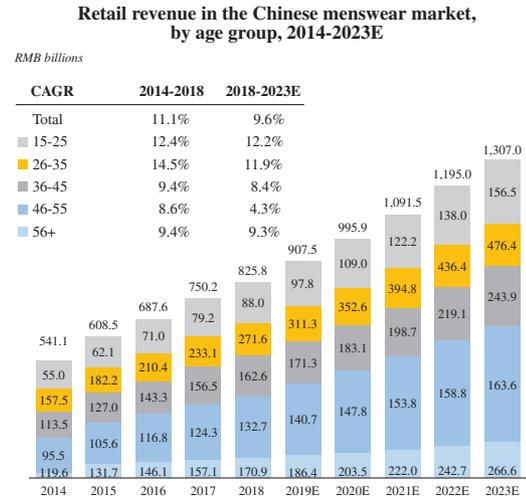
Source: CIC

INDUSTRY OVERVIEW

The menswear market is the second largest segment in the apparel market with RMB825.8 billion retail revenue in 2018, and is forecasted to grow at a CAGR of 9.6% to reach RMB1,307.0 billion in 2023. Among the menswear market, the fashion segment is projected to benefit from the fast growth rate, with a CAGR of 12.8% from 2018 to 2023. The strong growth of the fashion segment is driven by the noticeably increased spending willingness of Chinese young-to-middle aged consumers, who are more fashion and brand conscious and willing to spend more on fashion menswear. The charts below set forth the historical and projected retail revenue in the Chinese menswear market by function and by age group from 2014 to 2023.

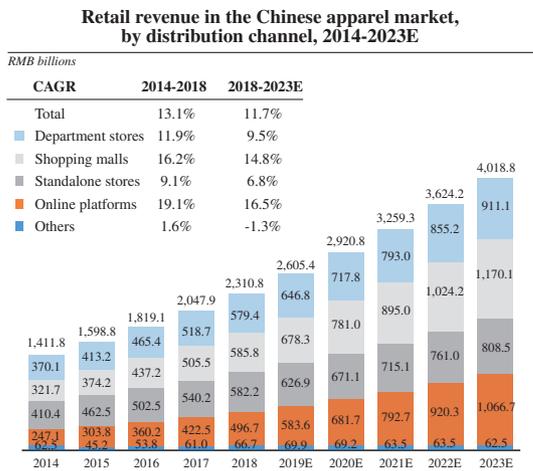


Source: CIC



Source: CIC

Online platforms have become the fastest-growing channel in the Chinese apparel market, growing at a CAGR of 19.1% from 2014 to 2018, and is expected to further grow at a CAGR of 16.5% to reach RMB1,066.7 billion in 2023. Shopping malls had the second highest CAGR of 16.2% from 2014 to 2018, and is expected to maintain a similar CAGR of 14.8% to reach RMB1,170.1 billion in 2023. The charts below set forth the historical and projected retail revenue in the Chinese apparel market by distribution channel and by city tier from 2014 to 2023.



Source: CIC



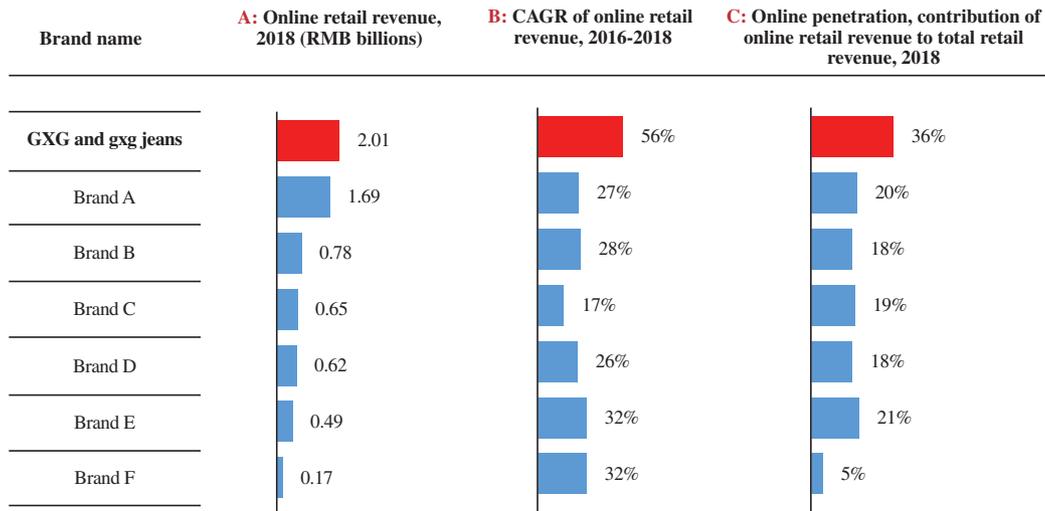
Source: CIC

INDUSTRY OVERVIEW

New Retail Model in Apparel Industry

Major apparel brands in China, including us, are adopting the new retail business model with innovative initiatives. For example, we have connected our customer data collected through both online and offline channels with major online platforms' data analytics systems, thus better locating our potential customers and implementing targeted marketing strategies. The charts below set forth the competitive landscape of Chinese apparel brands in the online market and the comparison of new retail integration among major fashion apparel brands in 2018.

Competitive landscape of fashion apparel brands in the online market in China, 2018



Source: CIC

Introduction of comparison standards

	High	Medium	Low
Alignment of interests	The organization has absolutely no conflict of interest between its online and offline sales channels	The organization has rather low or no conflict of interest between its online and offline sales channels	Online and offline channels within the organization are competing for revenue and profits
IT analytics & information sharing	The organization has access to synchronized sharing of information between online and offline channels	The organization has access to frequent sharing of information between online and offline sales channels	The organization shares part of the information it accesses between online and offline sales channels
Inventory & logistics management	Online and offline channels share the same sources of inventory; and orders can be handled across more than two regions in China	Online and offline channels share part of the same inventory; and orders can be handled within two nearby regions	Online and offline channels do not share the same inventory; and orders can only be handled within the same region
Reaction speed & flexible supply chain	The organization has a very fast reaction speed and highly flexible supply chain system to address new market needs	The reaction speed is only medium and supply chain system is relatively flexible	The reaction speed is relatively slow and supply chain system is not flexible
Shopping experience & consumer interaction	The shopping experience is excellent with full access to omni-channels for sales and a well aligned shopping experience	The shopping experience is great with access to multiple sales channels, and a mostly well aligned shopping experience	The shopping experience is average, with different channels presenting separate shopping experiences
New retail sales consistency	The organization has a very high percentage of same available products and prices across online and offline channels	The online channel has a high consistency in terms of prices and models despite offering a small fraction of online-only models	The organization's online platform sells largely different sets of products online at cheaper prices

INDUSTRY OVERVIEW

Comparison of new retail among major fashion apparel brands in China, 2018

Brands	Alignment of interests	IT analytics & information sharing	Inventory & logistics management	Reaction speed & flexible supply chain	Shopping experience & consumer interaction	New retail sales consistency
GXG and gxg jeans	High	High	High	High	High	High
Brand A ⁽¹⁾	High	Medium	Medium	Medium	High	Medium
Brand C ⁽³⁾	High	Medium	Medium	Medium	High	Medium
Brand D ⁽⁴⁾	Medium	Medium	Medium	Medium	Low	Low
Brand B ⁽²⁾	Low	Medium	Medium	Low	Low	Low
Brand E ⁽⁵⁾	Low	Medium	Low	Low	Low	Low
Brand F ⁽⁶⁾	Low	Medium	Low	Low	Low	Low

Source: CIC

Notes:

- (1) Brand A has over 1,500 employees and over 2,000 stores in China by the end of 2018. Brand A only covers menswear. It primarily targets fashion conscious male customers aged 18-35, with a focus on younger male customers.
- (2) Brand B has over 5,000 employees and over 1,200 stores in China by the end of 2018. Brand B covers menswear, womenswear and kidswear. It primarily targets middle to upper class male customers aged 20-45.
- (3) Brand C has over 500 employees and over 1,000 stores in China by the end of 2018. Brand C covers both menswear and womenswear. It primarily targets fashion conscious male customers aged 20-45, with a focus on working-age male customers.
- (4) Brand D has over 500 employees and over 700 stores in China by the end of 2018. Brand D covers both menswear and womenswear. It primarily targets middle to upper class male customers aged 18-35 who are fashion conscious, with a focus on younger male customers.
- (5) Brand E has over 350 employees and approximately 220 stores in China by the end of 2018. Brand E covers both menswear and womenswear. It primarily targets fashion conscious male customers aged 18-35, with a focus on younger male customers.
- (6) Brand F has over 400 employees and approximately 910 stores in China by the end of 2018. Brand F covers menswear, womenswear and kidswear. Its target customer mainly includes young to middle aged fashion conscious male customers, with a focus on working-age male customers.

Market Trends and Key Growth Drivers

The new retail model is redefining the industry's structure and business models, and it is stimulating potential demand. Companies operating self-owned retail networks are better positioned to capture growth compared to those using distributorship models. Furthermore, the continued growth of the overall economy, along with increases in disposable income and education levels, has contributed to an increasingly diversified, sophisticated and personalized pursuit for fashionable apparel products. Apparel retailers are also practicing further integration with suppliers for flexible supply chain and a shorter reaction time.

OVERVIEW OF FASHION MENSWEAR MARKET IN CHINA

Fashion menswear refers to menswear apparel that is designed with more fashionable elements, targeting mainly at young-to-middle aged consumers who are more in pursuit of keeping up with the latest fashion trends.

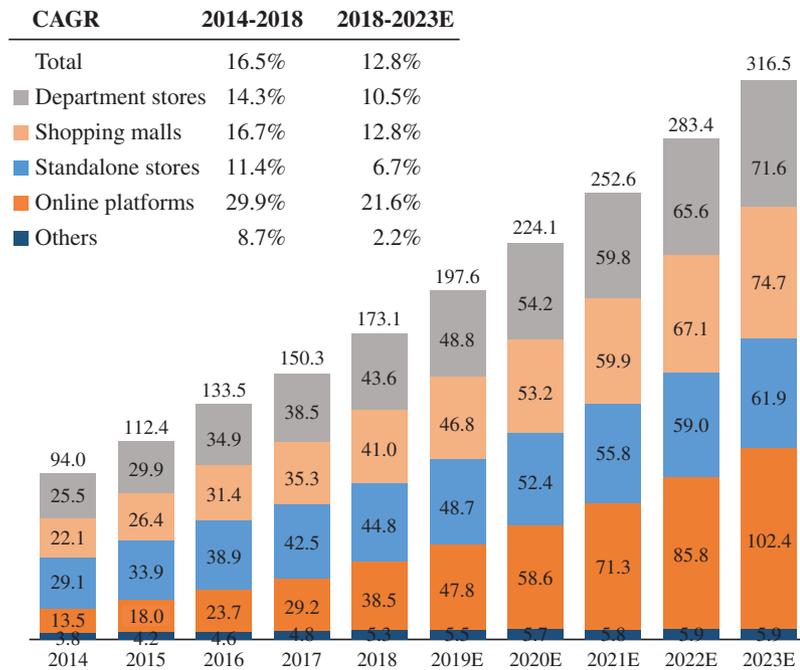
Market Size

Fashion menswear has been one of the fastest growing segments in the Chinese menswear market. With a CAGR of 16.5%, the fashion segment grew from RMB94.0 billion in 2014 to RMB173.1 billion in 2018. Among all distribution channels, online platforms and shopping malls achieved the fastest growth rates, at a CAGR of 29.9% and 16.7% from 2014 to 2018, respectively. The chart below sets forth the historical and projected retail revenue of the Chinese fashion menswear by distribution channel from 2014 to 2023.

INDUSTRY OVERVIEW

Retail revenue in the Chinese fashion menswear market, by distribution channel, 2014-2023E

RMB billions



Note: Others mainly includes small-sized stores, such as individual garment making stores, community clothing stores, etc.

Source: CIC

Competitive Landscape

As China's fashion menswear market is still in its mid-growth stage, the market is highly fragmented. The top five fashion menswear brands only held approximately 14.4% of the market share by retail revenue in 2018. The table below sets forth the competitive landscape and ranking of the top five fashion menswear brands in China in 2018 by retail revenue.

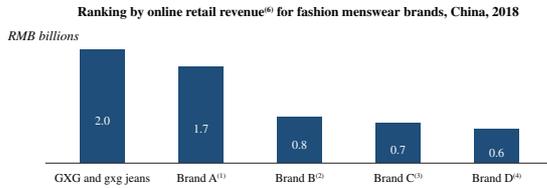
Competitive landscape and ranking of the top 5 fashion menswear brands in China, 2018

Brands	Retail revenue, 2018 (RMB billions)	Market share in terms of total retail revenue	Ranking for retail revenue	Online retail revenue, 2018 (RMB billions)	Market share in terms of online retail revenue, 2018	Ranking for online retail revenue
Brand A	8.30	4.80%	1	1.69	4.41%	2
GXG and gxg jeans	5.64	3.26%	2	2.01	5.22%	1
Brand B	4.24	2.45%	3	0.78	2.02%	3
Brand D	3.38	1.95%	4	0.62	1.62%	5
Brand C	3.36	1.94%	5	0.65	1.69%	4

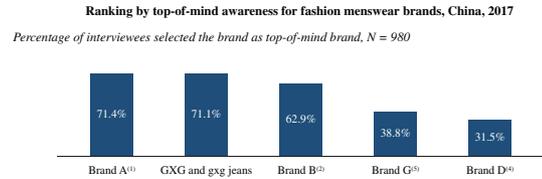
Source: CIC

The online market has been a new major battlefield for the fashion menswear brands in China. The charts below illustrate the competitive landscape and ranking of the top five fashion menswear brands in China by online retail revenue in 2018 and by top-of-mind awareness in 2017.

INDUSTRY OVERVIEW



Source: CIC



Source: CIC

Notes:

- (1) Brand A has over 1,500 employees and over 2,000 stores in China by the end of 2018. Brand A only covers menswear. It primarily targets fashion conscious male customers aged 18-35, with a focus on younger male customers.
- (2) Brand B has over 5,000 employees and over 1,200 stores in China by the end of 2018. Brand B covers menswear, womenswear and kidswear. It primarily targets middle to upper class male customers aged 20-45.
- (3) Brand C has over 500 employees and over 1,000 stores in China by the end of 2018. Brand C covers both menswear and womenswear. It primarily targets fashion conscious male customers aged 20-45, with a focus on working-age male customers.
- (4) Brand D has over 500 employees and over 700 stores in China by the end of 2018. Brand D covers both menswear and womenswear. It primarily targets middle to upper class male customers aged 18-35 who are fashion conscious, with a focus on younger male customers.
- (5) Brand G has over 2,500 employees and over 1,500 stores in China by the end of 2018. Brand G only covers menswear. Its target customer mainly includes young to middle aged fashion conscious male customers, with a focus on working-age male customers.
- (6) Online retail revenue is defined as the total retail value of products sold through online channels at its actual sales price without deducting allowances for returns.

Market Trends and Key Growth Drivers

According to the CIC Report, there are five main market trends and key growth drivers in the fashion menswear market in China. First, the increasing per capita disposable income of Chinese residents led to people's growing propensity to spend on apparel. Second, the new retail concept provides multiple ways to interact with customers on a deeper level while providing brands with vital insights into the market, therefore enhancing sales and profitability. Third, the demands of Chinese consumers are changing rapidly and becoming more and more sophisticated. Particularly, younger consumers are trendier and more willing to try out new and innovative things. Fourth, there is a need for fashion menswear brands to develop internal capabilities to capture relevant data, which can be used to improve sales both online and offline. Fifth, an increasing number of touch points are made available to customers and they provide a seamless omni-channel shopping experience, improving customers' convenience and satisfaction.

Key Barriers to Entry and Key Success Factors

Key barriers to enter in the Chinese fashion menswear market include (i) consumers' recognition of brand image; (ii) design and innovation capabilities; (iii) management competency; and (iv) online infrastructure and the ability to achieve new retail and supply chain integration. Existing large apparel brands have gained customer loyalty and brand recognition in the market. For a new entrant to establish its position, it has to spend time and money to establish its distinct style, attract targeted consumers, and create a brand image. New entrants need to be equipped with strong design and product development capabilities, which will allow companies to cater to the increasingly sophisticated demands of the consumers. A competent management team is required for the company's sustainable development. Fashion retailers must continuously improve their online infrastructure to achieve new retail and supply chain integration.

OVERVIEW OF KIDSWEAR MARKET IN CHINA

Kidswear refers to apparel designed and produced for children below the age of 15 who have not yet grown to a full height. On the basis of price range and quality, kidswear can be categorized into three groups: (i) low-end kidswear; (ii) mid-end kidswear; and (iii) high-end kidswear.

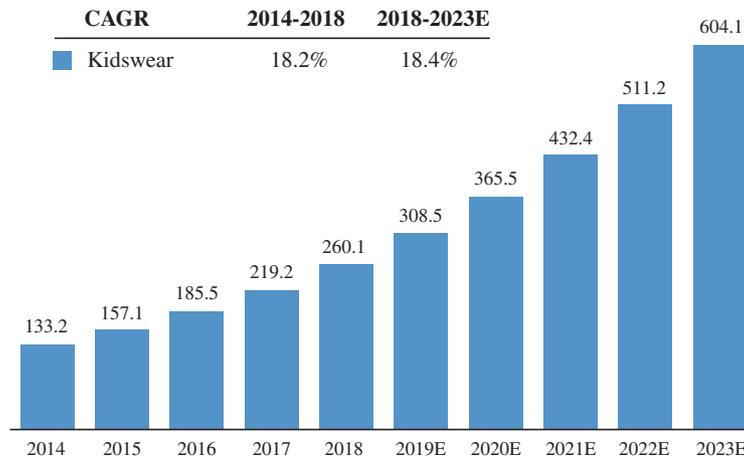
INDUSTRY OVERVIEW

Market Size

Retail revenue generated in the Chinese kidswear market experienced a rapid growth by a CAGR of approximately 18.2% from RMB133.2 billion in 2014 to RMB260.1 billion in 2018, and is expected to reach RMB604.1 billion by 2023. This high growth rate has primarily been driven by the increasing spending power of urban and rural households in China. The chart below sets forth the historical and projected retail revenue in the Chinese kidswear market from 2014 to 2023.

Retail revenue in the Chinese kidswear market, 2014-2023E

RMB billions



Source: CIC

Market Trends and Key Growth Drivers

Due to the newly implemented two-child policy and rising household disposable income, the consumption demand for products geared towards children, including kidswear, is expected to increase accordingly. The Chinese government has placed stricter regulations and quality control on the kidswear industry in response to a string of safety scandals involving consumer products for infants and children in recent years. With the next generation of consumers expected to put greater emphasis on health, new parents are likely to prioritize quality when purchasing kidswear. In addition, consumers' attention and expectation have enabled big brands to build consumer loyalty and brand awareness by consistently producing higher quality apparel for kids.

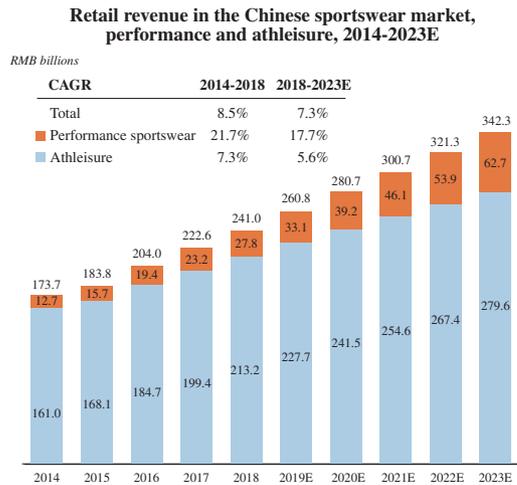
OVERVIEW OF SPORTSWEAR MARKET IN CHINA

Sportswear refers to clothing worn for sports or for casual outdoor use. Sportswear can be categorized into performance sportswear and athleisure. Performance sportswear is worn in extreme physical or environmental performance conditions often in order to meet specific requirements for covering and assisting the body during the activity. Athleisure items use softer and more breathable fabrics, suitable for most outdoor activities as well as casual occasions. Sportswear brands today have employed fashionable and casual elements in most of their non-professional products, making them suitable for a variety of occasions.

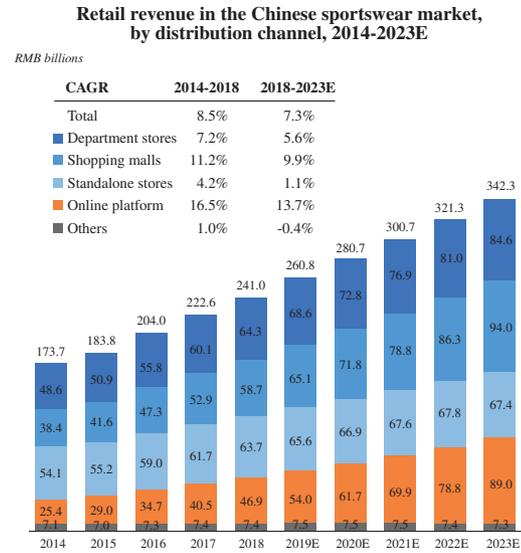
Market Size

Retail revenue generated in the Chinese sportswear market has grown steadily over the past five years, having increased at a CAGR of 8.5% from RMB173.7 billion in 2014 to RMB241.0 billion in 2018, and is expected to reach RMB342.3 billion in 2023. The charts below set for the historical and projected retail revenue in the Chinese sportswear market by function and by distribution channel from 2014 to 2023.

INDUSTRY OVERVIEW



Source: CIC



Source: CIC

Market Trends and Key Growth Drivers

Sportswear is being made more fashionable for an increasing number of suitable occasions. As a result, more people are incorporating sportswear into part of their daily outfit. Chinese customers are developing a more health conscious lifestyle and are more self-aware of their appearance. Accordingly, interest in traditional games is shifting to a variety of more specialized activities, including gym workouts, yoga, jogging, diving and hiking. Although well-established sports brands enjoy great brand recognition among consumers, the growing popularity of specialized sports in recent years provides new opportunities for lesser-known brands to establish a greater presence and fulfill the market demand in China. In addition, continuous technical innovation in both materials and design is essential to meet an increasing global market demand for high-quality and stylish sportswear.

RAW MATERIALS PRICES AND TRENDS

Manmade Fibers and Natural Fibers

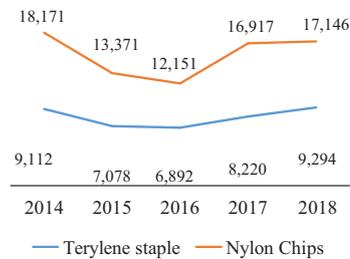
The prices for two kinds of manmade fibers, terylene staple and nylon chips, underwent a decline between 2014 and 2016 due to the falling price of crude oil and started to gradually recover after 2016. The price of terylene staple decreased from RMB9,112 per ton in 2014 to RMB6,892 per ton in 2016, increasing thereafter to RMB9,294 per ton in 2018. Meanwhile, the price for nylon chips decreased from RMB18,171 per ton in 2014 to RMB12,151 per ton in 2016, increasing slightly thereafter to reach RMB17,146 per ton in 2018. It is expected that the average price of terylene staple and nylon chips will fluctuate, reaching RMB8,809 per ton and RMB16,776 per ton by 2023, respectively.

Price changes for manmade fibers in China are also reflected in the price of natural fibers, which declined between 2014 and 2016 and only picked up again in 2017. The unit price for eiderdown which has been much higher than that of cotton and wool, decreased considerably from RMB406,215 per ton in 2014 to RMB211,656 per ton in 2016, recovering thereafter to reach RMB400,300 per ton in 2018. It is expected that the average price of cotton and wool will remain relatively stable, increasing to RMB15,759 per ton and RMB81,311 per ton by 2023, respectively, while the average price of eiderdown will fluctuate, reaching RMB370,390 per ton by 2023. The chart below sets forth the average price of raw textile materials in China's apparel market from 2014 to 2018.

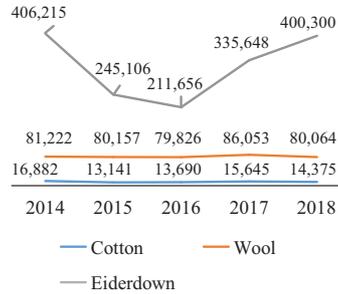
INDUSTRY OVERVIEW

Average price of raw textile materials in China's apparel market, 2014-2018

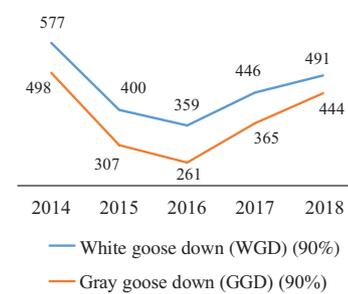
RMB per ton



RMB per ton



RMB per kilogram



Sources: China Cotton Association; China National Textile and Apparel Council; China Down; CIC

Down Products

The major types of down products include white goose down products, gray goose down products, etc. The average white goose down prices went downward from RMB577 per kg in 2014 to RMB359 per kg in 2016 in China, while rebounding to RMB491 per kg in 2018. The average gray goose down prices followed the similar path, decreasing from RMB498 per kg in 2014 to RMB261 per kg in 2016 in China, while increasing to RMB444 per kg in 2018. It is expected that the average price of white goose down (90%) and gray goose down (90%) will stay largely stable, reaching RMB485 per kg and RMB422 per kg by 2023, respectively.

LABOR

The average wage for urban workers employed in China's wholesale and retail sectors has increased from RMB55,838.0 per annum in 2014 to RMB75,656.5 per annum in 2018, representing a CAGR of 7.9%. Driven by the continuous growth of retail revenue of consumer goods and the rising urbanization rate, the average wage for urban workers employed in the wholesale and retail sectors is anticipated to increase further over the coming years.

REGULATORY OVERVIEW

REGULATIONS RELATING TO OUR INDUSTRY

The principal PRC laws and regulations governing foreign investments into retail enterprises include, but are not limited to, the Catalog of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the “**Foreign Investment Catalog**”) and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) (《外商投資准入特別管理措施 (負面清單) (2018年版)》) (the “**2018 Negative List**”), the Administrative Regulations on Commercial Franchising (《商業特許經營管理條例》) (the “**Franchising Regulations**”), the Anti-Unfair Competition Law of the People’s Republic of China (《中華人民共和國反不當競爭法》) (the “**PRC Competition Law**”), the Law of the People’s Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (the “**PRC Consumer Protection Law**”), the Product Quality Law of the People’s Republic of China (《中華人民共和國產品質量法》) (the “**PRC Product Quality Law**”) and the Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》) (the “**PRC Labor Contract Law**”), etc. These laws and regulations are summarized in this section.

REGULATIONS RELATING TO FOREIGN INVESTMENT IN CHINA

The Foreign Investment Catalog and the 2018 Negative List

The Foreign Investment Catalog was firstly promulgated by the PRC State Planning Commission (中華人民共和國國家計劃委員會), the PRC State Economic and Trade Commission (中華人民共和國國家經濟貿易委員會) and the PRC Ministry of Foreign Trade and Economic Co-operation (中華人民共和國對外貿易經濟合作部) together in 1995, and then amended several times, with the most significant revisions taking place in 2002, 2004, 2007, 2011, 2015 and 2017. The currently effective version of the Foreign Investment Catalog was jointly promulgated by the NDRC and the MOFCOM on June 28, 2017 and came into effect on July 28, 2017. On the same day, the Foreign Investment Catalogs (amended in 2015) was repealed.

The Foreign Investment Catalog specifies the industries and economic activities in which foreign investments are encouraged, and, in its Negative List of the Market Access for Foreign Investment, those from which foreign investments are restricted or prohibited. However, on July 28, 2018, the Negative List of the Market Access for Foreign Investment was repealed and replaced by the 2018 Negative List. Pursuant to remaining provisions of the Foreign Investment Catalog and the 2018 Negative List, apparel design falls into the encouraged industry category while marketing and sale of apparel products, whether online or not, are not included in the 2018 Negative List.

The M&A Rules

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), promulgated by six PRC ministries including MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE on August 8, 2006 and then amended by MOFCOM on June 22, 2009 and became effective on the same day, provides the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign funded enterprise, or to conduct an asset merger and acquisition.

LAWS AND REGULATIONS RELATING TO THE PRC RETAIL SECTOR

The Franchising Regulations

The Franchising Regulations was promulgated by the State Council on February 6, 2007 and came into effect on May 1, 2007, under which a franchisor shall have a well-established operation model, be able to provide the franchisee with long-term management guidance, technical support, business training and other services, and have at least two direct sales stores and have undertaken the business for more than a year. A franchisor shall, within 15 days as of its first franchising contract signing, file with the competent commerce authority accordingly.

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Pursuant to the Franchising Regulations, a franchising contract shall include but not limited to the following terms: the basic information of the franchisor and franchisees, the term of the contract, the type, amount and payment(s) of the franchising fees, the specific content of operation guidance, technical supports and business training as well as the method for providing the same, the quality requirements and quality control measures, the marketing and advertisements arrangements, the consumer protection and indemnification, the change, cancelation or termination of the contract, the breach of the contract, the dispute resolution, etc., which shall all be put in writing.

Moreover, according to the Franchising Regulations, the franchisee shall be allowed to unilaterally cancel the franchising contract within a certain period of time; the franchising term, unless the franchisee otherwise agrees, shall be no less than 3 years (renewals are excluded); the purpose and refund conditions and means of the fees paid by the franchisee to the franchisor in advance of the establishment of the franchising contract shall be clarified in writing; the usage of publicity and promotion fees paid by the franchisee to the franchisor shall be disclosed to the franchisee in a timely manner; the franchisee may not transfer the franchise rights to a third party without the consent of the franchisor; and the franchisor shall report the information about the conclusion of franchise contracts in the previous year to the competent commerce authority in the first quarter of each year.

In addition to the Franchising Regulations, the MOFCOM has also promulgated two implementing regulations: the Administrative Measures for Archival Filing of Commercial Franchises (《商業特許經營備案管理辦法》) (the “**Archival Filing Measures**”), which became effective on May 1, 2007 and was then amended on December 12, 2011 and came into effect on February 1, 2012; and the Administrative Measures on Information Disclosure Requirements for Commercial Franchises (《商業特許經營信息披露管理辦法》) (the “**Disclosure Measures**”), which also became effective on May 1, 2007 and was then amended on February 23, 2012 and came into force on April 1, 2012. The Franchising Regulations together with the Archival Filing Measures and the Disclosure Measures, form the basic legal framework for the regulation of the PRC franchise operations.

PRC Competition Law

The principal legal provisions governing market competition are set out in the PRC Competition Law, which was promulgated by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on September 2, 1993 and then amended on November 4, 2017 and came into effect on January 1, 2018.

The PRC Competition Law provides that business operators shall not perform any of the following acts enabling people to mistake its goods for those of someone else or speculate that there are certain relations between the aforesaid goods:

- using of marks identical or similar to the names, packaging or decorations of the goods of someone else without proper authorization, which are influential to some extent;
- using the names (including any shortened name, business name, pen name, stage name, translated name, etc., if applicable) of some other enterprises, social groups or individuals without proper authorization, who are influential to some extent;
- using the main part of the domain name, website name or webpage without proper authorization, which are influential to some extent; or
- other confusing acts sufficient for enabling people to mistake its goods for those of someone else or reckon that there are certain relations between the aforesaid goods.

Violations of the PRC Competition Law may result in the imposition of fines and, in serious cases, the revocation of business licenses, as well as the incurrence of criminal liability.

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PRC Consumer Protection Law

The principal legal provisions for the protection of consumers' rights and interests are set out in the PRC Consumer Protection Law, which was promulgated by the SCNPC on October 31, 1993 and then amended respectively on August 27, 2009 and October 25, 2013 and became effective on March 15, 2014. Pursuant to the PRC Consumer Protection Law, business operators shall have the following obligations:

- ensuring that goods and services provided to consumers comply with relevant laws and regulations, including requirements regarding personal safety and protection of property;
- issuing vouchers for goods or services to consumers in accordance with relevant national regulations or business practices or upon the request of a consumer;
- ensuring the quality, functionality, application and duration of use of the goods or services under normal use and ensuring that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions, sample apparel or any other manners;
- properly performing its responsibilities for guaranteed repair, replacement, return or other liability in accordance with national regulations or any agreement with consumers; and
- not setting unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices and the like.

Violations of the above PRC Consumer Protection Law may result in the imposition of fines. In addition, the relevant business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases. According to the PRC Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling the claim, have the right to recover such claim from that manufacturer or that other seller. Consumers or parties who suffer injuries or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling the claim, have the right to recover such claim from the manufacturer, and vice versa.

PRC Product Quality Law

The principal legal provisions governing product liability are set out in the PRC Product Quality Law, which was promulgated by the SCNPC on February 22, 1993 and amended respectively on July 8, 2000, August 27, 2009 and December 29, 2018. Pursuant to the PRC Product Quality Law, business operators shall have the following obligations:

- a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of the replenished stock;
- measures shall be adopted to keep products for sale in good quality;
- expired or deteriorated products, the sale of which has been publicly ordered to be discontinued, are not to be sold;
- products must be sold with labels that comply with the relevant provisions;
- sellers must not forge the origin of a product, or fraudulently use the name or address of another producer;
- sellers must not forge or fraudulently use product quality marks such as authentication marks; and
- sellers must not mix impurities or imitations into products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass a substandard product off as an up-to-standard one.

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Pursuant to the PRC Product Quality Law, a producer shall have the following obligations:

- be responsible for the quality of products it produces and ensure the quality of its products is in compliance with the relevant requirements prescribed therein;
- not produce products, the production of which has been publicly ordered to discontinue;
- not forge the origin of a product, or fraudulently use the name or address of another producer;
- not forge or fraudulently use product quality marks such as the authentication marks of another producer;
- not mix impurities or imitations into products, or substitute a fake product for a genuine one, or a defective product for a high-quality one, or pass a substandard product off as an up-to-standard one;
- ensure that the marks on products or the packaging of products are genuine and in compliance with the relevant requirements prescribed therein; and
- ensure that the packages of dangerous products, such as fragile, inflammable, explosive, poisonous, corrosive and radioactive products, products that should be kept upright during storage and transportation and other products with special requirements meet the necessary requirements in respect of their quality and carry warning marks or statements in Chinese containing directions for storage and transportation, as required by relevant State regulations.

Violations of the PRC Product Quality Law may result in the imposition of fines. In addition, the relevant seller or producer will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the PRC Product Quality Law, consumers or victims who suffer injuries or property losses due to product defects may demand compensation from either the producer or the seller. Where the responsibility lies with the producer, the seller shall, after settling the claim, have the right to recover such claim from the producer, and vice versa.

LAWS AND REGULATIONS RELATING TO THE PRC ONLINE TRADING

In accordance with the Administrative Measures for Online Trading (《網絡交易管理辦法》) (the “**Measures**”) promulgated by SAIC which came into effect on March 15, 2014, any business activity of selling goods or providing services through the Internet within the PRC shall abide by the laws and regulations of the PRC and the provisions of the Measures. Any operators engaging in online goods trading or service providing (“**Online Trading Operators**”) are required to make an industrial and commercial registration in accordance with laws. In selling goods or providing services to consumers, Online Trading Operators must observe the PRC Consumer Protection Law, the PRC Product Quality Law, and provisions of other laws, regulations and rules. Online Trading Operators shall also abide by the PRC competition Law and shall not infringe other operators’ lawful rights and interests by unfair competition or disturb social and economic order. Online Trading Operators shall not engage in any of the following unfair competition activities by using internet technology, media or other means:

- (1) using unique domain name, name and/or logo of famous website without authorization, or using any domain name, name and/or logo that are analogous to those of a famous website, confusing their own websites with other famous websites and causing mis-recognition by consumers;
- (2) using or forging electronic sign or logo of governmental authorities or social organizations without authorization to conduct misleading and false publicity;
- (3) conducting sales which carry a chance to win a lottery with any virtual goods as the prize, and the value of such virtual goods agreed in the network market exceeds the maximum amount permitted by laws;
- (4) improving business reputation (either for itself or for others) through fictitious transactions, removing negative comments or by other means;

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- (5) damaging competitors' business reputation through malicious comments contrary to the facts after conclusion of a transaction; or
- (6) other unfair competition activities as defined by laws and regulations.

According to the Measures, when selling goods or providing services to consumers, Online Trading Operators must state information such as the business address, contact information, quantity and quality, price or expense, performance period and means, payment method and return or placement method of goods or services, safety precautions, risk warning, after sales service, civil liabilities and so on. The Online Trading Operators must also take safety guarantee measures to ensure the safety of transactions and must provide such goods or services as promised. Where an Online Trading Operator sells goods, the consumer is entitled to return the goods within seven days from the date such goods is received without giving a reason, except for the following:

- (1) customized goods;
- (2) fresh and perishable goods;
- (3) audiovisual products downloaded online or unpackaged by consumers and computer software and other digital goods; and
- (4) newspapers and journals that have been delivered.

Save for the goods listed in the preceding paragraph, the right of the consumer to return the goods within a specified period without reasons does not apply to those goods which the consumer confirmed not suitable for return given their nature at the time of purchase.

Goods must be returned in good condition by consumers. The Online Trading Operators shall, within seven days upon receipt of the returned goods, refund the price paid by consumers for relevant goods. Freight for the returned goods shall be borne by the consumers but where the online operators and the consumers reach an agreement separately, such agreement will prevail.

Pursuant to the Telecommunications Regulations of the People's Republic of China (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), which was first promulgated by the State Council on September 25, 2000 and then amended respectively on July 29, 2014 and February 6, 2016, and came into effect on February 6, 2016, telecommunications services are divided into “basic telecommunications services” and “value-added telecommunications services”. Value-added telecommunications services are defined as the telecommunications and information services provided through public network infrastructure. Operation of value-added telecommunications services are subject to approval by relevant PRC government authorities, and operators of value-added telecommunications services shall obtain value-added telecommunication service certification (《增值電信業務經營許可證》) or trans-provincial value-added telecommunication service certification (《跨地區增值電信業務經營許可證》), depending on the geographical coverage of their businesses. The Catalog of Telecommunications Businesses (《電信業務分類目錄》) (the “**Telecom Catalog**”), which was amended respectively on February 21, 2003 and December 28, 2015, was issued as an attachment to the Telecommunications Regulations to categorize telecommunications services as either basic or value-added.

Pursuant to the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), which was first promulgated by the State Council on September 25, 2000 and then amended and became effective on January 8, 2011, Internet information services are divided into commercial services and non-commercial services. A commercial Internet information service operator must obtain a value-added telecommunication service certification for its Internet information services from the relevant government authority before engaging in any commercial Internet information service operation in China, while provision of non-commercial Internet information service does not require such certification but is subject to the operator's record-filing with the relevant telecommunications administration authority.

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Pursuant to the Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administration of Foreign Investment Projects of Sale through Internet and Automat (《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》) which was promulgated by the MOFCOM on August 19, 2010 and took effect on the same date, foreign invested production and commercial enterprises are allowed to directly engage in internet sales business subject to requisite approvals and registrations in accordance with the relevant laws. Where a foreign invested enterprise provides network services for other dealing parties by taking advantage of its own network platform, it shall apply to the Ministry of Industry and Information Technology of the PRC (the “MIIT”) for value-added telecommunication service certification; where a foreign invested enterprise directly engages in commodity sale by using its own network platform, it shall file records with the competent telecommunication administrative authority.

E-Commerce Law of the PRC

Pursuant to the E-Commerce Law of the PRC (《中華人民共和國電子商務法》) (the “**E-Commerce Law**”) promulgated by the SCNPC on August 31, 2018, which took effect on January 1, 2019, an e-commerce operator refers to a natural person, a legal person or an unincorporated association that carries out business activities through the internet and other information networks to sell commodities or offer services, including e-commerce platform operators, business operators on e-commerce platforms, and other e-commerce operators that sell commodities or offer services through a self-built website or any other network services.

An e-commerce operator shall register itself as a market entity, fulfill its tax obligations pursuant to the relevant laws and obtain the administrative approvals necessary for its business operation. An e-commerce operator shall also display the information about its business license and the administrative approvals obtained for its business operation, or the links to the webpages with such information in the prominent position on its homepage, and shall expressly indicate the methods and procedures for querying, correcting and deleting its users’ information or deregistering their accounts and shall not set irrational conditions for such purposes, failing which the e-commerce operator shall be ordered by the market administration authority to rectify within a prescribed time limit and may be additionally imposed a fine of up to RMB10,000. In addition, where an e-commerce operator fails to provide its consumers with search options irrespective of their personal characteristics and displays search results of commodities or services to such consumers only according to their interests, preferences, consumption habits and other personal characteristics, or where an e-commerce operator fails to prominently warn its consumers about its bundled sale of commodities or services, such e-commerce operators shall be ordered by the market administration authority to rectify within a prescribed time limit. If there is illegal income, such illegal income shall be confiscated. In addition, the e-commerce operators may be additionally imposed a fine of up to RMB200,000, which, in a severe case, could be increased to RMB500,000.

Under the E-Commerce Law, we will be categorized as an e-commerce operator and must comply with it once it takes effect.

REGULATIONS ON FOREIGN EXCHANGE

Pursuant to the Administrative Regulations of the People’s Republic of China on Foreign Exchange (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administrative Regulations**”), which was promulgated by the State Council on January 29, 1996 and was then amended on January 14, 1997 and August 5, 2008, and came into effect on August 5, 2008, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside the PRC, unless the prior approval by SAFE or its local counterparts is obtained.

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Pursuant to the Circular of the State Administration of Foreign Exchange (“SAFE”) on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”), promulgated and effective on July 4, 2014, (a) a PRC individual resident (a “PRC Resident”) must register with the local SAFE branch for foreign exchange registration of overseas investment before he or she contributes domestic or overseas lawful assets or interests into a special purpose vehicle (the “SPV”); (b) if the basic information (such as domestic individual resident shareholder, name, operating period) of the registered SPV changes, or upon the occurrence of material changes in the SPV’s capital, such as capital increases or decreases, share transfers or swaps, mergers and divisions, the foreign exchange registration of overseas investments shall be updated timely with the foreign exchange office. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), which was promulgated on February 13, 2015 and implemented June 1, 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau, and the SAFE Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

According to the Circular of the SAFE on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本結匯管理方式的通知》) (the “SAFE Circular 19”), which was promulgated on March 30, 2015 and became effective on June 1, 2015, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). And foreign-invested enterprises are allowed to settle such portion at 100% of their foreign exchange capital on a discretionary basis. Furthermore, SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises.

Pursuant to the Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “SAFE Notice 16”), which was promulgated and became effective on June 9, 2016, enterprises registered in the PRC (including Chinese-funded enterprises and foreign-funded enterprises, but excluding financial institutions) may also covert their foreign debt from foreign currency into RMB on self-discretionary basis. And SAFE Notice 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital, foreign debt and funds recovered from overseas listing) on self-discretionary basis, which applies to all enterprises registered in the PRC.

TAXATION LAWS AND REGULATIONS

Enterprise Income Tax

According to the EIT Law, which was promulgated on March 16, 2007 and then amended respectively on February 24, 2017 and December 29, 2018, and came into effect on December 29, 2018, and the EIT Implementation Rules, which was promulgated on December 6, 2007 and became effective from January 1, 2008, enterprises are classified as either resident enterprises or non-resident enterprises. The income tax rate for resident enterprises, including both domestic and foreign-invested enterprises shall typically be 25% commencing from January 1, 2008. An enterprise established outside the PRC with its “de facto management body” located in the PRC is considered a “resident enterprise”, which means it can be treated as domestic enterprise for enterprise income tax purposes. A non-resident enterprise that does not have an establishment or

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place of business in the PRC, or has an establishment or place of business in the PRC but the income of which has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside the PRC at the reduced rate of enterprise income tax of 10%.

Income Tax in Relation to Dividend Distribution

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), which became effective on December 8, 2006, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that directly holds at least 25% of the capital of the PRC company; the 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that directly holds less than 25% of the capital of the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) promulgated by SAT and became effective on February 20, 2009, all of the following requirements must be satisfied for a resident enterprise to enjoy the preferential tax rates provided under the tax agreements: (i) such a fiscal resident who obtains dividends should be a company as defined in the tax agreement; (ii) the equity and voting interests in the PRC resident enterprise directly owned by such fiscal resident must reach a specified percentage; and (iii) the equity interests of the PRC resident enterprise directly owned by such fiscal resident, at any time during the 12 months prior to the payment of the dividends, must reach a specified percentage.

Pursuant to the Administrative Measures for Tax Agreements Treatment for Non-Resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》), which became effective on November 1, 2015 and revised on June 15, 2018 by SAT, a non-resident taxpayer meeting conditions for the tax agreement treatment may obtain this treatment when filing a tax return or making a withholding declaration through a withholding agent, subject to the administrative policies of the tax authorities.

The Announcement of the State Administration of Taxation on Issues concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (the “**Announcement 9**”), which was promulgated by the SAT on February 3, 2018 and took effect on April 1, 2018, provides the methods to determine the “beneficial owners” under the treaty articles on dividends, interest and royalties. Pursuant to Announcement 9, a “beneficial owner” generally must be engaged in substantive business activities and, for determining such a “beneficial owner”, a comprehensive analysis shall be conducted based on the factors set out in the Announcement 9 and in combination with the actual conditions of the specific case.

Value Added Tax

The Interim Value-Added Tax Regulations of the People’s Republic of China (《中華人民共和國增值稅暫行條例》) (the “**VAT Regulations**”) was promulgated by the State Council on December 13, 1993 and then amended respectively on November 10, 2008, February 6, 2016 and November 19, 2017. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Trademarks

The principal legal provisions for the protection of holders of registered trademarks are set out in both the Trademark Law of the People’s Republic of China (《中華人民共和國商標法》) (the “**PRC Trademark Law**”), which was promulgated by the SCNPC on August 23, 1982 and amended

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respectively on February 22, 1993, October 27, 2001 and August 30, 2013, and came into effect on May 1, 2014, and the Implementing Regulations of the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》) promulgated by the State Council on August 3, 2002, amended on April 29, 2014 and with effective on May 1, 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under SAIC handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within 12 months prior to the expiration of the term.

Under the Trademark Law of the PRC, any of the following acts maybe regarded as an infringement upon the right to exclusive use of a registered trademark, including (1) to use a trademark that is identical with a registered trademark in respect of the same goods without authorization of the proprietor of the registered trademark; (2) to use a trademark similar to a registered trademark in respect of the same goods or to use a trademark identical with or similar to a registered trademark in respect of similar goods, without authorization of the proprietor of the registered trademark, where such use is likely to cause confusion; (3) to sell the goods that infringe the exclusive right to use a registered trademark; (4) to counterfeit, or to make, without authorization, representations of a registered trademark of another person, or to sell such representations of a registered trademark as were counterfeited, or made without authorization; (5) to replace, without authorization, a registered trademark and put the goods bearing the replaced trademark on the market; (6) to intentionally provide a person with conveniences for such person's infringement of the trademark of another person or facilitate such person's infringement of the trademark of another person; (7) to cause, in other aspects, prejudice to the exclusive right of another person to use a registered trademark.

Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

In the event of authorizing other persons to use the registered trademark, the licensor shall report the same to the Trademark Office for filing and the latter shall make corresponding publication. Non-archival authorization of using trademarks shall not oppose to any bona fide third party.

Domain Name and Non-operational Internet Information Services

Pursuant to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), promulgated on August 24, 2017 and with effect from November 1, 2017, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of "first come, first serve" is followed for the domain name registration service.

According to the Measures of the Ministry of Industry and Information Technology for the Archival Administration of Non-commercial Internet Information Services (《非經營性互聯網信息服務備案管理辦法》), which was promulgated on February 8, 2005 and became effective on March 20, 2005, non-commercial internet information service providers operating in PRC shall file with the provincial administration department of telecommunication at their respective domiciles via the filing management system of the MIIT. And when its/his website begins to work, the non-commercial Internet information service provider shall show its/his filing number in the middle of its/his home page's bottom, below which the link to the filing management system of the MIIT shall be provided to the public for queries and verifications. Moreover, the electronic verification mark for the aforesaid filing shall also be placed under the designated catalog of its/his website.

REGULATORY OVERVIEW

REGULATIONS RELATING TO PRIVACY AND PERSONAL DATA PROTECTION

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technical Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) (the “**Internet Protection Measures**”) which took effect on March 1, 2006. The Internet Protection Measures require Internet service providers to take proper measures including but not limited to anti-virus and cyber-attack, data back-up and keeping records of certain information about their users (including log-in and log-out time, IP address, system maintenance journals, etc.) for at least 60 days, and to detect illegal information, stop transmission of such information, and keep relevant records.

Internet services providers are prohibited from unauthorized disclosure of their users’ information to any third parties unless such disclosure is required by laws and regulations. They are further required to establish management systems and take technical measures to safeguard the freedom and secrecy of their users’ correspondences.

On December 26, 2009, the SCNPC promulgated the Tort Law of the People’s Republic of China (《中華人民共和國侵權責任法》) (the “**Tort Law**”), which came into effect on July 1, 2010. Pursuant to the Tort Law, anyone who infringed the rights relating to the name or the privacy of others shall be held liable for the tort.

The Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on December 29, 2011 and came into effect on March 15, 2012, provide that, an internet information service provider shall not collect any user’s personal information or provide such information to any third parties without the consent of such user, unless required so by laws and regulations. An internet information service provider shall expressly inform the users of the method, content and purpose of the collection and use of such users’ personal information and may only collect those necessary for the provision of its services. An internet information service provider is also required to properly maintain its users’ personal information, and if there is any leak of, or likely any leak of, the users’ personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet. On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》), which came into effect on September 1, 2013, to regulate the collection and use of users’ personal information in the provision of telecommunication services and Internet information services in China and the personal information includes a user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used individually or jointly for identifying a user. Internet information service providers shall not collect or use their user’s personal information without the consents of such users, and shall specify the purposes, manners and scopes of the information collection and uses. Internet information service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, the collected personal information, and are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

Pursuant to the Ninth Amendment to the Criminal Law (《中華人民共和國刑法修正案(九)》) issued by the SCNPC on August 29, 2015 and became effective on November 1, 2015, any internet service provider that fails to fulfill the obligations related to internet information security management as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty.

On November 7, 2016, the SCNPC released the Cyber Security Law (《中華人民共和國網絡安全法》), which took effect on June 1, 2017. The Cyber Security Law requires network operators to perform certain functions related to cyber security protection and the strengthening of network

REGULATORY OVERVIEW

information management. For instance, under the Cyber Security Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store personal information and important data within the territory of PRC.

On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), or the Interpretations, which became effective on June 1, 2017. The Interpretations provide more practical conviction and sentencing criteria for the infringement of citizens' personal information and mark a milestone for the criminal protection of citizens' personal information.

LABOR LAW AND REGULATIONS

Enterprises in China are mainly subject to the following PRC labor laws and regulations: the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) (the “**PRC Labor Law**”), the PRC Labor Contract Law, the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) (the “**PRC Social Insurance Law**”), the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Administrative Regulation on Housing Provident Fund (《住房公積金管理條例》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

Pursuant to the PRC Labor Law, companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

The principal regulations governing the employment contract is the PRC Labor Contract Law, which was promulgated by the SCNPC on June 29, 2007 and was amended on December 28, 2012 and came into effect on July 1, 2013. Pursuant to the PRC Labor Contract Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

As required under the PRC Social Insurance Law, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Provisions on Registration of Social Insurance and the Administrative Regulation on Housing Provident Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing provident fund.

OUR HISTORY AND DEVELOPMENT

OUR HISTORY

Early History

Our business can be traced back to 2007 when Mr. Yang and Mr. Yu, together with various other individuals, launched our flagship “GXG” branded products through Ningbo Hehe Jessica Clothing Co. Ltd. (寧波合和杰斯卡服飾有限公司) (“**Jessica Clothing**”), a company then majority owned by Mr. Yang. In order to streamline our business structure, Chisage Mulsanne, our principal subsidiary, was established by Mr. Yang (through Ningbo Hehe Machinery Equipment Co., Ltd. (寧波合和機械設備有限公司) (“**Hehe Machinery**”), a company indirectly controlled by Mr. Yang), in the PRC in 2011, with a registered capital of RMB5 million. Hehe Machinery subsequently transferred its entire interest in Chisage Mulsanne to Jessica Clothing, which in turn transferred such interest to Chisage Holding Group Co., Ltd. (中哲控股集團有限公司) (previously known as Zhejiang Chisage Holding Group Co., Ltd. (浙江中哲控股集團有限公司)) (“**Chisage Holding Group**”), an investment company indirectly majority owned by Mr. Yang. Accordingly, Chisage Mulsanne was indirectly controlled by Mr. Yang since its establishment. In October 2012, Mr. Zhu Zhaoguo, Mr. Yu, Ms. Tu Guangjun and Ms. Mao Chunhua, through a capital increase, became shareholders of Chisage Mulsanne either directly or through investment vehicles (namely, Ningbo Yuexing Investment Co., Ltd. (寧波悅行投資有限公司) (“**Yuexing Investment**”), Ningbo Shanxing Investment Co., Ltd. (寧波善行投資有限公司) (“**Shanxing Investment**”) and Ningbo Zhenshang Investment Co., Ltd. (寧波臻尚投資有限公司) (“**Zhenshang Investment**”), respectively). Each of Mr. Zhu Zhaoguo, Mr. Yu, Ms. Tu Guangjun and Ms. Mao Chunhua was independent of each other.

As of December 19, 2014, the shareholding structure of Chisage Mulsanne was as follows:

Shareholder	Capital Contribution (RMB'000)	Percentage
Chisage Holding Group ⁽¹⁾	106,000	53.00%
Yuexing Investment ⁽²⁾	33,140	16.57%
Shanxing Investment ⁽³⁾	20,860	10.43%
Zhenshang Investment ⁽⁴⁾	10,200	5.10%
Mr. Zhu Zhaoguo	9,800	4.90%
Ms. Tu Guangjun	8,000	4.00%
Mr. Yu	6,000	3.00%
Mr. Yang	6,000	3.00%

Notes:

- (1) Chisage Holding Group is owned by Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司) (60%) and Ningbo U And K Investment Consulting Co., Ltd. (寧波優迪凱投資諮詢有限公司) (40%). Ningbo Zhonghui Investment Co., Ltd. is owned by Mr. Yang (49.08%), Ms. Xu Hongxia (Mr. Yang's spouse, 25.60%), Ms. Zhang Lingling (12.80%), Mr. Sun Changchun (7.68%), Mr. Tang Shuhua (3.84%) and Mr. Ding Dade (the Chief Financial Officer and joint company secretary of the Company, 1.00%). Ms. Zhang Lingling, Mr. Sun Changchun and Mr. Tang Shuhua are independent third parties. Ningbo U And K Investment Consulting Co., Ltd. was owned by Mr. Yang (71.68%) and Mr. Ding Dade (28.32%). Under the SFO, Mr. Yang, as the spouse of Ms. Xu Hongxia, is deemed to be interested in the same number of shares in which Ms. Xu Hongxia is interested.
- (2) Yuexing Investment is wholly-owned by Mr. Yu.
- (3) Shanxing Investment is owned by Mr. Yang (47.9%), Mr. Yu (38.4%) and Ms. Mao Chunhua (13.7%).
- (4) Zhenshang Investment is wholly-owned by Mr. Zhu Zhaoguo.

In order to prepare for potential equity financing activities in the future, Typecast Investment Limited (“**Typecast**”), a company incorporated in Hong Kong and an independent third party, purchased 10.43% of Chisage Mulsanne from Shanxing Investment in October 2015 for cash consideration of RMB66.9 million, which was determined with reference to a valuation report prepared by an independent third party, thereby converting Chisage Mulsanne into a sino-foreign joint venture.

OUR HISTORY AND DEVELOPMENT

Subsequently, Mr. Yang (through his wholly-owned entity Updragon International Ltd. (“**Updragon**”), a company incorporated in the BVI) established the Company, which in turn owned 100% of Joy Sonic. In January 2016, Joy Sonic purchased a total of 70% of Chisage Mulsanne from the following shareholders:

Shareholder	Purchase Price (RMB'000 or equivalent US\$)	Percentage
Chisage Holding Group	266,500.8	41.57%
Yuexing Investment	57,698.0	9.00%
Typecast	66,865.6	10.43%
Zhenshang Investment	32,695.6	5.10%
Mr. Zhu Zhaoguo	12,180.7	1.90%
Ms. Tu Guangjun	12,821.8	2.00%

As a result of the above steps, the shareholding structure of Chisage Mulsanne was as follows:

Shareholder	Percentage
Joy Sonic	70.00%
Chisage Holding Group	11.43%
Yuexing Investment	7.57%
Mr. Zhu Zhaoguo	3.00%
Ms. Tu Guangjun	2.00%
Mr. Yu	3.00%
Mr. Yang	3.00%

Acquisition by the Financial Investors

In 2016, two private equity investment firms, L Catterton and Crescent Point (the “**Financial Investors**”), began to work together on a transaction to acquire certain interests in the Group through their respective acquisition vehicles, Great World Glory and Crescent Glory. The Financial Investors are professional investors focused on investments, including the consumer sector, and acquired knowledge about the Group’s business and market position and approached the founders to discuss a potential investment opportunity. L Catterton is a global consumer-focused private equity firm formed through the partnership of Catterton, LVMH Moët Hennessy Louis Vuitton and Groupe Arnault. Great World Glory is a private limited company incorporated in Singapore that is majority owned by L Capital Asia 2, which is a private equity fund managed by L Catterton (an investment manager licensed by the Financial Services Commission of Mauritius) and advised by L Catterton Singapore Pte. Ltd. (an investment adviser licensed by the Monetary Authority of Singapore) and the remaining interests is held by an investor consortium which includes funds and accounts managed by investment subsidiaries of BlackRock, Inc. (“**BlackRock**”). A series of co-investment funds managed by investment subsidiaries of BlackRock beneficially own a total of 21.0% of Great World Glory. BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. According to its official website, as of December 31, 2018, BlackRock managed approximately US\$5.98 trillion in assets on behalf of investors worldwide. Crescent Point is a private equity investment firm headquartered in Singapore with an investment focus in Asia and an investment manager licensed by the Monetary Authority of Singapore. Crescent Glory is a company incorporated in Singapore and managed by Crescent Point. L Catterton and Crescent Point are independent of each other. They agreed with the then shareholders of Chisage Mulsanne to acquire 70% of their interests through an offshore holding company structure following a number of steps. The Financial Investors set up Glorious Cayman in the Cayman Island as the intended listing vehicle, which was held by them as to 73.0% and 27.0%, respectively. Glorious Cayman, in turn, held Glory Cayman as its wholly-owned subsidiary.

OUR HISTORY AND DEVELOPMENT

In February 2016, Mr. Yang, Updragon and Glory Cayman entered into a share purchase agreement (the “**Share Purchase Agreement**”), pursuant to which Glory Cayman agreed to purchase 100% of the Company from Updragon for cash consideration of RMB2,839.2 million (in equivalent of US dollars), based on the price-to-earning multiples on the normalized net profit of the Group in 2014. The consideration was settled in October 2016.

Following the purchase of the Company (which then indirectly owned 70% of Chisage Mulsanne) by the Financial Investors, Great World Glory (together with L Capital Asia 2) became our controlling shareholders for the purposes of the Listing Rules, and indirectly owned 73.0% of the Company. Please see the chart under the section headed “— Our Pre-Listing Reorganization” for our shareholding structure following the acquisition by the Financial Investors.

Business Milestones

The following table sets forth the key milestones in our history:

Year	Event
2007.....	<ul style="list-style-type: none">• Our flagship “GXG” branded products were launched• Our first retail store was opened in Ningbo, the PRC
2010.....	<ul style="list-style-type: none">• Our fashion menswear brand “gxg jeans” was launched• We opened our GXG online store on Taobao.com
2011.....	<ul style="list-style-type: none">• Our GXG online store’s GMV ranked the first in menswear category on Tmall.com on November 11, 2011
2012.....	<ul style="list-style-type: none">• Our kidswear brand “gxg.kids” was launched
2014.....	<ul style="list-style-type: none">• Our athleisure apparel brand “Yatlas” was launched• “GXG” was recognized as a “China Well-known Trademark” (中國馳名商標) and a “Zhejiang Province Well-known Trademark” (浙江省馳名商標)
2016.....	<ul style="list-style-type: none">• We ranked first in terms of GMV in menswear category on Tmall.com on November 11, 2016• Introduction of the Financial Investors
2017.....	<ul style="list-style-type: none">• Our GXG retail store network expanded to Macau• We introduced a well-known Australian sportswear brand “2XU” and established a 2XU flagship online store on Tmall.com
2018.....	<ul style="list-style-type: none">• Mulsanne E-commerce was rated as Zhejiang Top 100 E-commerce Companies (浙江電商百強企業)

DEVELOPMENT OF OUR GROUP STRUCTURE

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 20, 2015 and is an investment holding company. At the date of incorporation, the authorized share capital of our Company was US\$50,000 divided into 50,000 Shares of a par value of US\$1 each. On the same day, one share of the Company of par value of US\$1 was issued and allotted to an independent third party NovaSage Incorporations (Cayman) Limited, and was then transferred to Updragon, a company then wholly-owned by Mr. Yang, for US\$1 at par value.

On October 21, 2016, Updragon transferred one share of the Company of par value of US\$1 to Glory Cayman for cash consideration of RMB2,839.2 million.

On August 22, 2017, the issued share capital was increased by US\$1 by the issue of one ordinary share of US\$1 to Glory Cayman. As a result, the total issued share capital of the Company was US\$2, with two shares of US\$1 each.

As part of our reorganization as described in the section headed “— Our Pre-Listing Reorganization” below, pursuant to a resolution of the sole shareholder of the Company passed on August 27, 2018, all the issued and unissued shares of the Company with par value of US\$1 each was subdivided into 1,000 Shares of US\$0.001 each. Accordingly, following the completion of the subdivision, our authorized share capital was altered to US\$50,000, divided into 50,000,000 Shares of US\$0.001 each.

OUR HISTORY AND DEVELOPMENT

On November 7, 2018, the Company changed its name from Alpha Smart Limited to Mulsanne Group Holding Limited. On the same day, the Company passed resolutions to the effect that (a) the authorized share capital of the Company was increased by HK\$100,000,000 by the creation of 10,000,000,000 Shares of HK\$0.01 each; (b) 1,560 Shares were allotted and issued fully paid to the existing shareholders pro rata to their then shareholding in the Company; (c) the Company repurchased and canceled the 2,000 existing issued shares of US\$0.001 of the Company in issue; and (d) the authorized but unissued share capital of the Company was diminished by the cancellation of all the 50,000,000 unissued shares of US\$0.001 each. As a result, the Company had an authorized share capital of HK\$100,000,000 divided into 10,000,000,000 Shares, of which 1,560 were in issue.

Joy Sonic

Joy Sonic was incorporated in Hong Kong on November 19, 2015. At the date of incorporation, the total issued share capital of Joy Sonic was HK\$1 divided into one ordinary share of a par value of HK\$1 each, with an independent third party Bosco Consultancy Limited holding one share, representing 100% of Joy Sonic. On December 4, 2015, Joy Sonic underwent a capital increase, pursuant to which 99,999 shares were issued and allotted to the Company for cash consideration of HK\$99,999. On December 15, 2015, Bosco Consultancy Limited transferred its one share in Joy Sonic to the Company for HK\$1 at par value, hence the Company became the sole shareholder of Joy Sonic.

On August 21, 2017, the share capital of Joy Sonic was redenominated from HK\$100,000 to US\$12,800. On August 22, 2017, one share was issued and allotted to the Company for cash consideration US\$39.6 million, which was determined with reference to the consideration that Joy Sonic paid for the acquisition of 30% interest in Chisage Mulsanne in June 2017. Please see the section headed “— Our Pre-Listing Reorganization” below for details. As a result, Joy Sonic’s total amount of paid up capital was US\$39,612,800.

Alpha Sonic

Alpha Sonic was incorporated in the Cayman Islands with limited liability on August 1, 2017 and is an investment holding company. At the date of incorporation, the authorized share capital of Alpha Sonic was US\$50,000 divided into 50,000 ordinary shares of a par value of US\$1 each. On August 7, 2017, one share was issued and allotted to Orian Limited, an independent third party, and was then transferred to the Company for US\$1 at par value.

GXG Macau

GXG Macau was incorporated in Macau on June 29, 2017. At the date of incorporation, the total issued share capital of GXG Macau was MOP100,000 divided into one share of a par value of MOP100,000. On the same day, one share was issued and allotted to Joy Sonic for MOP100,000 at par value.

Our PRC Subsidiaries

As of the Latest Practicable Date, we have 12 subsidiaries incorporated in the PRC, which are engaged in marketing and sales operations across China. Details of these operating subsidiaries as of the Latest Practicable Date are as follows:

1. *Chisage Mulsanne*

Chisage Mulsanne was established on August 4, 2011 with an initial registered capital of RMB5 million. It was then wholly owned by Hehe Machinery, a company indirectly controlled by Mr. Yang. Through a series of transfers as described in the section headed “— Our History” above, Chisage Mulsanne became a subsidiary of Joy Sonic and hence an indirect wholly-owned subsidiary of the Company. Chisage Mulsanne is the principal holding company of our PRC subsidiaries. As of the Latest Practicable Date, it directly held seven subsidiaries and indirectly held three subsidiaries in the PRC.

OUR HISTORY AND DEVELOPMENT

2. *Chisage Mulsanne E-commerce*

Chisage Mulsanne E-commerce was established on August 26, 2010, which was then owned as to 100% by Jessica Clothing, a company then majority owned by Mr. Yang. At the date of incorporation, its initial registered capital was RMB5 million, which was subsequently increased to RMB10 million in November 2010. In 2012, Chisage Mulsanne acquired the entire equity interest in Chisage Mulsanne E-commerce from Jessica Clothing for cash consideration of RMB15.9 million, which amount was agreed after arm's length negotiations with reference to the then net asset value. The consideration of the acquisition was settled in November 2012. Chisage Mulsanne E-commerce mainly engages in online marketing and sale of apparel products of our Group.

3. *Muxin-buer E-commerce*

Muxin-buer E-commerce was established on July 19, 2017 by Chisage Mulsanne E-commerce, with a registered capital of RMB5 million. Muxin-buer E-commerce's principal business is design, marketing and sale of our apparel products.

4. *Mulsanne Maisi*

Mulsanne Maisi was established on February 14, 2017 by Chisage Mulsanne (80%) and Ms. Li Shujun (20%), who is a director of TwoXu Sports, with registered capital of RMB10 million. Mulsanne Maisi principally engages in design, marketing and sale of our apparel products.

5. *TwoXu Sports*

TwoXu Sports was established on June 21, 2017 by Mulsanne Maisi (70%) and 2XU HK Limited (30%), which is a company wholly-owned by 2XU Pty Ltd (an associate of L Catterton), with registered capital of RMB15 million. The principal business of TwoXu Sports is design, marketing and sale of apparel products and it operates one branch in the PRC. Please see the section headed "— Agreement with 2XU" below for details of the 2XU Agreement.

6. *Beijing Yuexing*

Beijing Yuexing was established on June 29, 2015 by Chisage Mulsanne, with registered capital of RMB1 million. It mainly engages in marketing and sale of apparel products, and it operates 43 branches in the PRC.

7. *Mulsanne E-commerce*

Mulsanne E-commerce was established on December 5, 2012 by Chisage Mulsanne, with registered capital of RMB5 million. Mulsanne E-commerce principally engages in online marketing and sale of our apparel products.

8. *Ningbo Yuexing*

Ningbo Yuexing was established on March 27, 2012 by Jessica Clothing, with registered capital of RMB5 million. In 2012, Chisage Mulsanne acquired the entire equity interest in Ningbo Yuexing from Jessica Clothing, a company then majority owned by Mr. Yang, for cash consideration of RMB5 million, which amount was agreed after arm's length negotiations with reference to the registered capital of Ningbo Yuexing. The consideration of the acquisition was settled in December 2012. Ningbo Yuexing mainly engages in marketing and sale of apparel products of our Group, and it operates 110 branches in the PRC.

9. *Shenzhen Yuexing*

Shenzhen Yuexing was established on April 20, 2016 by Ningbo Yuexing, with registered capital of RMB1 million. Shenzhen Yuexing engages in marketing and sale of our apparel products, and it operates two branches in the PRC.

OUR HISTORY AND DEVELOPMENT

10. *Shanghai Yuexing*

Shanghai Yuexing was established on September 14, 2012 by Jessica Clothing, with registered capital of RMB5 million. In 2012, Chisage Mulsanne acquired 100% equity interest in Shanghai Yuexing from Jessica Clothing, a company then majority owned by Mr. Yang, for cash consideration of RMB5 million, which amount was agreed after arm's length negotiations with reference to the registered capital of Shanghai Yuexing. The consideration of the acquisition was settled in December 2012. Shanghai Yuexing mainly engages in marketing and sale of our apparel products, and it operates 43 branches in the PRC.

11. *Mulsanne Yue Garment*

Mulsanne Yue Garment was established on May 6, 2019 by Chisage Mulsanne, with registered capital of RMB45 million. Mulsanne Yue Garment engages in design and sale of apparel products of our Group.

12. *Yatlas Shanghai*

Yatlas Shanghai was established on May 5, 2014 by Boyin Investment Co., Ltd. (博銀投資有限公司) (“**Boyin Investment**”), which was then wholly owned by Mr. Yang, with registered capital of RMB10 million. In November 2016, Joy Sonic acquired the entire equity interest in Yatlas Shanghai from Boyin Investment for cash consideration of RMB10 million, which amount was agreed with reference to the registered share capital of Yatlas Shanghai. Pursuant to a supplemental agreement between Boyin Investment and Joy Sonic dated August 28, 2018, the parties agreed to postpone the settlement of the consideration for the acquisition to on or before June 30, 2019. As advised by our PRC Legal Advisers, taking into account the completion of the update registrations with relevant authorities for the aforesaid acquisition in November 2016, and the supplemental agreement, the deferred settlement will not affect our interest in Yatlas Shanghai provided the consideration is settled by June 30, 2019. Yatlas Shanghai's principal business is design, marketing and sale of apparel products of our Group, and it operates eight branches in the PRC.

Disposal of Subsidiary Modu E-Commerce during the Track Record Period

Modu E-commerce was established in the PRC on February 9, 2017. Immediately prior to its disposal on June 26, 2018, Modu E-commerce was held as to 80% by Chisage Mulsanne and 20% by Ms. Fei Qiuyan, a connected person solely due to her equity holding in Modu E-commerce prior to the disposal, with registered capital of RMB10 million.

Pursuant to a share transfer agreement dated April 30, 2018, Chisage Mulsanne disposed of its 80% equity interest in Modu E-commerce to Anhui Boguan Fashion Limited (安徽博冠服飾有限公司), an independent third party, at a cash consideration of approximately RMB3.3 million. The consideration was determined with reference to the net value of Modu E-commerce as of December 31, 2017. The disposal had been settled and completed. Upon completion of the aforesaid disposal and settlement of consideration on August 17, 2018, Chisage Mulsanne ceased to hold any interest in Modu E-commerce. Immediately before the disposal, Modu E-commerce was principally engaged in sale of women's clothing. Unlike our other subsidiaries, Modu E-commerce sells fast-moving womenswear targeting the mass market, hence its brand position is different from those of our existing brands, which mainly target at mid- to high-end customers who pursue trendiness and value fashion. The disposal of Modu E-commerce enabled us to focus on our core business, namely the fashion menswear brands and sportswear in the PRC and to potentially select women's brands that matches our brand positioning and target customer group better.

OUR HISTORY AND DEVELOPMENT

Agreement with 2XU

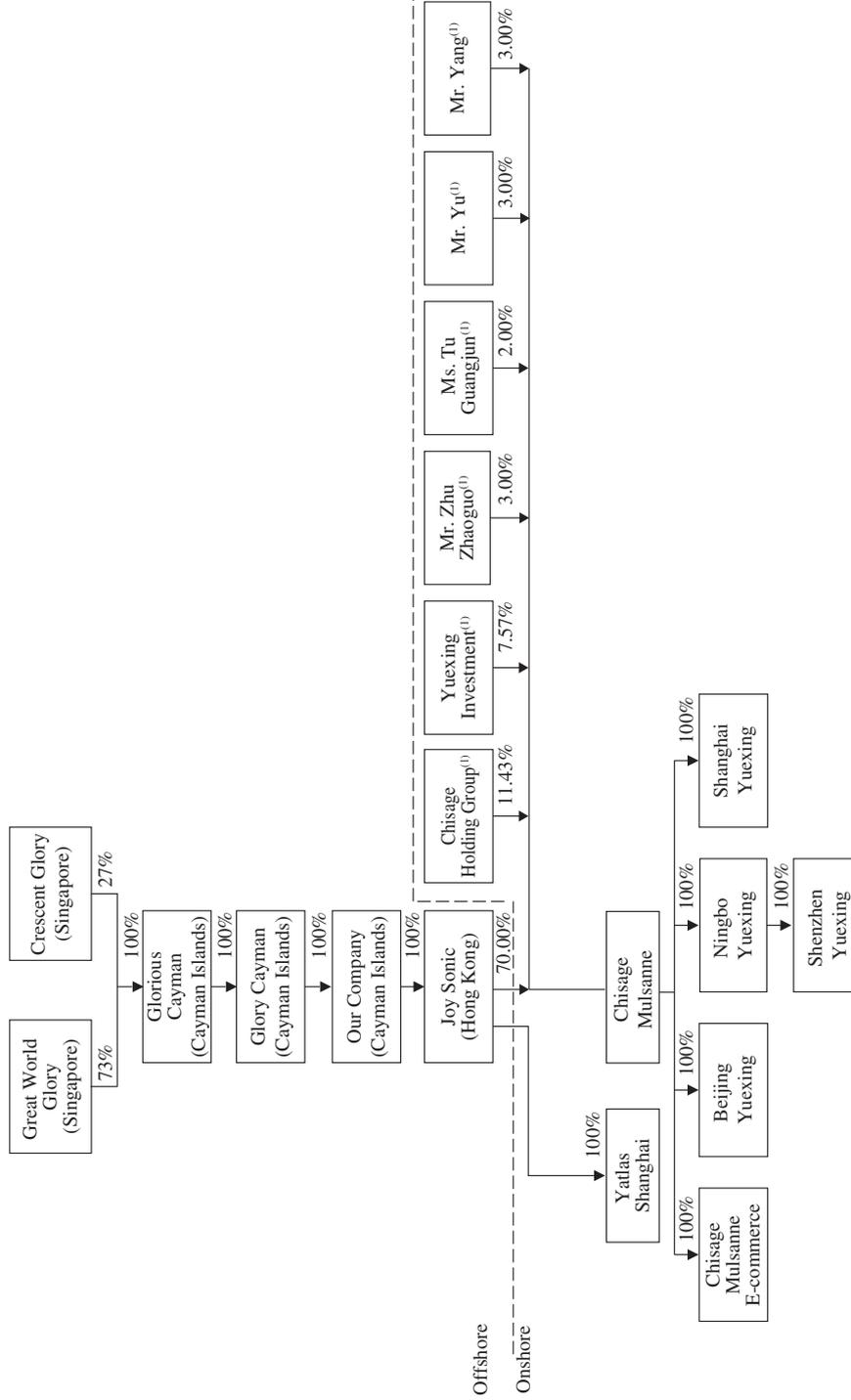
We entered into the 2XU Agreement with 2XU Pty Ltd. and 2XU HK Limited (together, “2XU”) on May 5, 2017 to form TwoXu Sports, a company whose business includes the design, development, manufacture, wholesale, import, distribution and/or retail of 2XU apparel and compression wear products. The principal terms of the 2XU Agreement are as follows:

Equity interests	:	1. Our Group: 70%
		2. 2XU: 30%
Total investment	:	RMB23 million
Registered capital	:	RMB15 million
Term	:	Indefinite, until termination pursuant to the 2XU Agreement
Transfers	:	No transfer of equity interests other than in accordance with the 2XU Agreement. Each party shall have a pre-emptive right on any transfer by the other party.
Board of directors	:	The board of TwoXu Sports shall consist of seven directors, of which five shall be appointed by us and two shall be appointed by 2XU. The chairman of the Board shall be appointed by us, and the vice-chairman shall be appointed by 2XU.
Management	:	The general manager and the finance chief shall be nominated by us.
Non-competition	:	Each party has given certain non-compete undertakings, including undertakings in relation to certain compression wear products, to the other party during the period when it holds any equity interest in TwoXu Sports and the distribution agreement and the manufacturing agreement are in force, subject to certain exceptions. As the brand “Yatlas” does not engage in the business of compression wear products, such operations do not constitute any breach to the non-compete undertakings.
Buyout	:	Upon the occurrence of certain specified events, 2XU shall have the right to require us to transfer all of our equity interest in TwoXu Sports to 2XU at the relevant transfer price to be determined in accordance with the formula set out in the 2XU Agreement.
		Such events include:
		<ul style="list-style-type: none">• material breach of agreement by us• material breach of law by us or TwoXu Sports• change of control of Chisage Mulsanne or Mulsanne Maisi without the prior written consent of 2XU (acting reasonably) (subject to certain exceptions) and such change of control would be materially detrimental to the main business, the reputation or the marketing of the products of 2XU or its affiliates or TwoXu Sports• termination of either the distribution agreement or manufacturing agreement• certain specified events relating to 2XU, including its initial public offering, acquisition and change of control
Termination	:	The 2XU Agreement may be terminated upon the unanimous agreement of the parties or in accordance to the terms of the 2XU Agreement.

In connection with the 2XU Agreement, we also entered into a manufacturing agreement and a distribution agreement with 2XU, the terms of which are set out in further details in the section headed “Connected Transactions”.

Our Pre-Listing Reorganization

In anticipation of our Listing, the Group undertook various reorganization steps starting from 2017. The following diagram sets forth our corporate structure immediately prior to such reorganization:



Note:

(1) The interests in Chisage Mulsanne held by each of Chisage Holding Group, Yuexing Investment, Mr. Zhu Zhaoguo, Ms. Tu Guangjun, Mr. Yu and Mr. Yang were charged in favor of Glory Cayman as part of the arrangement following the acquisition of our Company by the Financial Investors. Such charge was released in May 2017 in preparation for our pre-Listing reorganization.

OUR HISTORY AND DEVELOPMENT

Streamlining Our Structure

In June 2017, Joy Sonic acquired the 30% interests in Chisage Mulsanne held by the minority shareholders of Chisage Mulsanne for cash consideration of approximately RMB265.0 million or equivalent US dollars, based on arm's length negotiation between the parties with reference to the valuation report prepared by an independent valuation firm. The transaction was completed on June 30, 2017 for US\$39.6 million in cash, being the equivalent of RMB265.0 million. In July 2017, GXG Trading, a company wholly-owned by Madison International, which is in turn owned by four individuals who were minority shareholders of Chisage Mulsanne, agreed to subscribe for 139,587,396 shares of Glorious Cayman.

In August 2018, with a view to use our Company as the listing vehicle and allowing each of the Financial Investors and GXG Trading to hold their interest in our Group directly through our Company rather than through Glorious Cayman and Glory Cayman:

- each issued and unissued share of the Company with a par value of US\$1 each was subdivided into 1,000 Shares of US\$0.001 each;
- Glory Cayman transferred all the shares of the Company to GXG Trading, Great World Glory and Crescent Glory *pro rata* to their shareholdings in Glorious Cayman, the sole shareholder of Glory Cayman; and
- in consideration, GXG Trading, Great World Glory and Crescent Glory transferred *pro rata* approximately 90% in aggregate of their shares in Glorious Cayman to Glory Cayman.

In November 2018, the Company passed resolutions to the effect that (a) the authorized share capital of the Company was increased (from US\$50,000 divided into 50,000,000 shares of US\$0.001 each) by HK\$100,000,000 by the creation of 10,000,000,000 Shares of HK\$0.01 each; (b) following such increase, 1,560 Shares were allotted and issued fully paid to the existing shareholders, *pro rata* to their then interests in the issued share capital of the Company; (c) following such issue of Shares, the Company repurchased the 2,000 existing issued shares of US\$0.001 in the capital of the Company in issue immediately prior to the issue of Shares at a price of US\$0.001, following which such 2,000 shares of par value US\$0.001 each were canceled; and (d) following such repurchase, the authorized but unissued share capital of the Company was diminished by the cancellation of all the 50,000,000 unissued shares of US\$0.001 each in the capital of the Company. Accordingly, following the completion of the steps outlined above, the Company had an authorized share capital of HK\$100,000,000 divided into 10,000,000,000 Shares, of which 1,560 were in issue, and held as to 797, 295 and 468 Shares by Great World Glory, Crescent Glory and GXG Trading, respectively.

In April 2019, following the completion of the redenomination exercise set out above, an amount of HK\$1,984.40 standing to the credit of the Company's share premium account was capitalized by the issue fully paid of 198,440 shares of par value HK\$0.01 each to the shareholders in proportion to their then existing holding of shares, such that following such issue, the Company had 200,000 Shares in issue and held as to 102,200, 37,800 and 60,000 Shares by Great World Glory, Crescent Glory and GXG Trading, respectively.

RSU Scheme

On April 26, 2019, Great World Glory, Crescent Glory and GXG Trading agreed to implement the share incentive plan by each transferring 5,110, 1,890 and 3,000 Shares, respectively (representing 5% of the then issued share capital) to the RSU Nominee at par value. As a result, our Company was owned by Great World Glory, Crescent Glory, GXG Trading and the RSU Nominee as to 48.54%, 17.96%, 28.50% and 5.00%, respectively.

Capitalization Issue

Our Company will allot and issue a total of 749,800,000 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company immediately prior to the Listing Date in proportion to their existing shareholdings in our Company by capitalizing the sum of HK\$7,498,000 from the share premium account of our Company. The Shares allotted and issued pursuant to the above Capitalization Issue will rank *pari passu* in all respects with the existing issued Shares.

OUR HISTORY AND DEVELOPMENT

PRE-IPO INVESTMENTS

Pursuant to the Share Purchase Agreement entered into in February 2016 and share swap between Glorious Cayman and our Company in August 2018, L Catterton (through Great World Glory) and Crescent Point (through Crescent Glory) directly hold their interest in our Company. L Catterton and Crescent Point are independent of each other and are not a group of controlling shareholders. Please see the sections headed “— Our History — Acquisition by the Financial Investors” and “— Our Pre-Listing Reorganization — Streamlining Our Structure” above for details.

Principal Terms of the Pre-IPO Investments

Pursuant to the Share Purchase Agreement, the Financial Investors acquired 100% issued share capital of the Company from Updragon through Glory Cayman. The following table sets out a summary of the principal terms of the equity investments by the Financial Investors:

	<u>L CATTERTON</u>	<u>CRESCENT POINT</u>
Relationship between the investor and the Group	Other than its investment in our Group and that Mr. Huang Hanji, Mr. Ong Yew Thiong, Gilbert and Mr. Ravinder Singh Thakran are nominated by L Catterton as non-executive Directors, L Catterton and its ultimate beneficial owners are parties independent of our Company and its connected persons.	Other than its investment in our Group and that Mr. Lin Lin is nominated by Crescent Point as a non-executive Director, Crescent Point and its ultimate beneficial owners are parties independent of our Company and its connected persons.
Date of investment agreement	February 5, 2016	February 5, 2016
Amount of consideration paid	US\$307.9 million (equivalent to RMB2,072.6 million) (invested through Glory Cayman)	US\$113.9 million (equivalent to RMB766.6 million) (invested through Glory Cayman)
Basis of determining the consideration	The price-to-earning multiples on the normalized net profit of the Group in 2014	The price-to-earning multiples on the normalized net profit of the Group in 2014
Payment date of consideration	October 21, 2016	October 21, 2016
Cost per Share paid⁽¹⁾	RMB2,839.2 million (invested through Glory Cayman)	RMB2,839.2 million (invested through Glory Cayman)
Premium to the Offer Price⁽²⁾	25.61%	25.61%
Implied equity value	RMB4,056 million	RMB4,056 million
Shareholding percentage immediately before completion of the Capitalization Issue and the Global Offering	48.54%	17.96%

OUR HISTORY AND DEVELOPMENT

	<u>L CATTERTON</u>	<u>CRESCENT POINT</u>
Approximate percentage of shareholding held in our Company immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	38.32%	14.18%
Use of pre-IPO investment proceeds	Not applicable. The amount of consideration was all paid to Updragon.	Not applicable. The amount of consideration was all paid to Updragon.
Strategic benefits	To provide experience and advice in various fields, including retail, e-commerce and fashion, to assist formulation of our business strategies and to optimize our potential	To provide experience and advice in various fields, including retail, e-commerce and fashion, to assist formulation of our business strategies and to optimize our potential

Notes:

- (1) The cost per Share paid is based on the number of Shares before our pre-Listing reorganization described above.
- (2) The discount percentages are based on an Offer Price of HK\$5.28, being the mid-point of the indicative range of the Offer Price between HK\$4.68 and HK\$5.88, and the number of Shares to be held by L Catterton and Crescent Point after the Capitalization Issue.

With respect to the pre-IPO investments, each of L Catterton and Crescent Point has not been granted any special rights in relation to our Company. Except the lock-up requirements under the Listing Rules of which a controlling shareholder is subject to, none of L Catterton and Crescent Point will be subject to any lock-up after Listing.

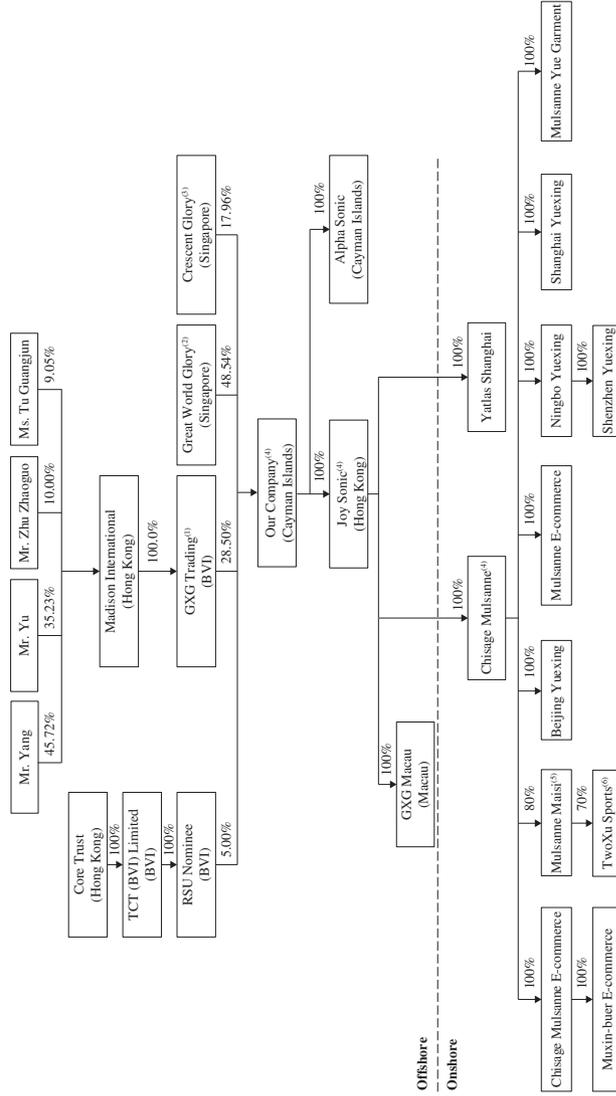
Confirmation by the Joint Sponsors

Based on the review of the relevant agreements, the Joint Sponsors are not aware of any special circumstances or incidents that would lead to a belief that the terms of the pre-IPO investments by L Catterton and Crescent Point as described above are not in compliance with (i) the Interim Guidance on the pre-IPO investment issued by the Stock Exchange in October 2010 and as updated in March 2017 in the Guidance Letter HKEx-GL29-12; (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017; and (iii) the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

OUR HISTORY AND DEVELOPMENT

CORPORATE STRUCTURE

The following diagram sets forth our corporate structure after our pre-Listing reorganization and immediately prior to the completion of the Global Offering:



Notes:

- (1) The Shares held by GXG Trading are charged in favor of the Financial Investors as part of the arrangements following the acquisition of our Company by the Financial Investors.
- (2) Great World Glory is majority owned by L Capital Asia 2, which is managed by one of our Financial Investors. Please refer to the sub-section headed “— Our History — Acquisition by the Financial Investors” above for details regarding the background of the Financial Investors. Great World Glory and L Capital Asia 2 are our Controlling Shareholders pursuant to the Listing Rules.
- (3) Crescent Glory is managed by one of our Financial Investors. Please refer to the sub-section headed “— Our History — Acquisition by the Financial Investors” above for details regarding the background of the Financial Investors.
- (4) The equity interest in Joy Sonic held by our Company and the equity interest in Chisage Mulsanne held by Joy Sonic are charged for the purpose of securing a bank loan. Please see the section headed “Financial Information — Indebtedness” for further details of the loan.
- (5) The remaining 20% equity interest in Mulsanne Maisi is owned by Ms. Li Shujun, who is a director of TwoXu Sports.
- (6) The remaining 30% equity interest in TwoXu Sports is owned by 2XU HK Limited, which is a company wholly owned by 2XU Pty Ltd (an associate of L Capital Asia 2).

OUR HISTORY AND DEVELOPMENT

PUBLIC FLOAT

Pursuant to Rules 8.08(1)(a) and (b) of the Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The Shares held by Great World Glory, Crescent Glory and GXG Trading will not be counted towards the public float upon the completion of the Capitalization Issue and the Global Offering. The Shares held by RSU Nominee will be counted towards the public float.

COMPLIANCE WITH PRC LAW

SAFE Circular No. 37

According to SAFE Circular No. 37, PRC residents are required to register with competent local SAFE branches regarding establishing or controlling offshore special purpose vehicles. As confirmed by our PRC Legal Advisers, Mr. Yang, Mr. Yu, Mr. Zhu Zhaoguo and Ms. Tu Guangjun, our beneficial owners who are PRC residents under SAFE Circular No. 37, have completed the registration pursuant to SAFE Circular No. 37 on June 6, 2017.

M&A Rules

On August 8, 2006, six PRC governmental and regulatory authorities, including the MOFCOM, the CSRC, the SAFE, the SASAC, the SAT and the SAIC, jointly issued M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules includes provisions which stipulate that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange. The M&A Rules is applicable if there is a “takeover of a domestic enterprise by a foreign investor”, which has been defined in Article 2 of the M&A Rules as the situations where (i) a foreign investor purchases the equity interests of a domestic non-foreign-invested enterprise (“**domestic enterprise**”) or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise, through which such foreign investor purchases the assets of a domestic enterprise and operates its assets; or (iii) a foreign investor purchases the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets.

As advised by the PRC Legal Advisers, Chisage Mulsanne became sino-foreign joint venture enterprise in December 2015. The acquisition of the entire equity interest in Chisage Mulsanne by Joy Sonic in July 2017, which turned Chisage Mulsanne into a wholly foreign-invested enterprise, should be governed by the Several Provisions on the Alteration of Investors' Equities in Foreign Investment Enterprises (《外商投資企業投資者股權變更的若干規定》). Accordingly, such acquisition does not fall within the scope of the M&A Rules, which provides rules in respect of the acquisition of domestic companies by foreign investors. As a result, M&A Rules does not apply to such acquisition. On July 19, 2017, the Investment Cooperation Bureau of Yinzhou District, Ningbo City issued the Update Filing Receipt for Foreign-invested Enterprise (No.甬外資鄞州備201700205) to Chisage Mulsanne for the aforesaid acquisition in July 2017.

OVERVIEW

We are a leading fashion menswear company based in China. We operate a new retail platform that focuses on providing customers with a seamless and integrated shopping experience and identifying customers' needs by integrating offline retail stores with online channels through the support of big data analytics. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. According to CIC, we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Leveraging our leading position in the fashion menswear market in China, we have strategically expanded into the sportswear market and other segments to enrich our brand and product portfolio. Furthermore, the online market has become a new major battlefield for the fashion menswear companies in China. We were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the online market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018. According to CIC, fashion menswear is a fast-growing market segment in the apparel industry in China, primarily due to the increasing per capita disposable income of Chinese residents, the new retail concept, the changing and increasingly sophisticated demands of Chinese consumers, big data capabilities, and increasingly diversified sales channels which allow greater access to customers. The total retail revenue in the fashion menswear market in China grew by a CAGR of 16.5% from 2014 to 2018, and is expected to grow by a CAGR of 12.8% from 2018 to 2023, according to CIC. Our core brand portfolio currently comprises two main categories — (i) GXG series: GXG, gxx jeans and gxx.kids, and (ii) sportswear: Yatlas and 2XU, each targeting a distinct customer segment and having a design identity. Our new retail platform integrating offline retail networks with online channels enables us to continue to build our brands, broaden product offerings, accumulate online and offline customer data, and capture future opportunities and position us for sustainable growth.

China is now at the global forefront of the new retail model, which represents an integrated omni-channel model that capitalizes on online and offline strengths, and increases efficiencies in terms of inventory management, supply chain management, product selection and logistics. Among the fashion apparel companies in China, we are a pioneer in establishing a new retail platform, according to CIC. We integrate online and offline channels and leverage big data analytics capabilities and mindset to enhance customer experience and optimize operational efficiency. With our deep understanding of customers, we have adopted a customer-centered model to offer our customers a one-stop shopping experience. For both our online and offline channels, we provide a similar product range and unified pricing, shared inventories, as well as flexible and efficient logistics support. Moreover, by analyzing the big data generated from both online channels and offline retail stores through our product lifecycle management system, we can capture the precise level of demand and quickly react to the latest market trends by adjusting our production and inventory plan, which is highly helpful for our inventory control and supply chain management.

Our products target young customers who seek to express their individuality and lifestyle through fashionable clothing. We adopt a multi-brand strategy, and offer a wide range of products that cater to the needs and tastes of our customers and their families. Our founders first launched our flagship GXG branded products in 2007, which was considered one of the most recognizable fashion menswear brands in China in 2017, according to a customer survey conducted by CIC. Following the success of GXG, we introduced gxx jeans in 2010, targeting male customers of a slightly trendier demographic than GXG and with more stylish elements in its designs, and gxx.kids in 2012 to bring our GXG series design philosophy into the kidswear market. In addition, with a view to expanding into the fast-growing sportswear and performance gear industry, we introduced Yatlas in 2014 to offer athleisure apparel and 2XU in 2017 to offer performance sportswear. Our successful multi-brand strategy demonstrated our vision in the fashion industry, multi-brand development and execution capabilities. Going forward, our goal is to develop our comprehensive design-driven platform as well as further expand and diversify our brand and product portfolio.

BUSINESS

We have implemented multi-faceted omni-channel branding and marketing strategies based on our understanding of customer psychology and the aspirations of our customers. In 2016, 2017 and 2018, our advertising expenses amounted to RMB112.0 million, RMB171.1 million and RMB179.2 million, respectively, representing 3.7%, 4.9% and 4.7%, respectively, of our total revenue for these years. Our omni-channel marketing strategies include online advertising, social media campaigns, cross-overs, and offline events and campaigns to increase customer awareness of our products and to promote brand recognition. We strive to build our “Fans Economy” (“粉絲經濟”), which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. Furthermore, we expect to provide personalized marketing content with different products to respective customer groups based on their personal profile, which we collect through our integrated membership system and their historical activities. In addition, our offline retail stores, with high quality services, act as an important platform to promote brand awareness, display products and enhance customer experience. We collect customers’ data from our online platform and offline retail stores, and further analyze it through our big data capabilities, which help us understand customers’ purchasing behaviors, construct customer profiles, and achieve our target of transforming new customers into loyal fans. These interactions enable us to nurture our loyal base of existing customers and enhance stickiness. We have been ranked top three among men’s apparel brands on Tmall on Alibaba’s Singles’ Day (雙十一) since 2011. In particular, in 2011, 2016 and 2018, our GMV ranked first among men’s apparel category. Together with our integrated sales and distribution channel and our continuous efforts to promote our brands, the number of our total members increased from approximately 6.1 million as of December 31, 2016 to approximately 11.2 million as of December 31, 2018.

During the Track Record Period, our revenue increased from RMB3,017.8 million in 2016 to RMB3,787.0 million in 2018, representing a CAGR of 12.0% from 2016 to 2018. Our profit for the year increased by 5.5% from RMB399.7 million in 2016 to RMB421.8 million in 2017, and decreased by 11.2% to RMB374.5 million in 2018. Our adjusted net profit increased from RMB390.8 million in 2016 to RMB482.5 million in 2018, representing a CAGR of 11.1% from 2016 to 2018.

OUR STRENGTHS

We have achieved our success due to the following competitive strengths.

Leadership in the rapidly growing fashion menswear industry in China

We are a leading fashion menswear company based in China. We operate a new retail platform that focuses on providing customers with a seamless and integrated shopping experience and identifying customers’ needs by integrating offline retail stores with online channels through the support of big data analytics. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. The fashion menswear market in China is rapidly growing, yet highly fragmented and competitive. According to CIC, along with the overall growth of China’s apparel industry as a result of greater urbanization, higher levels of disposable income and increasing per capita spending on apparel, the market of the fashion menswear in China is expected to increase rapidly primarily due to the new retail concept, the changing and increasingly sophisticated demands of Chinese consumers, big data capabilities, and increasingly diversified sales channels which allow greater access to customers. According to CIC, the total retail revenue in the fashion menswear market in China grew by a CAGR of 16.5% from 2014 to 2018, and is expected to grow by a CAGR of 12.8% from 2018 to 2023 with the top five players accounting for 14.4% of the total market share in 2018. According to CIC, we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Furthermore, we were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the online market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018.

BUSINESS

Our brand image conveys certain key concepts that have wide appeal among our target customers, including modern, trendy, individualistic and innovative lifestyle, confidence and zest for life. We have focused on and gained a leading position in the fashion menswear market in China, and strategically expanded into the sportswear market and other segments to enrich our brand and product portfolio. Our core brand portfolio currently comprises two main categories — (i) GXG series: GXG, gxg jeans and gxg.kids, and (ii) sportswear: Yatlas and 2XU, each targeting a distinct customer segment and having a design identity. Our founders first launched our GXG branded products in 2007, catered to different menswear style by introducing gxg jeans in 2010 and brought our GXG series design philosophy into kidswear market by launching gxg.kids in 2012. With a view to expanding into the fast-growing sportswear and performance gear industry, we introduced Yatlas in 2014 to offer athleisure apparel and 2XU in 2017 to offer performance sportswear. Our multi-brand business model allows us to maintain a distinct style and brand culture that appeals to our target customers and helps us further grow our loyal end customer base.

As customer's purchasing habits change with more online spending, we are dedicated to building our new retail business platform and benefit from the synergies by integration of our online and offline sales network. Our revenue generated from sales of apparel products through online channels increased by 69.1% from RMB715.4 million in 2016 to RMB1,209.6 million in 2017, and further increased by 11.6% to RMB1,350.3 million in 2018. According to CIC, we recorded GMV of RMB360.8 million, RMB463.0 million and RMB548.3 million for the Alibaba's Singles' Day (雙十一), the largest online shopping day in China, in 2016, 2017 and 2018, respectively. We have been ranked top three among men's apparel brands on Tmall on Alibaba's Singles' Day (雙十一) since 2011. In particular, in 2011, 2016 and 2018, our GMV ranked first among men's apparel category. Following our success on Tmall, we subsequently expanded onto other online platforms such as Taobao, WeChat mini program and Vipshop. Online channels form an integral part of our new retail platform and customer experience.

New retail platform comprising online and offline channels

We operate a new retail platform that focuses on providing customers with a seamless and integrated shopping experience and identifying customers' needs by combining offline retail stores with online channels. Unlike a traditional business model that merely focuses on either offline or online channels, we adopt an integrated omni-channel model that capitalizes on online and offline strengths, and increases efficiencies in terms of inventory management, supply chain management, product selection and logistics. We attract and direct customer traffic across our integrated online and offline channel. Following our target customers' purchasing pattern, we sell our products through online channels, including major online platforms, such as Tmall, Taobao, WeChat mini program and Vipshop, to allow them to make purchases "24/7." As of December 31, 2018, our offline network consisted of 2,250 retail stores across China, including 720 self-owned stores, 532 partnership stores and 998 distributorship stores.

Our online channels can provide convenience to customers by offering instant purchases, enhance customers' awareness of our brands and attract online customers to our offline retail stores. Our offline retail stores, with high quality services, act as an important platform to promote brand awareness, display products and enhance customer experience. Supported by our new retail platform, which focuses on customer needs, we offer customers convenience to browse our products and make purchases both online and offline, and choose among different pickup or delivery options. For example, when shopping in our offline retail store, if a customer is still hesitating, he can scan the product barcode to save the product in his online shopping cart first and make a purchase decision afterwards. This online and offline integration saves customers the trouble of having to come back to our offline retail store again if he later decides to make the purchase. Furthermore, to better construct customer profiles and understand their needs more accurately, we synchronized our VIP membership program and collect customer data from online channels. We then analyze these data through our in-house data analytics systems to better locate our potential customers and implement targeted marketing strategies. Our members can convert bonus awards from online and offline purchases into different levels of discounts for future purchases. Customers who have gained familiarity with our brands and experienced our services in our offline

BUSINESS

retail stores will have greater confidence in our products offered through our online stores. Besides, customers can seek fashion advice from and provide feedbacks to our offline sales personnel, or share and exchange their product reviews on online platforms, which will influence our future product design. We also have a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers' preference. Our online exclusive products account for approximately 25.7% and 32.7% of the SKUs offered through our online channels in 2017 and 2018, respectively.

Our new retail platform not only enhances customer experience but also better manages inventory level by making inventory allocation quickly between online and offline channels. We use our online channels to test market acceptance for new products and better manage our supply chain and inventory level based on the sales performance of such products. We have integrated our online and offline inventories and operate a cloud-based inventory sharing and allocation system, which provides inventory level information of each online platforms and offline retail stores to our management, and allows them to adjust the product offerings and inventory allocation to improve sales performance. In August 2018, we have implemented a product lifecycle management system, which provides recommendations over the expected lifecycle of products, sufficiency of current inventory levels and other feedback, which enables us to react and better manage our supply chain, inventory and overall product strategies. For the non-online exclusive products, after customers place orders online, our system is designed to locate, order and ship the desired item following the optimal delivery option, which can enhance customer experience and maximize our operational efficiency. Our cloud-based inventory sharing and allocation system enables our customers to make purchases even if the particular desired item is out of stock in a particular store.

Multi-brand strategy to achieve sustainable growth in various growing market segments

We adopt a multi-brand strategy, and offer a wide range of products that cater to the needs and tastes of our customers and their families. We have created a multi-brand strategy in which our loyal customers can make their purchases of different brands for their children, spouse, or other family members and friends at various ages and stages for different occasions. Our new retail platform integrating offline retail networks with online channels enables us to continue to build our brands, broaden product offerings, accumulate online and offline customer data, and capture future opportunities and position us for sustainable growth.

With our vision in the fashion industry, multi-brand development and execution capabilities, we have expanded our brands to capture future market opportunities. Targeting young fashion customers, we launched our flagship brand GXG in 2007, focusing on male customers who has a strong desire to be fashionable and to express an individual style. According to the customer survey conducted by CIC, GXG is considered one of the most recognizable fashion menswear brands in China in 2017. Following the success of GXG, we introduced gxg jeans in 2010, targeting male customers of a slightly trendier demographic than GXG, and with more stylish elements in its designs. Our multi-brand strategy enables us to create a lifestyle ecosystem to fit customers' evolving needs. For example, benefited from China's two-child policy and our existing brand recognition, part of the rationale for the launch of gxg.kids was the result of a group of our customers who become parents and would like to dress their children in similar styles.

Moreover, as Chinese customers are developing a more health conscious lifestyle and increasing their participation in sports activities, according to CIC, we have further entered into the athleisure market through the introduction of YAtlas in 2014, which offers athleisure apparel. After gaining more understanding on the fast-growing sportswear industry, we entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017, which specializes in tech compression tights for triathlon, cycling, swimming and running. Through 2XU, we intend to introduce high quality, fashionable sportswear to sports enthusiasts who place higher emphasis on performance to further expand our customer base. Going forward, we expect to cover a wider customer group with broader product offerings.

Flexible and innovative marketing strategies with highly active loyal fans community

We have implemented multi-faceted omni-channel branding and marketing strategies based on our understanding of customer psychology and the aspirations of our customers. Our omni-channel marketing approaches include online advertising, social media campaigns, cross-overs, and offline events and campaigns to increase customer awareness of our products and to create strong brand recognition. For online advertising, we have adopted a holistic approach: with our big data analytics, we realize our marketing efforts and strategically devote more efforts on certain popular SKUs to attract user traffic and boost our visibility and search rankings on major online platforms, which will further enhance our overall brand recognition. During the major campaign events, such as Alibaba's Singles' Day (雙十一), we analyze historical customers' behavior and real-time user traffic data and strategically devote our resources during specific periods. With the growing importance of social media in China, we identify and build relationships with influential individuals on social media (or "key opinion leaders/KOLs") to create a "buzz" in certain target markets prior to the launch of a new product. In addition, we use our offline retail stores to convey our brand image, display products and interact with customers, which we believe are effective means for acquainting our customers with our products and advertising our brand philosophy. As we target young customers, we implement creative marketing strategies to keep up with the evolving customer shopping trends. For example, in June 2018, inspired by Pepsi's young and popular brand image, gxx jeans launched a cross-over product line combining Pepsi's signature colors, red, white and blue, with the latest fashion trends to attract young customers. To promote our cross-over products, we used social media, celebrities and KOLs' endorsement and pop-up stores with interactive installation, to provide customers with a new and fun shopping experience. In 2016, 2017 and 2018, our advertising expenses represented 3.7%, 4.9% and 4.7%, respectively, of our total revenue for these years.

Furthermore, we have integrated our online and offline channels to build our "Fans Economy" ("粉絲經濟"), which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. We analyze our customers' purchasing behaviors via the database built through our online platforms and offline retail stores, which plays a critical role in our target of transforming new customers into loyal fans. To further enhance customer loyalty, we introduced our VIP membership program in 2009. Our members can convert bonus awards from online and offline purchases into different levels of discounts for future purchases and are entitled to participate in periodic, member-only promotion campaigns and offline exclusive events. We interact with customers both through our offline sales personnel and our online social network platforms. We routinely share our design philosophy with subscribers of our public accounts on Weibo and WeChat and provide information regarding our artistic and lifestyle taste and styling of clothes, which help nurture our loyal customer base and enhance stickiness. In addition, compared with other online platforms, WeChat mini program provides an entry point to the largest amount of mobile traffic in China and a built-in and intuitive way to interact with our customers. Through this, we can conduct targeted marketing, offer personalized content and dynamic pricing to our target customers and expand our customer reach. Together with our integrated sales and distribution channel and our efforts to promote our brands, the number of our total members increased from approximately 6.1 million as of December 31, 2016 to approximately 11.2 million as of December 31, 2018.

Product design and supply chain empowered by big data analytics

During the exploration of our new retail business model, we gradually developed our own big data analytics capabilities with our new retail initiatives by utilizing and integrating the data originally scattered among our different information management systems and channels. We analyze these data and develop our own analytics and solutions to suit our business needs and further apply to our business operation. Our big data capabilities are demonstrated by our data collection, analytics and application. We collect our customer data through customers' feedbacks to offline sales personnel and on online social platforms as well as our synchronized VIP membership program. Our big data analytics capabilities support our product design and display marketing initiatives and inventory and supply chain management. Such capabilities enable us to analyze customers' preferences and spending patterns, which help us better serve them and fine tune our product design and marketing

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strategies, including through specially targeted offerings, both online and offline. For example, through the sensors in our smart stores, we can know how many times each product is tried on and purchased. If a product has been tried on for many times but only been purchased for a few times, we will improve the fabric and texture of the product. Based on the customer route data to our online and offline channels, we will adjust the user experience design on our online channels and the product display in our offline stores. The customer behavior data collected can send customer portraits to our online and offline sales personnel through our CRM system and they can provide targeted marketing and increase service quality accordingly. It enables us to strategically plan our future product offering and increase the efficiency of our supply chain. Our big data analytics could analyze correlations between customers' purchasing behavior against their geographical and demographic distribution by gathering a broad range of data, including offline store traffic, product popularity, customers' purchasing amount, frequency, time and location, membership information and customers' feedback to sales personnel. Our design team receive such customer feedbacks and reflect customers' preferences in our design process. The big data analytics contributes to helping us drive constant improvements to our marketing and promotion process, and better displays products' attributes to customers, thereby enhancing the desirability of our products.

We also take advantage of big data analytics to manage our inventory level and provide flexibility to the future market reaction. For example, we do not enter into long-term agreements with our suppliers and only place orders during the contract period with our suppliers as necessary. When we first place orders, we only order for approximately 70% to 80% of our products, while reserving the rest for more popular products to retain flexibility. To facilitate the efficiency of our new orders, we utilize our product lifecycle management system to provide recommendations over the sufficiency of current inventory levels. We plan to gradually ship our products directly from the factories instead of the warehouses to retail stores and end customers to speed up our time to market and lower operation cost. Leveraging our long-term relationships and flexible supply chain capabilities, our OEM suppliers can usually respond to our additional demands in one to several weeks. We utilize supply chain and inventory analytics to receive transaction and inventory data from each store, which provides greater accuracy, visibility and analytics. In August 2018, we have implemented a product lifecycle management system, which provides recommendations over the expected lifecycle of products, sufficiency of current inventory levels and other feedback, which enables us to react and better manage our supply chain, inventory and overall product strategies. We also pre-sell certain new products online to test market acceptance since such data from online platforms can provide us with fast market responses and customer feedbacks. These approaches provide future guidance for mass production and inventory preparation as we have gained understandings on the expected sales of the new products, and further help us achieve balance between adequate supply and flexible supply chain to enhance our margins. In addition, we minimize our exposure to fluctuations in the prices of these raw materials by monitoring their prices closely with big data analytics and advancing or hedging orders at appropriate times based on anticipated production and sales forecasts.

Highly experienced management and investor teams driven by entrepreneurialism and professionalism

We have young, passionate and dynamic management and investor teams with an entrepreneurial spirit, extensive operational expertise and an in-depth understanding of our industry and the new retail platform. Our management team is led by chief executive officer, Mr. Yu, who has brought us to the current prosperity out of the passion and vision to promote men's fashion in China. Mr. Yu has over 17 years of experience in the fashion industry, including acting as sales director and general manager at various brand apparel companies since 2001. It was under Mr. Yu's leadership that we have grown into a well-established fashion menswear company with a high degree of product differentiation, a broad brand portfolio and an integrated new retail platform. We have also been devoted to establishing an experienced and professional management team with working experience specializing in areas such as fashion design, retailing, marketing and financial functions to support our founders. Members of our senior management have been in the industry for an average of 12 years.

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Furthermore, we have fostered a young corporate culture and encouraged innovation by holding committee discussions with members including both management and first-line employees to facilitate internal communication and reflect the core values of our Company. Our management has committed to innovation, implemented our corporate governance program and spearheaded our rapid development into one of the most unique and recognizable brands in the fashion menswear industry in China. In addition, we rely on valuable guidance provided by our investor teams, each of whom brings along a wealth of experience in fields such as retail business, e-commerce and fashion. Throughout its investment, L Catterton has leveraged its profound industry experience in retail, operational expertise, consumer insights and extensive network to help us reach our full potential. Crescent Point has over ten years of experience in retail and online business and has played an instrumental role in the formation of our business strategies.

BUSINESS STRATEGIES

We intend to maintain and strengthen our position as a leading fashion menswear company and continue to develop our leading position in the broader apparel market in China. Specifically, we plan to pursue the following strategies to achieve our objectives:

Continue to maintain our industry leading position by optimizing new retail platform and further enhance customer experience and brand awareness

We believe that our success in establishing an extensive and well-managed fashion apparel company under the new retail platform provides us with a solid foundation for future growth. To maintain our industry leading position and further expand our market share, we plan to further strengthen the integration between our online and offline channels with synchronized membership systems in order to optimize our customers' shopping experience and promote our brand awareness. We plan to further implement our new retail strategy and utilize existing online and offline channels, which allow us to collectively gather and analyze important customer data using our big data analytics, such as customer shopping amount and frequency, to implement coordinated marketing and cross-selling activities. In the future, we will continue to attract and direct customer traffic across our integrated online and offline channel.

We plan to (i) utilize our upgraded smart retail store network to further collect offline customer traffic and interaction information to enhance our customer data system. We will upgrade our offline retail stores to smart stores by renovating existing offline retail stores, including installing face recognition, behavior judgment, statistics facilities and full-scale RFID applications. We upgraded 121 offline retail stores to smart stores in 2018 and plan to finish the upgrade of approximately 500 offline retail stores to smart stores in each of 2019, 2020 and 2021, respectively. We also expect to conduct back office system consolidation by 2019. Currently, we expect to spend approximately RMB0.2 million to RMB0.3 million per store for renovation and smart equipment upgrade for flagship stores, and RMB30,000 per store for other stores. As part of the upgrade, we will conduct the renovation relating to the upgrade of our self-owned stores to smart stores during off-business hours to avoid any material adverse impact on our business operation. These big data initiatives can help us identify the popularity of different products in the market, support our customer portrait recognition, and connect our offline retail stores to our online platform. In addition, with more detailed customer profiles available, our sales personnel can understand our customers better and provide high-quality services to them. See "Future Plans and Use of Proceeds" for details; and (ii) further synchronize our online and offline VIP membership information to achieve personalized and targeted marketing. In the future, we will only have one VIP membership program across all of our brands combining both online and offline. We will use our CRM management system to label and manage our membership information in order to provide all members with consistent service experience. With these initiatives, we can make shift adjustments to address customers' needs and promote our brand image to help maintain customer loyalty, achieve incremental sales and facilitate the launch of new brands and products.

Continue to develop the sales potentials in athleisure and performance sportswear industry through YAtlas and 2XU

We intend to leverage our experience and market-leading position in the fashion menswear industry to further penetrate athleisure and performance sportswear industries which we believe can continue to grow our business and broaden our customer base through diversified product portfolio. Athleisure clothes can be worn in various occasions and are popular among young customers. In addition, Chinese customers are developing a more health conscious lifestyle and increasing their participation in sports activities, according to CIC.

In May 2017, we entered into an agreement to introduce 2XU, which is known for its tech compression tights for triathlon, cycling, swimming and running. Through 2XU, we intend to introduce this internationally well-known high quality and fashionable sportswear brand to Chinese customers. To promote 2XU's professional image, we plan to continue to hold online and offline events, including engaging celebrities or "KOLs" to share word-of-mouth recommendations and sponsoring professional competition, to increase brand visibility in the performance sports field and penetrate into our target customer group. We plan to implement our marketing strategy for 2XU via "online to offline" and "professional to athleisure" approaches. As our target customer group values interactive experiences, we plan to integrate our endorsement and sponsorship activities with interactive promotions and featured products. We plan to sponsor major sports events, including triathlons and marathons in tier one and tier two cities like Beijing, Shanghai, Shenzhen, Hangzhou and Guangzhou. We plan to open pop-up stores and cooperate with gyms to provide our target customers with interactive product experiences. Since typical performance sports customers choose to shop at multi-brands sports stores in order to find the best performance products among a wider collection of product categories, we plan to introduce 2XU into more multi-brands sports stores first and open mono-brand offline retail stores afterwards. As of the Latest Practicable Date, we have introduced 2XU into 22 multi-brands sports stores and opened two mono-brand offline retail stores. We plan to increase to 60 multi-brands sports stores and 21 mono-brand offline retail stores by the end of 2019, and expand to 100 multi-brands sports stores and 34 mono-brand offline retail stores by 2020. Meanwhile, we will spare no efforts to improving our products including adopting lighter and more comfortable raw materials and applying our most advanced technology to appeal to performance sportswear customers. After we have built brand recognition and popularity among professional sports enthusiasts, we plan to further expand our product portfolio and implement marketing strategies to target our loyal brand fans and sports amateurs taking advantage of the influence and trustworthy recommendations from performance sports customers. We believe our understanding of our target customer groups and tailored marketing approaches can help us continue to develop the sales potential of athleisure and performance sportswear sectors.

Steadily expand our offline retail network and structure as well as optimize our online and offline channel mix and integration

We distribute our products through a variety of sales channels across China, including multiple online and offline sales networks. We believe that site selection is critical to the success of our retail stores. Over the years, our management has accumulated valuable experience in identifying and evaluating prospective store locations. Our offline retail stores cover all of the tier one and tier two cities and a majority of the tier three cities in China. We are now strategically broadening our retail network by opening more stores in existing cities to increase penetration and expanding geographical coverage to new cities. Furthermore, in order to optimize our retail network, we plan to strategically open more retail stores in shopping malls. This is driven by (i) the robust development of shopping malls; (ii) our belief that shopping malls are more aligned with our brand positioning; and (iii) our strategic partnerships with select shopping malls which offer prime store location opportunities to us.

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Following implementation of a new retail strategy to integrate our online and offline sales channels, enhance store operation and inventory management capabilities, and obtain first-hand market information, we have ceased allowing our distributors to engage any new sub-distributors and terminated existing sub-distributors arrangements in late 2016. We also intend to continue to convert some of our partnership and distributor stores into self-owned stores. Also, our self-owned stores generally contribute to us a higher gross profit margin than our partnership and distributor stores. Our continuous cooperation with partners and distributors, on the other hand, is an asset-light cost-effective alternative to (i) reach a diverse customer base in our existing geographic markets and (ii) expand into new geographic markets by leveraging their local market knowledge and resources. Moreover, we plan to continue to transform our business in the big data era to benefit from the synergies of the integration of our online platform presence and offline sales network. We will further upgrade our offline retail stores to smart stores to optimize online and offline channel mix and integration.

Continue to strengthen and integrate our online and offline VIP membership program with big data analytics

Our integrated online and offline channels enable us to synchronize our VIP membership program across our offline retail stores and online platforms. Our members can convert bonus awards from online and offline purchases into different levels of discounts for future purchases. Through the connections among products, membership and services, we plan to enhance our online and offline integration by continuing to leverage the information technology and big data. We plan to further analyze users' behavior in different scenarios to better exploit and satisfy customer demands. For example, in the future, while shopping in our offline retail stores, besides asking our sales personnel for information, our customers can also scan a specific product's barcode easily with their smartphones to review detailed product information and other customers' reviews. By scanning the barcode, a broad range of data, including offline store traffic, product popularity, customers' purchasing amount, frequency, time and location, membership information and customers' feedback will also be recorded in our big data systems and we can send targeted promotion information to such customer afterwards. We also plan to adopt a sales incentives plan to encourage our offline sales personnel and boost our sales performance. Under our new retail platform, customers' online and offline purchase are integrated and cross-selling activities attributable to the efforts of our offline sales personnel will also be counted as their sales performance to avoid conflict of interest between our online and offline sales channels. By continuing to synchronize our online and offline VIP membership programs, our sales personnel in our offline retail stores could have more understanding on member clients by reading their profile in our system, such as their historical purchase records and preferences and therefore can provide tailored recommendations and high-quality services to our customers. In the future, we will only have one VIP membership program across all of our brands combining both online and offline. We will use our centralized CRM system to label and manage our membership information in order to provide all members with consistent service experience.

Strengthen our supply chain management and enhance warehousing and logistics infrastructure

Continuous enhancement of our supply chain and inventory management capabilities is key to maintaining our competitive position. We plan to enhance our supply chain and logistics infrastructure to optimize product replenishment, shipment coordination, inventory and quality control. We plan to continue to upgrade our warehousing and inventory sharing and allocation system with our big data analytics across all our online and offline retail stores so as to optimize internal order allocation and inventory management.

To implement our new retail strategy in the long term, we plan to purchase land and establish our self-owned advanced smart logistics center. Since we plan to implement new retail initiatives in various aspects, including smart equipment upgrade and intelligent logistics management, we believe it is more beneficial and sustainable for us to build our own smart logistics center compared to continuing to rent warehouses. It is difficult to upgrade our current two rented warehouses. To

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install the new equipment, we will need to make changes to the building structure. However, one of the landlords does not allow changes to the building structure and the lease term of the other warehouse is not long enough and cannot be extended so that material changes to the building structure are very difficult to be approved by the landlord. With our new self-owned smart logistics center, we can ensure enough gross floor area for the upgrade and installation of our equipment. We can also be prevented from incurring expensive removal cost when the leases are expired or terminated and avoid the possibility of interruptions to our operations. Furthermore, we will be able to control our logistics cost and increase operational efficiency with one high-capacity self-owned logistics center. It is expected to cover a gross floor area of approximately 200,000 to 250,000 sq.m. We will seek a convenient location near Ningbo which is close to highways and other logistics suppliers' base with suitable infrastructure. In order to meet the logistics needs of our new retail platform, the capacity of the new logistics center is expected to be up to 20.0 million units for storage with a total annual throughput capacity to sort and distribute of 80.0 million units. Through RFID and intelligent management, we can further enhance the sorting, distributing and storing capacity of our new logistics center. Moreover, such smart logistics center can enhance our sorting and distributing speed significantly. Benefited from our intelligent management and economies of scale, we expect to lower our staff and shipping expenses and reduce our fixed logistic costs as well as increase our operational efficiency. With the combination of the logistics information feedback, we can further achieve visualization of all our logistics orders. Our smart logistics center will be linked to our offline smart stores to track the sales and after-sales of each item and further enrich our operating database. See "Financial Information – Capital Expenditures" and "Future Plans and Use of Proceeds" for details. In addition, we expect to continue to work with other third-party warehousing and logistics service providers in the future to offer us logistics solutions and value-added services of the supply chain to speed up our time to market and lower operation cost.

Further implement our multi-brand strategy and seek potential cooperation opportunities

In our product development, we intend to continuously improve our product mix and expand our product portfolio based on market information and focus on products and segments that cater to evolving fashion trends and customers' preferences. We plan to, among others, selectively pursue brand acquisitions of or develop strategic alliances with companies in mid-to high-end fashion womenswear, mid-end fashion kidswear for children aged from 2 to 15, mid-end fashion sportswear, to complement our existing channels, positioning and price. We will target brands with considerable market share and business scale in China and overseas, or overseas brands which still have many growth potential in China. We have the experience of successfully integrating a new brand into our brand portfolio such as 2XU. As part of our plan to continue to develop our leading position in the broader apparel market in China, we intend to selectively pursue acquisitions, strategic alliances and joint ventures to expand our brand portfolio and product offerings while maintaining our brand philosophy. Under our new retail strategy, we will use our big data analytics capabilities relating to customers and products to seek the brands that can integrate fully with our existing brand and product portfolio and match our brand positioning and target customer group. We will evaluate any target brand's commercial potential and its fit with our brand philosophy. We will also take into account the financial condition and profitability of any potential targets and partners. See "Future Plans and Use of Proceeds" for details. As of the Latest Practicable Date, we had not identified any specific acquisition target or partner, but we will continue to look for suitable opportunities for acquisitions and setting up strategic alliances and joint ventures with business partners.

OUR NEW RETAIL BUSINESS MODEL

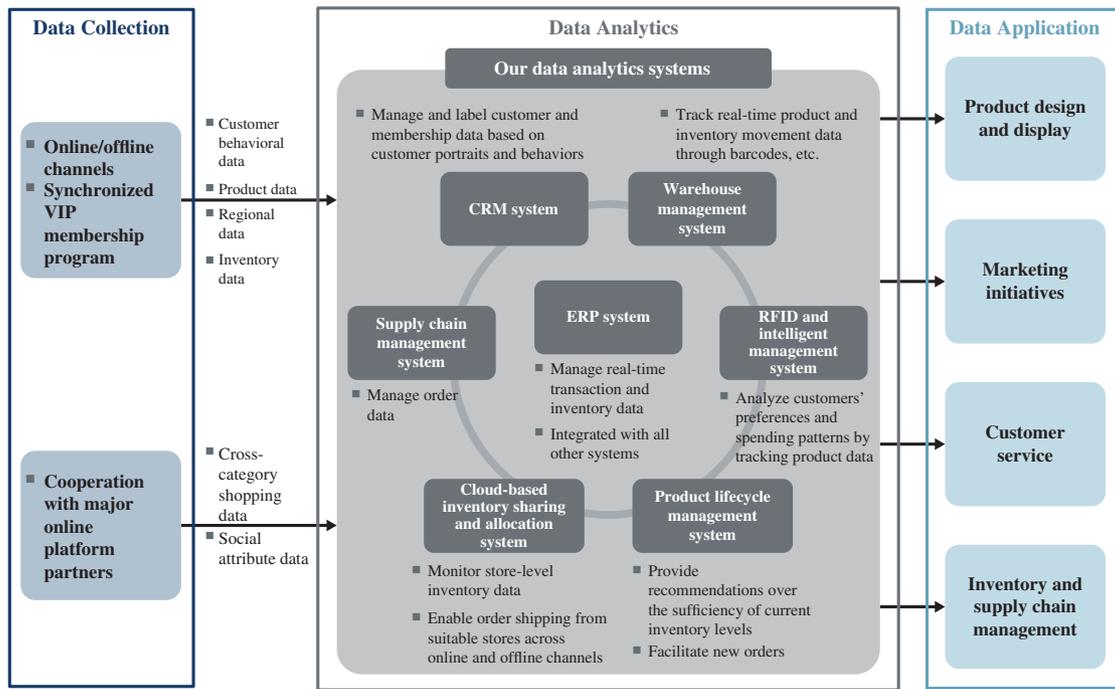
New retail is an integrated omni-channel business model that capitalizes on online and offline strengths, delivers a seamless and consistent customer experience, and increases efficiency in terms of inventory management, supply chain management, product selection and logistics. Moreover, customers become cooperative producers as their needs impact retailers' product development and innovation. According to CIC, new retail has become a major trend of the apparel industry in China in recent years. Major fashion apparel brands in China including us have been adopting the new retail business model with innovative initiatives, and we are a leader in new retail integration among the brands.

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We developed and transformed our business model over time from a traditional retail model to separate, unintegrated online and offline channels, and subsequently to a new retail business model. We first started our business offline in 2007 and expanded into online channels in 2010. Seeing the potential synergies among our two separate channels on customers and products, we began to rethink and explore the possible integration of the two channels to provide customers with a seamless shopping experience. From 2014, we allowed customers to pay online with products shipped directly from our offline stores. Furthermore, to ensure the alignment of interests between our online and offline channels, we gradually established a cloud-based inventory sharing and allocation system from 2016, and synchronized our VIP membership program in 2018. With the data gathered and the big data analytics capabilities we developed in-house, we started to upgrade our offline retail stores to smart stores, build our product lifecycle management system and enhance our flexible supply chain capabilities in 2018.

We utilize online platforms of third parties and our own websites as our online channels to sell our own products. However, we have not provided services to other parties for trading via our own online platforms. As advised by our PRC Legal Advisers, given our business through e-commerce platform only involves sale of our own products and we do not provide services to other parties for trading via our own online platform, we are not required to obtain the value-added telecommunication service certification, and not subject to the foreign ownership restriction under the relevant PRC laws and regulations. See “Regulatory Overview – Laws and Regulations Relating to the PRC Online Trading” for more details on relevant PRC laws.

The below chart illustrates the key features of our new retail business model.



During the exploration of our new retail business model, we gradually developed our own big data analytics capabilities with our new retail initiatives by utilizing and integrating the data originally scattered among our different information management systems and channels. We analyze these data and develop our own analytics and solutions to suit our business needs and further apply to our business operation. Our big data capabilities are demonstrated by our data collection, analytics and application.

Data Collection

We collect diversified data, such as (i) customer behavior data: customer portrait, shopping preference and frequency. We collect customer behavior data through customers' feedbacks to offline sales personnel and on online social platforms as well as our synchronized VIP membership program; (ii) product data: products sold to overall in-stock SKU rate and try on rate; (iii) regional data: weather and consumer purchasing power; and (iv) inventory data. Through the cooperation with other major online platforms, we also collect cross-category shopping data and social attribute data to have more thorough understandings of our customers and the markets.

We use API, a set of functions and procedures that allow the creation of applications which access the features or data of an operating system, application or other service, and data table techniques to connect our different systems; therefore, the data we gathered can be shared and further utilized among our front end systems and back office systems.

Data Analytics

As showed in the chart above, our ERP system is the base of our big data analytics systems with various supporting systems fully integrated, including CRM system, warehouse management system, cloud-based inventory sharing and allocation system, product lifecycle management system, RFID and intelligent management system, supply chain management system and others.

For example, after years of experience and development, our CRM system is now integrated with our ERP system. Our CRM system can extract product data real time from our ERP system and match them with the customer behavior data to further tag and categorize customers through their age, gender, region, purchasing power, preferences and shopping frequency. Our RFID and intelligent management system will also record product movement data such as try on rate and combine them with customers' purchasing record in our ERP system to further conduct data analytics.

In addition, our omni-channel order center is consisted of our inventory, order and settlement system throughout our online and offline channels. The inventory movement real-time data stored in our warehouse management system will transmit to our ERP system, and further to our in-house cloud-based inventory sharing and allocation system, which enables our customers to make purchases on demand even if the particular desired item is out of stock in a particular store. All the order information are stored in our ERP system as a centralized order management center.

To enhance the efficiency of our new orders, we developed our in-house product lifecycle management system to provide recommendations over the sufficiency of current inventory levels. Based on the historical product sales and inventory data stored in our ERP system, we established our own forecast model to develop analytics and system regarding product lifecycle management.

Furthermore, instead of using traditional analytical techniques which can only do sheet and statistics analytics, we further installed big data analytical software and products, such as Apache Hive, Sqoop, Tableau series products, HDFS, to support our big data gathering, storage and calculation.

Data Application

Our big data analytics capabilities support our product design and display, marketing initiatives and inventory and supply chain management. Such capabilities enable us to analyze customers' preferences and spending patterns, which help us better serve them and fine tune our product design and marketing strategies.

Product design and display

Our big data analytics could analyze correlations between customers' purchasing behavior against their geographical and demographic distribution by gathering a broad range of data, including offline store traffic, product popularity, customers' purchasing amount, frequency, time and

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location, membership information and customers' feedbacks. Our design team collects such customer feedbacks and reflects customers' preferences in our design process. After the sale of new products commences, our marketing team closely monitors sales data and customer feedbacks and communicates with our design team. For example, through the sensors in our smart stores, we can know how many times each product is tried on and purchased. If a product has been tried on for many times but only been purchased for a few times, we will improve the fabric and texture of the product. Based on the customer route data to our online and offline channels, we will adjust the user experience design on our online channels and the product display in our offline stores.

In addition, as customers' purchasing behavior shifts towards to online stores, we sell products specifically designed for online channels to provide customers with more incentives to shop through our online channels. We have assembled a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers' preference.

Marketing initiatives

We utilize our in-house data analytics systems to better locate our potential customers and implement targeted marketing strategies including sending out personalized promotion vouchers which could be redeemed online and offline, thus achieving a closed-loop marketing. Our customers can scan a specific product's barcode easily with their smartphones to review detailed product information and other customers' reviews. By scanning the barcode, a broad range of data will also be recorded in our big data analytics systems and we can send targeted promotion information to such customer afterwards. We also pre-sell certain new products online since sales data on major online platforms can provide us with fast market responses and timely customer reviews.

Customer service

Supported by our new retail platform, which focuses on customer needs, we offer customers convenience to browse our products and make purchases both online and offline, and choose among different pickup or delivery options. For example, when shopping in our offline retail store, if a customer is still hesitating, he can scan the product barcode to save the product in his online shopping cart first and make a purchase decision afterwards. This online and offline integration saves customers the trouble of having to come back to our offline retail store again if he later decides to make the purchase. Customers who have gained familiarity with our brands and experienced our services in our offline retail stores will have greater confidence in our products offered through our online stores. Customers can also seek fashion advice from and provide feedbacks to our offline sales personnel, or share and exchange their product reviews on online platforms. The customer behavior data collected can send customer portraits to our online and offline sales personnel through our CRM system and they can provide targeted marketing and increase service quality accordingly. Our members can also convert bonus awards from online and offline purchases into different levels of discounts for future purchases.

We will upgrade our offline retail stores to smart stores by renovating existing offline retail stores, including installing face recognition, behavior judgment, statistics facilities and full-scale RFID applications. We upgraded 121 offline retail stores to smart stores in 2018 and plan to finish the upgrade of approximately 500 offline retail stores to smart stores in each of 2019, 2020 and 2021, respectively. We also expect to conduct back office system consolidation by 2019. Currently, we expect to spend approximately RMB0.2 million to RMB0.3 million per store for renovation and smart equipment upgrade for flagship stores, and RMB30,000 per store for other stores. As part of the upgrade, we will conduct the renovation relating to the upgrade of our self-owned stores to smart stores during off-business hours to avoid any material adverse impact on our business operation. These big data initiatives can help us identify the popularity of different products in the market, support our customer portrait recognition, and connect our offline retail stores to our online platform. In addition, with more detailed customer profiles available, our sales personnel can understand our customers better and provide high-quality services to them. See "Future Plans and Use of Proceeds" for details.

Inventory and supply chain management

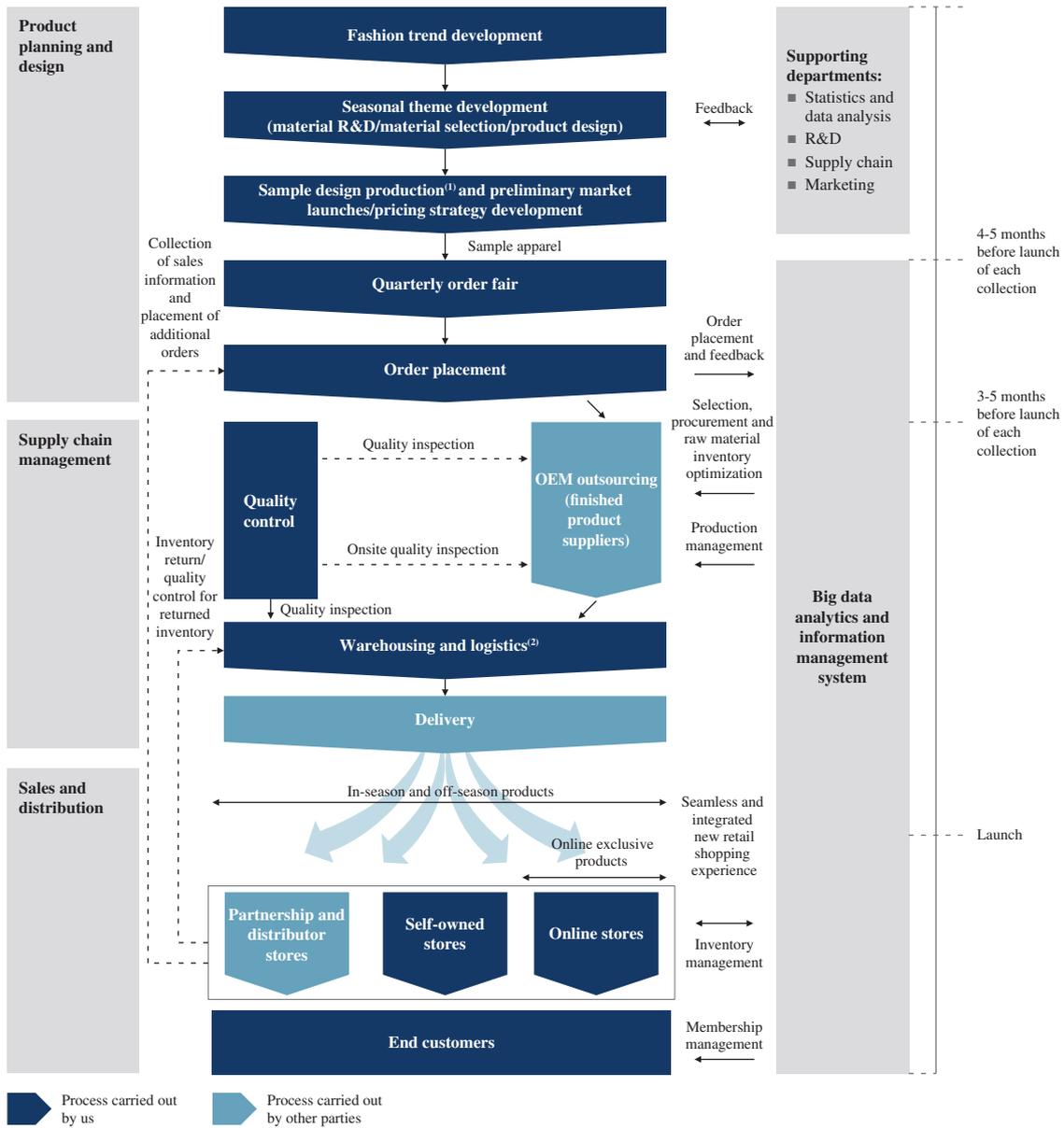
Our new retail platform can help us better manage our inventory and supply chain between online and offline channels to achieve greater operational efficiency. We use our online channels to test market acceptance for new products and plan inventory levels based on the sales performance of such products. For our supply chain, when we first place orders, we only order for approximately 70% to 80% of our products, while reserving the rest for more popular products to retain flexibility. Through our product lifecycle management system, we plan to gradually ship our products directly from the factories instead of the warehouses to retail stores and end customers to speed up our time to market and lower operation cost. Leveraging our long-term relationships and flexible supply chain capabilities, our OEM suppliers can usually respond to our additional demands in one to several weeks.

We utilize supply chain and inventory analytics which are tightly integrated with our POS and ERP system to receive transaction and inventory data from each store, providing greater accuracy and visibility for inventory movement across the supply chain. We monitor raw material prices closely with big data analytics and advance or hedge orders at appropriate times based on anticipated production and sales forecasts.

To implement our new retail strategy in the long term, we plan to purchase land and establish our self-owned advanced smart logistics center. Since we plan to implement new retail initiatives in various aspects, including smart equipment upgrade and intelligent logistics management, we believe it is more beneficial and sustainable for us to build our own smart logistics center compared to continuing to rent warehouses. It is difficult to upgrade our current two rented warehouses. To install the new equipment, we will need to make changes to the building structure. However, one of the landlords does not allow changes to the building structure and the lease term of the other warehouse is not long enough and cannot be extended so that material changes to the building structure are very difficult to be approved by the landlord. With our new self-owned smart logistics center, we can ensure enough gross floor area for the upgrade and installation of our equipment. We can also be prevented from incurring expensive removal cost when the leases are expired or terminated and avoid the possibility of interruptions to our operations. Furthermore, we will be able to control our logistics cost and increase operational efficiency with one high-capacity self-owned logistics center. It is expected to cover a gross floor area of approximately 200,000 to 250,000 sq.m. We will seek a convenient location near Ningbo which is close to highways and other logistics suppliers' base with suitable infrastructure. In order to meet the logistics needs of our new retail platform, the capacity of the new logistics center is expected to be up to 20.0 million units for storage with a total annual throughput capacity to sort and distribute of 80.0 million units. Through RFID and intelligent management, we can further enhance the sorting, distributing and storing capacity of our new logistics center. Moreover, such smart logistics center can enhance our sorting and distributing speed significantly. Benefited from our intelligent management and economies of scale, we expect to lower our staff and shipping expenses and reduce our fixed logistic costs as well as increase our operational efficiency. With the combination of the logistics information feedback, we can further achieve visualization of all our logistics orders. Our smart logistics center will be linked to our offline smart stores to track the sales and after-sales of each item and further enrich our operating database. See "Financial Information – Capital Expenditures" and "Future Plans and Use of Proceeds" for details.

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The below chart illustrates our new retail business model within the industry value chain.



Notes:

- (1) Production of sample design styles carried out by OEM suppliers
- (2) An additional third-party warehouse has also been engaged for e-commerce products to manage sales of products through online network

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OUR BRANDS AND PRODUCTS

With our experience in the fashion industry, multi-brand development and execution capabilities, we have expanded our brands to capture future market opportunities. Our founders first launched our flagship GXG branded products in 2007, and we catered to different menswear styles by introducing gxg jeans in 2010 and brought our GXG series design philosophy into kidswear market by launching gxg.kids in 2012. With a view to expanding into the fast-growing sportswear and performance gear industry, we introduced Yatlas in 2014 to offer athleisure apparel and 2XU in 2017 to offer performance sportswear. Each of our brands has a uniquely defined design identity and encompasses a range of products, offered in a variety of fits, fabrics, finishes, styles and price points intended to appeal to a broad spectrum of consumers. The table below sets forth certain information regarding our core brand portfolio, including each brand's year of launch, target customers and demographics, design concept, recommended retail price range and store size range.

	<u>GXG</u>	<u>gxg jeans</u>	<u>gxg.kids</u>	<u>Yatlas</u>	<u>2XU⁽¹⁾</u>
Year of launch	2007	2010	2012	2014	2017
Target customers	Men between age 20 and 35	Men between age 20 and 25	Children between age 4 and 10	Between age 18 and 38	Between age 18 and 46
Design concepts	Urban and elegant	Street, trendy and denim	Modern and comfortable	Modern, urban and athleisure	High performance
Recommended retail price range during the Track Record Period (RMB per unit)					
Tops	299 to 7,999	229 to 4,999	199 to 1,699	299 to 6,999	169 to 3,299
Bottoms	399 to 799	368 to 899	99 to 499	369 to 1,099	339 to 1,499
Accessories	99 to 1,099	28 to 1,199	29 to 599	69 to 999	89 to 1,029
Store size during the Track Record Period (sq.m.)	55 to 942	65 to 340	29 to 214	73 to 181	10 to 101

Note:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.

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The table below sets forth the number of stores by brand, each expressed as an absolute amount and as a percentage of our total number of stores, as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Number of stores	%	Number of stores	%	Number of stores	%
GXG series						
<i>GXG</i>	1,149	54.8	1,209	52.2	1,216	54.0
<i>gxc jeans</i>	482	23.0	508	21.9	505	22.4
<i>gxc.kids</i>	416	19.8	495	21.4	454	20.2
Sportswear						
<i>Yatlas</i>	47	2.2	88	3.8	69	3.1
<i>2XU</i> ⁽¹⁾	—	—	—	—	3	0.1
Others ⁽²⁾	2	0.1	16	0.7	3	0.1
Total	2,096	100.0	2,316	100.0	2,250	100.0

Notes:

- (1) As of the Latest Practicable Date, we have introduced 2XU into 22 multi-brands sports stores and opened two mono-brand offline retail stores.
- (2) Represent our multi-brands stores and a womenswear brand which we disposed in June 2018. See “Our History and Development – Development of Our Group Structure – Disposal of Subsidiary Modu E-Commerce during the Track Record Period” for details.

The following table sets forth a breakdown of our revenue by brand, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
GXG series						
<i>GXG</i>	1,990,677	66.0	2,357,787	67.2	2,504,720	66.1
<i>gxc jeans</i>	633,776	21.0	683,481	19.5	753,942	19.9
<i>gxc.kids</i>	285,072	9.4	357,236	10.2	387,252	10.2
Sportswear						
<i>Yatlas</i>	65,419	2.2	87,468	2.5	97,712	2.6
<i>2XU</i> ⁽¹⁾	—	—	3,249	0.1	14,304	0.4
Others	42,894 ⁽²⁾	1.4	21,080 ⁽³⁾	0.5	29,112	0.8
Total revenue	3,017,838	100.0	3,510,301	100.0	3,787,042	100.0

Notes:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.
- (2) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.
- (3) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up, and our newly developed brands.

Multi-brand Strategy

We adopt a multi-brand strategy, and offer a wide range of products with distinctive design identity to expand our customer base. Meanwhile, our multi-brand strategy promotes cross-selling by allowing our loyal customers to make purchases among different brands for their children, spouse and other family members and friends at various ages and stages for different occasions. Our new retail platform integrating offline retail networks with online channels enables us to continue to build our brands, broaden product offerings, accumulate online and offline customer data, and capture future opportunities and position us for sustainable growth.

- **GXG:** At the core of our multi-brand strategy is our flagship brand, GXG. Our founders launched GXG branded products in 2007 out of their passion and vision to promote men's fashion in China. GXG targets young male customers who value fashion and matching, and caters to their clothing preference, shopping behavior and situational needs. GXG is positioned as “urban and elegant” with a category assortment skewed more to everyday wear such as shirts, coats and pants. According to the customer survey conducted by CIC, GXG is considered one of the most recognizable menswear brand in 2017. With the longest history and largest customer base among our brands, GXG is our largest revenue contributor, accounting for 66.1% of our revenue in 2018.



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- **gxg jeans:** We introduced gxg jeans in 2010 to target a trendier demographic than GXG. gxg jeans was originated from street fashion, combining creative design with latest trends and emphasizing jeans and casual coats, such as down jackets. The spirit of gxg jeans is to deliver a fashion concept of young, healthy and free. gxg jeans is our second largest revenue contributor, accounting for 19.9% of our revenue in 2018.



- **gxg.kids:** We launched gxg.kids in 2012, which targets young parents who value fashion and life quality by providing their children with trendy, comfortable, safe and environmentally friendly kidswear.



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- **Yatlas:** To satisfy the more diversified fashion style of our young customers and catch the growing athleisure trend, we introduced Yatlas in 2014 to offer athleisure apparel to empower customers to express their aspirations, individuality and attitudes by wearing comfortably yet stylish. Through Yatlas, we aim to spread a positive, healthy and trendy lifestyle to our customers.



- **2XU:** In 2017, with a view to expanding into the fast-growing sportswear and performance gear industry, we entered into an agreement to introduce 2XU, a Melbourne-rooted sports brand co-founded by a former triathlon champion, which specializes in tech compression tights for triathlon, cycling, swimming and running. 2XU employs fabric and construction technology and is endorsed by many professional athletes and sports institutions. The goal and design philosophy of 2XU is to best equip athletes and make them feel more prepared, more race ready and more capable than their competitors. Through 2XU, we intend to introduce high quality, performance sportswear to Chinese customers as they are developing a more health conscious lifestyle and increasing their participation in sports activities, according to CIC. Please see the section headed “Our History and Development — Development of Our Group Structure — Agreement with 2XU” for further details.



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SALES AND DISTRIBUTION

We distribute our products through a variety of sales channels across China, including multiple online and offline sales networks. As of December 31, 2018, our distribution platform consisted of (i) online channels, including major online platforms, such as Tmall, Taobao, WeChat mini program and Vipshop, and (ii) an offline network of 2,250 retail stores across China, including 720 self-owned stores, 532 partnership stores and 998 distributor stores.

To avoid the cannibalization between our online and offline sales channels, we have adopted the following measures: (i) we have a single integrated sales and marketing team for online and offline channels; (ii) with our cloud-based inventory sharing and allocation system throughout our online and offline channels, if a customer places an order online but the desired product is out of stock in our e-commerce warehouse, we can ship the ordered products from our offline stores. Our cloud-based inventory sharing and allocation system can be implemented because of our existing systematic profit sharing mechanism among our online and offline channels as well as among our partners, distributors and ourselves; (iii) we differentiate the products sold online and offline during the Track Record Period. Products sold on our offline channels mainly include in-season products while the products sold on our online channels mainly include online exclusive SKUs and off-season products; and (iv) we ensure uniform pricing for the same product no matter sold online or offline. See “— Retail Pricing Strategy.”

The table below sets forth the breakdown of revenue by our sales channels, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of apparel products						
Online channels	715,439	23.7	1,209,569	34.5	1,350,314	35.7
Offline channels	2,259,505	74.8	2,286,860	65.2	2,423,925	64.0
Self-owned stores	957,602	31.7	1,133,146	32.3	1,193,064	31.5
Partnership stores	296,961	9.8	377,796	10.8	397,277	10.5
Distributor stores	1,004,942	33.3	775,918	22.1	833,584	22.0
Sales of other products⁽¹⁾	42,894	1.5	13,872	0.3	12,803	0.3
Total revenue	<u>3,017,838</u>	<u>100.0</u>	<u>3,510,301</u>	<u>100.0</u>	<u>3,787,042</u>	<u>100.0</u>

Note:

(1) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.

Retail Pricing Strategy

Our headquarter in Ningbo sets uniform retail pricing strategy for our products that applies to our self-owned, partnership and distributor stores as well as online channels. We price our products based on market research and analysis, including the spending power and consumption propensity of our target customers and market trends, as well as costs of purchases from our OEM suppliers and raw material suppliers.

Our headquarter determines all product promotional discount policies and programs of our self-owned stores and provides guidance to our partnership and distributor stores. Regional partnership and distributor stores can make adjustments to such guidance based on their operational performance. However, though our partners can decide to give discounts to end customers, such discount will not affect our revenue but only their own profits as we record around 30% to 45% for products of current year and 25% to 30% for products from previous years of the recommended retail price as revenue when the products are sold to end customers by our partnership stores. We conduct promotional sales based on analysis of sales data to better manage our inventories at the end of each season.

Our Online Platforms

We have been at the frontier of online retail in respect of fashion menswear in China. We constantly strive to transform our business in the internet era and benefit from the synergies by the integration of our online retail presence and offline sales network. We have formed partnerships with major online platforms. As early as 2010, we launched our online flagship GXG store on Tmall, a well-known business to customer online shopping platform in China. We have been ranked top three among men's apparel brands on Tmall on Alibaba's Singles' Day (雙十一) since 2011. In particular, in 2011, 2016 and 2018, our GMV ranked first among men's apparel category. Following our success on Tmall, we subsequently expanded onto other online platforms and reached a total of 13 online platforms as of December 31, 2018, including Taobao, WeChat mini program and Vipshop. The nature and scope of our arrangements with Tmall and Taobao are similar to our self-owned business model, with a majority of other platforms (e.g. Vipshop) similar to our partnership model.

Tmall and Taobao self-owned stores

Tmall flagship store was our first online retail presence back in 2010. We sell GXG, gxg jeans, gxg.kids and Yatlas on Tmall. Unlike other brands, we have a dedicated omni-channel team which is responsible for our product design, online sales and promotion strategy and closely monitor our online sales performance. Our self-owned online stores on Tmall and Taobao enable us to better monitor the price, margin and sales performance of different products, which allow us to adjust our sales and promotion strategy and increase our margins. According to CIC, our self-owned stores on Tmall and Taobao further build up our competitive advantages over our competitors in China. Through our self-owned stores, we can better manage and control the sales process in terms of deeper analytics of customer insights, a more flexible system of inventory and logistics, higher reaction speed and a more timely refresh of our latest products, which helps increase our customer stickiness.

In 2016, 2017 and 2018, we recorded revenue from our Tmall and Taobao self-owned stores of RMB457.1 million, RMB872.6 million and RMB938.5 million, respectively, and offered 47,458, 65,019 and 67,358 SKUs on our Tmall and Taobao self-owned stores, respectively. We started to participate in Alibaba's Singles' Day (雙十一) sales, the largest online shopping day in China, in 2010, and immediately achieved the largest revenue among men's apparel brands in 2011. We continued to actively involve in Alibaba's Singles' Day (雙十一) every year, ranking top three among men's apparel brands, and demonstrated our leading position by ranking first again in 2016 and 2018. According to CIC, we recorded GMV of RMB360.8 million, RMB463.0 million and RMB548.3 million for the Singles' Day in 2016, 2017 and 2018, respectively.

Since our customers expect a high amount of engagement and interaction, we generally communicate with them via online chat to respond to their enquiries timely and establish ongoing relationships with them. We are devoted to improving the quality of our online service team in many key aspects, including response time to customers' questions such as product details, delivery time and package, as well as their professional attitude. We also pay attention to after-sales service regarding returns and refunds due to product quality or unsuitable size. Furthermore, since customers rely heavily on merchant ratings, we reply to our product reviews carefully to better interact with our existing customers and attract potential customers.

WeChat mini program

Leveraging our large and active fans community on our WeChat public account, we have established a WeChat mini program in January 2017, as an online channel, to provide customers with convenient, mobile access to our products through the social network platform and enhance new retail one-stop shopping experience. Compared with other online platforms, WeChat mini program provides an entry point to the largest amount of mobile traffic in China and a built-in and intuitive way to interact with our customers. Through this, we can conduct targeted marketing, offer personalized content and dynamic pricing to our target customers and expand our customer reach. They can also talk to our customer service team directly by simply speaking or messaging our public account. We can also send discounts to customers easily and keep them up-to-date on our

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latest promotion activities through the WeChat public account. Customer data collected through the WeChat platform enables us to construct customer profiles and understand their preferences more accurately. Based on our observation on the recent trend of customers' purchasing behavior in China, we believe the WeChat mini program will provide us with ample growth opportunities. For 2017 and 2018, through our WeChat mini program, we recorded revenue of RMB1.0 million and RMB1.8 million, respectively, and offered 3,981 and 6,170 SKUs, respectively.

Other online platforms

We launched our online stores on other major online platforms such as Vipshop in 2011. We sell GXG, gxg jeans, gxg.kids and Yatlas on Vipshop. In 2016, 2017 and 2018, we recorded revenue from other online platforms of RMB258.4 million, RMB336.0 million and RMB410.1 million, respectively, and offered 51,937, 56,238 and 75,762 SKUs on other online platforms, respectively.

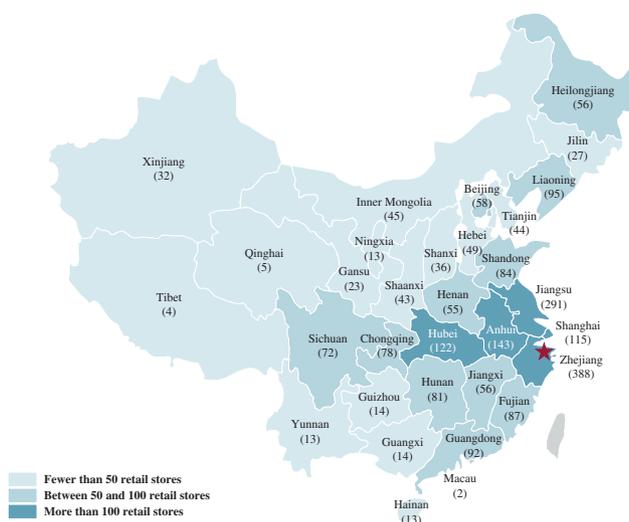
Online channels form an integral part of our new retail platform and customer experience. We test market acceptance for new products through online channels, gauging consumer feedback as well as collecting market intelligence to optimize offline store network and guide our offline marketing and product strategies. To tailor to online customers' preferences, other than overall product planning, we have further assembled a dedicated online design team to create a series of online exclusive products. Our online exclusive products account for approximately 25.7% and 32.7% of the SKUs offered through our online channels in 2017 and 2018, respectively. We synchronize the launch of new products at both our online and offline sales networks. The recommended retail price of our products online is the same as the offline recommended retail price. These measures prevent potential conflicts between partners and distributors and the online platforms we use and keep interests aligned. Supported by our advanced information technology platform as well as our centralized logistics system, we offer an "online order, offline delivery" service to leverage the strengths of our online and offline sales channels. If a customer places an order online, the product will be delivered following the optimal delivery option, which can enhance customer experience and maximize our operational efficiency. We also employ a revenue sharing system to allocate the revenue generated by the various channels.

Our contracts with online platform operators typically require an online platform operator to provide us with the necessary software systems and related technical support that enable us to conduct business on its platform. We are subject to the general administration of each online platform operator. For example, we are required to provide fair and accurate information for products sold on online platforms. We typically pay commissions and promotional fees to each platform operator. Commissions are generally calculated either as a negotiated amount or at a fixed percentage of proceeds from sales transacted through the platform. The commission rates generally range from 5% to 30%, while some platforms offer rebates up to 2.5% upon achieving certain sales targets. We renew our contracts with the majority of these online platforms annually. We are also required to pay an annual deposit to ensure our compliance with the respective rules and regulations of each platform operator. Such deposits are refunded upon termination of contracts after deducting any applicable penalties.

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Our Offline Channels

Our offline channels currently comprise (i) our self-owned stores, (ii) partnership stores and (iii) distributor stores. The following map shows the geographic distribution of our retail stores across China as of December 31, 2018.



The table below sets forth the changes in the number of our offline stores during the years indicated.

	For the year ended December 31,											
	2016				2017				2018			
	Opened	Closed	Transferred	Total as of year end	Opened	Closed	Transferred	Total as of year end	Opened	Closed	Transferred	Total as of year end
Self-owned stores	116	(31)	59	598	161	(66)	32	725	87	(124)	32	720
Partnership stores	131	(26)	96	464	132	(73)	10	533	131	(122)	(10)	532
Distributor stores	228	(192)	(155)	1,034	263	(197)	(42)	1,058	164	(202)	(22)	998
Total number of offline stores	475	(249)	—	2,096	556	(336)	—	2,316	382	(448)	-	2,250

During the Track Record Period, we continued to open more stores in existing cities to increase penetration and expand geographical coverage to new cities. In particular, we usually open more new stores in the second half of the year to prepare for the sales in peak season. We closed retail stores which failed to meet our performance targets to enhance our profitability. In particular, following implementation of a new retail strategy to integrate our online and offline sales channels and the enhancement of our store operation and inventory management capabilities, we have ceased allowing our distributors to engage any new sub-distributors and terminated existing sub-distributors arrangements in late 2016. We also gradually transformed some of our distributor stores to self-owned stores and partnership stores. We adopted this approach because we can have direct control over our self-owned stores and collect market information first hand. Similarly, compared with distributor stores, we can have more control over partnership stores, which help us achieve effective management of our inventory, order, sales performance and provide direct access to customer feedback. At the same time, however, we continue to leverage distributors' local knowledge and resources to help us reach a diverse consumer based in our existing geographic markets and expand into new geographic markets.

Self-owned stores

During the Track Record Period, the number of our self-owned stores amounted to 598, 725 and 720, respectively as of December 31, 2016, 2017 and 2018. As of December 31, 2018, our self-owned stores covered 25 provinces, autonomous regions and municipalities in China. In particular, we opened two self-owned stores in Macau in the second half of 2017 for our GXG and Atlas brands.

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We categorize our self-owned stores into two types based on retail formats, namely concession stores and standalone stores. The table below sets forth the number of stores by retail format, each expressed as an absolute amount and as a percentage of our total number of stores, as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Number of stores	%	Number of stores	%	Number of stores	%
Concession stores	459	21.9	536	23.1	516	22.9
Standalone stores	139	6.6	189	8.2	204	9.1
Total self-owned stores	598	28.5	725	31.3	720	32.0

The table below sets forth the revenue by retail format, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated:

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Concession stores	676,572	22.4	782,015	22.3	768,043	20.3%
Standalone stores	278,627	9.2	349,475	10.0	416,722	11.0%
Others	2,403	0.1	1,656	—*	8,299	0.2%
Total revenue	957,602	31.7	1,133,146	32.3	1,193,064	31.5%

* less than 0.1%

The table below sets forth the same store sales growth rate by region among our self-owned stores for the years indicated:

	2016 versus 2017	2017 versus 2018
Northeast China	-0.2%	-3.7%
North China	0.3%	0.5%
East China	4.9%	3.7%
South China	7.1%	-0.1%
Central China	7.4%	-4.4%
Southwest China	3.4%	1.9%
Northwest China	29.3%	6.8%
Total	4.2%	1.5%

Same store sales growth rates of our self-owned stores amounted to 4.2% in 2017 and 1.5% in 2018, primarily due to our various new retail initiatives, which enhanced the store operation, profitability and inventory management capabilities of our self-owned stores. The decrease in the same store sales growth rate of our self-owned stores from 2017 to 2018 was primarily due to a relatively slower same store sales growth in east China and central China. Among our self-owned stores, same store sales growth rate for northeast China amounted to -0.2% in 2017 and -3.7% in 2018. The relatively low growth rates as compared with the same store sales growth rates of our overall self-owned stores were mainly affected by the local economy. For north China, same store sales growth rate remained relatively stable at 0.3% in 2017 and 0.5% in 2018. For east China, our focus region, same store sales growth rate amounted to 4.9% in 2017 and 3.7% in 2018, which were in line with the same store sales growth rates of our overall self-owned stores. The decrease in the same store sales growth rate from 2017 to 2018 was primarily due to the gradual market saturation of shopping malls in east China, resulting in the slower same store sales growth speed of our

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standalone stores in this region. For south China, same store sales growth rate decreased from 7.1% in 2017 to -0.1% in 2018, primarily due to the decrease in sales in department stores. For central China, same store sales growth rate decreased from 7.4% in 2017 to -4.4% in 2018, primarily due to the decrease in sales in department stores. For southwest China, same store sales growth rate decreased from 3.4% in 2017 to 1.9% in 2018, primarily due to the slow down in sales growth in department stores. Same store sales growth rate for our new market northwest China amounted to 29.3% in 2017 and 6.8% in 2018, primarily due to our business expansion. The decrease in same store sales growth rate from 2017 to 2018 was primarily because we experienced an exceptional growth rate in 2017, which has since subsided and returned to normal in 2018.

Concession stores

As of December 31, 2018, 516 out of 720 of our self-owned stores were operated in the form of concession stores. Our concession stores are typically located within well-known department stores, including Intime Retail (Group) Company Limited, New-Mart, Grand Ocean Group, Springland International Holdings Limited and Maoye International Holdings Limited. We also have concession stores located in outlets where we sell mainly off-season products. Our relationships with some of department stores date back to our early days and we have established close relationships with them over the years. These department stores provide us with significant brand exposure and allow us to leverage their marketing campaigns and promotional activities. In 2016, 2017 and 2018, revenue from our concession stores amounted to RMB676.6 million, RMB782.0 million and RMB768.0 million, respectively, representing 22.4%, 22.3% and 20.3%, respectively, of our revenue for the corresponding years. All of the department stores where we operate concession stores are independent third parties.

We enter into concession agreements for our right to occupy and use concession stores in the department stores and outlets. The location and size of a given concession store are set out in the concession agreements. The majority of our concession agreements have a term of one year and are not automatically renewed upon expiration. The monthly concession fee for a concession store is typically calculated at a fixed percentage of our monthly sales. Under our concession agreements, we are generally required to pay deposits to the department stores and outlets which are refundable upon expiration or termination of the concession agreement. We are required to pay a maintenance fee, utilities and other applicable fees and expenses relating to the operation of our concession stores. Payments from the sales of our products in our concession stores are typically collected by department stores and outlets. They are then required to transfer the monthly sales proceeds to us after we issue invoices for the payments. Under certain concession agreements, they are entitled to terminate the concession agreements if our concession stores fail to meet specified minimum sales targets for a specified period of time within one year.

Standalone stores

As of December 31, 2018, 204 out of 720 of our self-owned stores were operated in the form of standalone stores, which are typically located within major shopping malls or on street level with high visibility and customer traffic. In particular, we have formed strategic partnerships with major commercial property developers, such as Dalian Wanda Commercial Properties Co., Ltd., which entitle us to the prime locations in their shopping malls. In 2016, 2017 and 2018, revenue from our standalone stores amounted to RMB278.6 million, RMB349.5 million and RMB416.7 million, respectively, representing 9.2%, 10.0% and 11.0%, respectively, of our revenue for the same years.

We enter into lease agreements with shopping malls and other lessors for our rights to open and operate our standalone stores on leased properties. In 2016, 2017 and 2018, our operating lease rental expenses categorized under selling and distribution expenses, which primarily include rental expenses in relation to our standalone stores, and property management fees mainly for our concession stores, amounted to RMB160.3 million, RMB189.4 million and RMB247.3 million, respectively, representing 5.3%, 5.4% and 6.5%, respectively, of our total revenue for the corresponding years.

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The lease agreements typically have terms of one to three years and are renewable upon mutual consent between the parties generally within 180 days before the expiration of such lease agreements. For stores in malls, depending on the policies of the given shopping mall, the rent for a standalone store located within the shopping mall is typically equal to (i) a fixed monthly rent, which may be adjusted if sales of our standalone store decreases and we apply to lower the rent prior to the expiration of the lease agreement, or (ii) the higher of a minimum monthly rent and a percentage of the monthly sales of the retail store. The rent for a standalone store located on street level is typically a fixed yearly rent. We are required to pay a maintenance fee, utilities and other applicable fees and expenses relating to the operation of our standalone stores. We are also required to pay a deposit with respect to our standalone stores on the date of the lease agreement, which is refundable upon expiration or termination of the relevant lease agreement, as applicable.

In recent years, we have strategically open new stores in shopping malls. This is driven by (i) the robust development of shopping malls; (ii) our belief that shopping malls are more aligned with our brand positioning; and (iii) our strategic partnerships with select shopping malls which offer prime store location opportunities to us.

Management of self-owned stores

We believe that customers' experience within retail stores contributes significantly to their purchase decisions and our brand images. Accordingly, we have dedicated resources in the implementation of brand management policies to manage various aspects of our self-owned stores.

- *Site selection:* We believe that site selection is critical to the success of our self-owned stores. Over the years, our management has accumulated valuable experience in identifying and evaluating prospective store locations. Most of our self-owned stores are located within shopping malls, department stores and commercial districts. Our self-owned stores span across tier one, tier two and tier three cities in China. We are now strategically broadening our retail network by opening more stores in existing cities to increase penetration and expanding geographical coverage to new cities. We consider and evaluate the following factors when selecting a location to open a new store, such as consumption patterns of targeted consumer segments, population density and growth, geographical location, estimated initial capital investment and expected return and the level of competition in the vicinity.
- *Store design and appearance:* We aim to create a consistent image for our self-owned stores through the use of standardized and modern décor and designs that are distinctive to our products and brand portfolio. Our headquarter sets out design, layout and store area guidelines relating to the design and color of the shopfront, product displays, information displays for promotional sales, cashier counters, lighting, music and staff uniforms to ensure that our brands convey a consistent visual image.
- *Sales personnel:* As sales personnel play an essential role in promoting our brand image and collecting customers' feedbacks, we conduct regular staff training on topics to enhance the overall competence of our staffs, such as corporate culture, team building, industry and market trends, management skills, sales and communication skills, product and brand knowledge to enhance their capabilities and serve our customers better.

In addition, since March 2018, we entered into service outsourcing arrangements with third-party service providers and such third-party service providers utilized approximately 2,900 staff, including sales representatives, store managers and supporting staff, as of July 31, 2018, to provide us with the relevant services. We entered into these arrangements mainly to replace the dispatched employees which were not in compliance with relevant rules and regulations. See “— Employees” for details. These service outsourcing arrangements can also enable our management team to focus on our core missions. As our business grew, responsibilities relating to personnel management became increasingly burdensome. Similar to other players in the consumer retail industry, we experience a relatively high level of turnover among our sales staff. While our human resources department is based in Ningbo, our retail network spans across China. Therefore, we believe that the third-party service providers with local offices across China will be suitable partners that have the requisite experience and expertise in recruiting and managing sales staff.

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- *Cash and payment management:*
 - *Concession stores:* Department stores and outlets are in charge of cash and payment management.
 - *Standalone stores:* We accept payment by cash, credit cards, Alipay and WeChat Pay. We have adopted and implemented strict internal control procedures for handling cash in our standalone stores, which include the following:
 - each store is equipped with our information technology system, including POS terminals, which are directly connected to the systems at our headquarter;
 - regional supervisors can review the daily sales performance and cash proceeds through our system;
 - cash proceeds are kept in the cash cabinet and deposited in our designated bank accounts each business day; and
 - the regional supervisors will review and verify the weekly reports to monitor the cash proceeds in respect of each retail store.

During the Track Record Period and up to the Latest Practicable Date, we had not recorded any material cash loss or theft.

- *Monitoring sales and inventory records on a real-time basis:* All our self-owned stores have installed our information technology system, which enables us to monitor sales data and inventory levels on a real-time basis. We require each store to conduct monthly stock checks and our headquarters also perform random checks.

Partnership and distributor stores

The appeal of our brands across consumer groups and our national reach enable us to utilize partners and distributors in the sales of our products. In addition to our distributor store business model, we developed our partnership store business model where we and our partners share profits. As we have more control over partnership stores than distributor stores, our partnership stores can help us implement our new retail strategy to integrate online and offline sales channels by achieving effective management of our inventory, order and sales performance, which also provide us with direct access to customer feedback. We engage partners and distributors in different regions across China to operate stores according to the same brand formats as our self-owned stores to ensure consistent brand image throughout our retail network. Cooperating with partners and distributors is an asset-light and cost-effective means to (i) reach a diverse consumer base in our existing geographic markets and (ii) expand into new geographic markets. This business model is consistent with market practices in the fashion industry in China.

As of December 31, 2018, we had 409 partners and distributors operating 1,530 partnership and distributor stores in China. Revenue derived from these partnership and distributor stores accounted for 43.1%, 32.9% and 32.5%, respectively, of our total revenue in 2016, 2017 and 2018. As of December 31, 2018, these partnership and distributor stores covered 31 provinces, autonomous regions and municipalities in China. We generally engage regional partners and distributors and, in some newly expanded regions, city specific partners and distributors.

Following implementation of a new retail strategy to integrate our online and offline sales channels and the enhancement of our store operation and inventory management capabilities, we have ceased allowing our distributors to engage any new sub-distributors and terminated existing sub-distributors arrangements in late 2016. We also intend to convert some of our partnership and distributor stores into self-owned stores. Typically, our self-owned stores generally contribute to us a higher gross profit margin than our partnership and distributor stores. At the same time, we will continue to engage partners and distributors to penetrate new markets by leveraging their local market knowledge and resources.

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Selection and assessment criteria for partners and distributors

We select and access our partners and distributors based on a number of criteria, including, among others, their local relationships and experiences, retail operation capability, marketing capabilities, financial condition, risk management capabilities, reputation, human resources management and IT system. We renew contracts with partners and distributors on a yearly basis. During the Track Record Period, partners and distributors were added mainly to expand the coverage of our retail network and we terminate our cooperation with them when they fail to meet our performance targets.

The table below sets forth the total numbers of our partners for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
Partners at the beginning of the year	53	88	94
Add: new partners	40	19	14
Less: partners terminated	5	13	38 ⁽¹⁾
Partners at the end of the year	88	94	70

Note:

1. Out of the 38 partnerships terminated, 14 converted to distributorships.

The table below sets forth the total numbers of our distributors for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
Distributors at the beginning of the year	191	318	364
Add: new distributors	162	103	36
Less: distributors terminated	35	57	61
Distributors at the end of the year	318	364	339

Arrangements with partners and distributors

We utilize two models to operate our third party retail stores, namely, partnership stores and distributor stores. Our arrangements with the partners are typical consignment model where the inventories are not sold to our partners before they are sold to end customers. For partnership stores, a partner only bears the initial store investment and all operation costs including rental and staff costs. We record around 30% to 45% for products of current year and 25% to 30% for products from previous years of the recommended retail price as revenue when the products are sold to end customers by such partnership stores. Our arrangements with the distributors are typical distribution arrangements where our distributors purchase our products before they are sold to end customers. For distributor stores, a distributor not only bears the initial store investment and operation costs but also the inventories. We sell our products to the distributors at around 35% to 45% of the recommended retail price and these products sold are no longer included in our inventories. Nevertheless, we still adopt certain measures to monitor distributors' inventory level. We also implement a subsidy policy to support the operation of our partners and distributors. See “— Management of partnership and distributor stores” for details. We provide a store decoration related subsidy to our partners and distributors. For some partners, we provide free store decoration equipment to them. Besides, we provide a rental and sales subsidy to our partners and distributors on a case-by-case basis.

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We do not enter into any long-term agreements with our partners and distributors. All partnership and distribution agreements that we have entered into are legally binding and enforceable under the PRC law. We monitor and control our partners and distributors in part through the partnership and distribution agreements, which include the following principal terms:

- *Duration:* One year, renewable upon mutual agreement.
- *Avoidance of competition among partners and distributors.* We grant each partner and distributor exclusivity with respect to specific products in its authorized territory which does not overlap with the authorized territories of other partners and distributors.
 - *Geographic exclusivity:* Each of our partners and distributors is designated a defined geographical territory (e.g. certain cities) in which it is authorized to operate partnership or distributor stores under the partnership or distribution agreement. Our partners and distributors are strictly prohibited from expanding their business outside their authorized territory unless otherwise approved by us.
 - *Merchandise exclusivity:* We only allow our partners and distributors to sell our products as authorized under the partnership and distribution agreement within partnership and distributor stores. Any sales of non-authorized products are prohibited.
- *Use of brands:* Our partners and distributors, who are authorized to utilize our brands, trademarks and other intellectually property rights, are required to protect our credibility and reputation and keep our corporate information, business know-how and trade secrets in strict confidence.
- *Sales performance targets:*
 - *Partners:* We provide incentives, such as rebates, to some partners if their total purchase for a year exceeds a specified amount.
 - *Distributors:* To incentivize our distributors, we occasionally offer volume rebates to distributors whose purchases reach threshold amounts. Volume rebates are typically calculated based on a percentage multiplied by a distributor's total purchases for a particular fiscal year. Both the percentage and the threshold amount vary among distributors and may be negotiated with and granted to individual distributors on a case-by-case basis in consideration of the distributors' sales performance and the length of their business relationship with us. The rebates typically amount to 2% to 3% of a qualified distributor's sales. Volume rebate is credited to a qualified distributor, who will be entitled to utilize such credit when making new purchases.
- *Conditions for termination and renewal of the agreements:* The non-breaching party may terminate the agreement if there is any material breach of the agreement. If the partner or distributor would like to renew the agreement, they need to give us 60 to 90 days' notice prior to the agreement's expiration date.
- *Payment and credit terms:*
 - *Partners:* Our partners are generally required to pay us a goods deposit for each store up to RMB0.3 million. We have two different credit policies based on partners' business scale and previous credit history: (i) credit terms of 30 days; or (ii) settling payments in two installments within the month of account checking, which generally happens in the following month of the actual sales.
 - *Distributors:* We have implemented a credit management policy for our distributors. We score our distributors based on their historical purchase amount, store numbers, years of relationship with us, historical order situation and speed and previous credit history. We evaluate and update their credit scores annually to decide our corresponding credit quota and policy to them. Our distributors are generally required to pay us a deposit, approximately 10% to 20% of the total wholesale value, when placing a purchase order and are required to settle the full payment prior to delivery of the products. Subject to our management's approval, we provide credit terms ranging from 30 days to 90 days to a limited number of distributors that are in good financial condition and have a good credit history.

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- *Goods return and obsolete stock arrangements:* We have adopted the following goods return and obsolete stock arrangements to avoid channel stuffing among our partners and distributors. For distributors, we consider factors such as minimum purchase amount, goods return and obsolete stock arrangements to avoid channel stuffing. In addition, following the implementation of a new retail strategy to integrate our online and offline sales channels and the enhancement of our store operation and inventory management, we gradually transformed some of our distributor stores to self-owned stores and partnership stores, which will lower our risk of channel stuffing from distributors. Furthermore, there is no channel stuffing risks for our partnership stores since the products in partnership stores are still owned by us and are recorded as inventory in our account book before being sold to end customers. We have control over these products, through our ERP system, to ensure that the volume of products shipped to partnership stores will match the number of products sold and returned. Also, we maintained a stable relationship with our partners and distributors during the Track Record Period. We also monitor and keep track of their sales and inventory records. See “— Selection and assessment criteria for partners and distributors” and “— Management of partnership and distributor stores” for details.
 - Partners: We generally accept the return of all our products from partners since they usually do not have order rights.
 - Distributors: We generally accept returns of our products from our distributors under two circumstances, (i) permitted return of obsolete stock for each season and (ii) quality defects in the products.
 - Under the first circumstance, across all our brands, the permitted return rate for all distributors as of the Latest Practicable Date ranged from 20% to 100%, with GXG and gxxg jeans ranging from 20% to 25%, gxxg.kids ranging from 35% to 100% and YAtlas ranging from 30% to 100%. The permitted return rate of substantially all our distributors ranged from 20% to 35%. Due to our channel optimization to convert our sub-distributors to distributors, some VIP distributors lost the additional benefit of selling our products to sub-distributors and, as a result, had difficulty in selling out our products completely after reorganization of the multi-layered distribution network. Though they have their own channels to sell obsolete stock, they would be able to sell more in-season products with higher profit margins within their own channels if they could return these inventories. Therefore, during the transition period from 2017 to the first quarter of 2018, we allowed these VIP distributors to return all our products to liquidate their surplus inventory and maintain our relationship with them. Starting from the second quarter of 2018, these VIP distributors can no longer return all our products and we monitor our return rates carefully. As a result of the aforementioned policy, our actual sales returns increased during the first half of 2018. We also allowed certain distributors to return all our products in the first season to facilitate their new business. The percentage of products which a distributor is allowed to return generally depends on the wholesale price at which the products were purchased and whether the distributor is also entitled to a rebate of its total purchase amount for a given season. Permitted return rates vary among distributors and across our brands and may be negotiated with and granted to individual distributors on a case-by-case basis in consideration of the distributors’ sales performance and the length of their business relationship with us. Returned products are required to be in good condition and suitable for resale, and the purchase amount is credited to the distributor.
 - In terms of returns for quality defects, we provide distributors with replacement products or process a sales return due to any product discovered to have a quality issue. Only in-season products are eligible for a quality return. In-season products are deemed off-season after six months of first sale.
 - Products accepted for a sales return are refunded at the purchase price without any adjustment. The return and refund process with the distributors after termination of their distribution agreements will be based on the respective arrangements in the distribution agreements.

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- Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods. When we recognize our revenue from distributors, we already take into consideration the impact of our expected products returns and sales rebates.
- Details of goods returned from distributors
 - The below table sets forth the movement of our provision for our sales returns and amounts of sales returns during the Track Record Period.

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of the year	224,175	181,126	287,220
Provisions	290,288	451,229	360,921
Sales returns	(333,337)	(345,135)	(426,241)
At end of the year	181,126	287,220	221,900
Expected sales return rate	21.1%	35.0%	29.6%

Our expected sales return rate is calculated as provision for sales returns divided by gross revenue from sales to distributors before deducting provision for sales returns and provision for sales rebates during the year. Our actual sales return rate, calculated as the amount of sales returns divided by gross revenue from sales to distributors before deducting provision for sales returns and provision for sales rebates during the year, was 24.2%, 26.8% and 35.0% in 2016, 2017 and 2018, respectively. The increases in both expected sales return rate and actual sales return rate from 2016 to 2017 was primarily due to our channel optimization to convert sub-distributors to distributors mentioned above. Since some VIP distributors lost the additional benefit of selling our products to sub-distributors and, as a result, had difficulty in selling out our products completely after reorganization of the multi-layered distribution network. Though they have their own channels to sell obsolete stock, they would be able to sell more in-season products with higher profit margins within their own channels if they could return these inventories. Therefore, during the transition period from 2017 to the first quarter of 2018, we allowed these VIP distributors to return all our products to liquidate their surplus inventory and maintain our relationship with them. Starting from the second quarter of 2018, these VIP distributors can no longer return all products and we are dedicated to monitoring our sales return rates more carefully. The decrease in expected sales return rate from 2017 to 2018 was primarily due to our efforts to control procurement volume. The increase in actual sales return rate from 2017 to 2018 was primarily because our VIP distributors, who were allowed to return all our products during the period from 2017 to the first quarter of 2018, mostly returned the products in 2018. According to CIC, our actual sales return rate is in line with the industry norm. During the Track Record Period, we estimated the inventory provision on goods returned from distributors accounted for 30% to 45% of the total inventory provision. In handling the returned goods from distributors, we usually sell at discounted rates via our offline self-owned stores and major online platforms until the end of the product life cycle together with other off-season products from other sales channels. For returned spring and summer products, we usually commence the discounted sale in the second half of the same year; for returned fall and winter products, we usually commence the discounted sale in the first half of the coming year.

- *Order rights*
 - Partners: Our partners place orders as requested by us.
 - Distributors: Our distributors have the rights to choose the products they would like to order while we reserve the right to adjustment.
- *Purchase amount*: Only from the beginning of the year to the third quarter of 2016, we set a minimum purchase amount for GXG ranging from RMB0.5 million to RMB0.7 million. Saved as disclosed above, we do not have a minimum purchase amount for our distributors.

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- *Sub-distributors:* During the Track Record Period, certain of our distributors engaged sub-distributors while we do not have any sub-partners. These sub-distributors normally sign distribution agreements with our primary distributors. They operate stores according to the same brand formats as those of our self-owned stores and we exercise certain degrees of management over the stores operated by these sub-distributors. Nevertheless, to better control our retail stores, we have ceased allowing our distributors to engage any new sub-distributors and terminated existing sub-distribution arrangements in late 2016. As of the Latest Practicable Date, we did not engage any sub-distributors.

Sales to our largest customer accounted for 3.9%, 5.5% and 5.2%, respectively, of our total revenue in 2016, 2017 and 2018, while sales to our five largest customers in aggregate accounted for 13.0%, 10.6% and 11.2%, respectively, of our total revenue during the same years. As of December 31, 2018, our major customers generally had over eight years of relationship with us. During the Track Record Period and as of the Latest Practicable Date, a then director of our subsidiary, Mr. Zhu Zhaoguo had more than 5% of the interests in one of our five largest customers, Ningbo Zhenrong Brand Management Co., Ltd. Saved as disclosed above, none of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest customers during the Track Record Period and as of the Latest Practicable Date.

With better understandings of our brands, distribution channels and store operation, some of our former employees have become our partners during the Track Record Period. 13, 15 and 16, respectively, partners, who are our former employees, opened 194, 248 and 310, respectively, partnership stores as of December 31, 2016, 2017 and 2018. These partnership stores were immaterial in terms of revenue contribution, accounting for less than 5.0% of our total revenue in each of 2016, 2017 and 2018. Since these partnership stores are mostly run by small-scale companies or individual and have long-term relationships with us, we have provided initiatives to encourage and support their store operation. We cover the purchase of equipment for store opening. Especially, for some partners, we only record around 30% of the recommended retail price of the products sold as revenue. Same as our other partners and distributors, we renew our partnership agreements with them on a yearly basis. We have terminated our employment with these partners and set up internal control policies to ensure the independence of our partners by verifying the identities of any new partners against our register of employees and former employees. We will monitor the performances of these partnership stores carefully and will transfer the ones with better sales performance into our self-owned stores as appropriate.

Management of partnership and distributor stores

The quality, consistency, display and appearance of our stores and customer shopping experiences are key to maintaining the integrity and attractiveness of our brands. Therefore, we manage our partnership and distributor stores in substantially the same way as our self-owned stores to ensure that our retail policies and operating procedures are implemented uniformly across our entire retail network.

As part of our partner and distributor management system, we actively supervise the operation of partnership and distributor stores in various ways described below to ensure their compliance with our retail policies and operating procedures and prevent any conflict of interest or abuse.

- *Uniform retail pricing:* We adopt a uniform recommended retail price for each product for our partnership and distributor stores. We provide guidance relating to product promotional discount policies and programs to them. If our partners and distributors violate our uniform retail pricing guidance, unless with the approval of our headquarter to make adjustment based on their respective situation, we are entitled to forfeit their deposits, add another partner or distributor to their exclusive territory or terminate the partnership or distribution agreement.
- *Unified store design and appearance:* According to the partnership and distribution agreement, the partnership and distributor stores need to have consistent image, and the sales personnel in the partnership and distributor stores need to wear required uniforms as in our self-owned stores.

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- *Monitoring sales and inventory records:* (i) We consider partners and distributors' historical sales performance and sales forecast to evaluate their orders. We will not allow excessive orders to avoid overstocking and will proactively oversee their orders to ensure the delivery of sufficient quantities to meet customer demand in a timely fashion; (ii) we ship partners and distributors' orders by batch and require them to implement our ERP system in their stores. Though we cannot ensure completely accuracy in their input of sales data, we can still monitor and estimate their inventory levels based on the records in the ERP systems and will communicate with them if any adjustment is needed; (iii) for certain distributor stores that connect to our cloud-based inventory sharing and allocation system, we require them to input the sales data of each season correctly and will adopt punitive measures if there is any error; (iv) we alert our partners and distributors to replenish the inventory of popular products when their inventory reaches a prescribed level; and (v) our partners and distributors are required to perform stock count to correct any errors in the inventory data and compensate for the loss, if any. In addition, we will not compensate for the loss in stock to our distributors and they need to bear their own inventory risk.
- *Performance evaluation:* We conduct periodic reviews of the performance of our partners and distributors against certain criteria, including their sales record and compliance with our retail policies and operating procedures. We decide whether to renew or terminate our partnership and distribution agreements with them based on the results of their performance evaluation, including whether they meet the sales target.
- *Periodic and ad hoc on-site inspections:* To ensure full compliance with our retail policies and operating procedures, our regional sales team conducts scheduled inspections of our partnership and distributor stores and occasional unannounced inspections to monitor their service quality and notifies partners and distributors of corrective measures that need to be taken with respect to those aspects that do not meet our standards.
- *Consent right over opening of retail stores:* We require our partners and distributors to obtain our consent before opening any store within their authorized territory.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any of our partners or distributors committing any material breach of their respective partnership or distribution agreements or in material violation of our policies relating to geographical scope or pricing.

PRODUCT PLANNING AND DESIGN

Product Design, Research and Development Team

Our design, research and development team included 113 designers across our brands as of the Latest Practicable Date. We employ a dedicated product design, research and development team for each of our own brands to craft the distinct brand image to ensure distinctiveness and independence of each brand. We also assemble a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers' preference. Our design team is responsible not only for the styling and design of products, but also for the development and identification of the fabrics used together with our procurement team. We collect and implement customer feedbacks and preferences into our design process through our big data analytics on customer shopping habits and behaviors. We hold design meetings at the end of each quarter to review customer feedbacks and the performance of our products.

Product Planning and Design

Typically, we take the following design, research and development steps during our products' life cycles:

- *Market analysis:* Our designers attend various domestic and international trade exhibitions to keep themselves informed of the latest fashion trends. They also analyze past sales performance, consumer surveys, feedback from retail channel personnel on consumer preference, competitors' design, fashion-related websites and magazines, market conditions and the competitive landscape to create the overall design concept.

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- ***Conceptualization and product planning:*** After conducting market research, our designers apply their research findings to conceptualize specific annual themes. Our design teams attend raw materials fairs and collect elements for the theme, while our production procurement team collects information on potential raw materials needed for the theme. Our design teams and product planning team work closely to analyze information gathered and formulate a proposal for the season, which includes the timing for the product launch, product mix and target price range.
- ***Design, internal selection and approvals:*** Our designers adopt certain features from the conceptualized themes, such as color or decoration details, and apply them to the final designs of our products. Each year, various sample design styles will be selected for each brand and sent for production in preparation of preliminary market launches, a portion of which will be ultimately selected for mass production during the sale season. We also conduct preliminary solicitation through offline retail personnel to collect new product feedbacks and pre-sell certain new products online to test market acceptance.
- ***Order fair:*** We generally hold order fairs every season to introduce our new products. Generally, the order fairs last for three to four days. Since our distributors normally place orders during the order fairs, the outcome of the order fairs has a direct effect on our sales for the coming season. After each order fair, we collect data to analyze the popularity of our products and to determine which products should be marketed more heavily and arranged for such products to be produced in higher volumes. Our designers will attend the order fairs and collect first hand feedbacks on our designs.

SUPPLY CHAIN MANAGEMENT

Contract Manufacturers

Our major suppliers are categorized into two types: (i) suppliers providing raw materials procurement service only; and (ii) OEM suppliers. We do not own any manufacturing facilities in house, and outsource the production of all our products to selected domestic OEM suppliers. We believe that our outsourced manufacturing arrangements enable us to focus on our core strengths in design and marketing of our products, and lower operations and financial risks and expenses relating to production facilities and management of labor. Our OEM suppliers process raw materials and fabrics purchased by themselves and provide us with finished products. For certain products, we provide OEM suppliers with raw materials directly. In 2016, 2017 and 2018, we had 112, 123 and 142 OEM suppliers, respectively, all of which were located in the PRC.

Arrangements with our contractual manufacturers

Since we have maintained long-term and good relationships with our major OEM suppliers, they are willing and able to provide flexible support to our production. As of December 31, 2018, our major OEM suppliers had over three years of relationship with us. Therefore, we do not enter into long-term agreements with our OEM suppliers. Instead, we generally entered into annual framework agreements with them and place orders as necessary. When we first place orders, we only order for approximately 70% to 80% of our products, while reserving the rest for more popular products to retain flexibility. To enhance the efficiency of our new orders, we utilize our product lifecycle management system to provide recommendations over the sufficiency of current inventory levels. We plan to gradually ship our products directly from the factories instead of the warehouses to retail stores and end customers to speed up our time to market and lower operation cost. Leveraging our long-term relationships and flexible supply chain capabilities, our OEM suppliers can usually respond to our additional demands in one to several weeks. As of the Latest Practicable Date, we had not encountered any material disruption to our business as a result of failure to obtain OEM-supplied products and we had not experienced, and do not expect to experience, any material difficulties in obtaining the outsourced products we require.

The agreements we entered into with our OEM suppliers set forth terms such as the supplier's qualifications, procedures for placing orders, production obligations, quality standards, pricing terms, delivery protocol, inspection and acceptance of products, return policy, payment terms,

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confidentiality obligations and protection of trademarks and other intellectual property rights. These supply agreements do not contain minimum purchase or price requirements. Instead, we specify the product type, unit price, quantity, delivery timeline and other detailed items in each purchase order we send to our OEM suppliers from time to time. Typically, OEM suppliers request an advanced deposit of the purchase price. Payments are generally settled by us within four months of the date on which we accept delivery of the products. We may return products due to quality issues upon delivery or at any time after delivery when we discover any defect in the products. During the Track Record Period, we did not have any material disputes with our OEM suppliers.

Selection and evaluation criteria of suppliers

We carefully select our OEM suppliers and require them to satisfy certain evaluation and assessment criteria. Before we engage a new supplier, our team evaluates various aspects of a supplier, including its ability to meet our requirements, production capacity, existing brand customers, quality management, qualifications, research and development capability, location, price, reputation, and ability to meet our delivery timeline. We also evaluate our existing suppliers on a quarterly basis through employing a supplier scoring card and holding regular supplier review meetings. Our evaluation criteria include manufacturing facilities, research and development capacity, quality control, on-time delivery rate, process yield, differences between proposed and final prices, devoted management, pass rate of first inspection and post-sale complaint rate.

Our production procurement team works closely with our OEM suppliers during each step of the process and conducts quality checks upon final product delivery to ensure that products manufactured externally meet our quality control standards. Each of our OEM suppliers must pass our internal quality control procedures. See “— Quality Control” below.

Raw Materials

The principal raw materials for our products include cotton, wool, down and synthetic materials. For our outsourced production, depending on the type of products to be processed, mostly we require our OEM suppliers to procure certain raw materials in accordance with our designs and specifications from raw material suppliers that we designate in order to control the quality of raw materials. For certain products, we provide them with raw materials directly. In addition, we have undertaken other quality control measures for raw materials. See “— Quality Control” for more details. As of the Latest Practicable Date, we had not encountered any disruption to our business as a result of shortage or delay in the supply of raw materials. We source substantially all of our raw materials from suppliers based in China.

The prices of various raw materials for our products fluctuated during the Track Record Period and may continue to fluctuate in the future. For raw materials that we procure directly from raw material suppliers, we minimize our exposure to fluctuations in the prices of these raw materials by closely monitoring their prices and advancing or hedging orders at appropriate times based on anticipated production and sales requirements. In addition, our sales and production departments hold regular discussions with a view to minimizing our exposure and might adjust the recommended retail prices of the relevant products. We do not engage in hedging using derivative instruments relating to the risk exposures in connection with our raw materials.

Purchase amounts from our five largest suppliers together accounted for 20.9%, 23.8% and 28.0%, respectively, of our total purchase cost in 2016, 2017 and 2018, while purchase amounts from our largest supplier for the same years accounted for 6.2%, 7.1% and 6.7%, respectively, of our total purchase cost. While our suppliers are mostly independent third parties, purchase amounts from related parties, including Ningbo Chisage Apparel Co., Ltd. and Huaian Chisage Industrial Co., Ltd., in 2016, 2017 and 2018 in aggregate amounted to RMB66.2 million, RMB95.4 million and RMB105.6 million, respectively, which represented 4.2%, 5.3% and 6.2%, respectively, of our total purchase cost for the same years. See “Connected Transactions — Non-exempt Continuing Connected Transactions — (e) Framework apparel manufacturing agreement with Ningbo Chisage Apparel” and “Connected Transactions — Non-exempt Continuing Connected Transactions — (f) Framework apparel manufacturing agreement with Huaian Chisage Industrial” for further details of our business relationships with related parties above.

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During the Track Record Period and as of the Latest Practicable Date, our Director Mr. Yang had more than 5% of the interests in one of our five largest suppliers, Ningbo Chisage Apparel Co., Ltd. Saved as disclosed above, none of our other Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest suppliers during the Track Record Period and as of the Latest Practicable Date.

Transportation and Logistics

Products are delivered directly to each store or a place designated by our distributors mostly by land and sometimes by air transportation, as appropriate, by independent logistics service providers who typically bear the risks and losses associated with the delivery. Some partnership and all distributor store bear their own transportation expenses. We have been able to lower our transportation costs through economies of scale because we are able to arrange centrally for transportation services.

We typically enter into annual agreements with logistics service providers. Under these agreements, the logistics service providers bear the risks during transportation as well as related insurance expenses. The logistics service providers are responsible for any damage resulting from delayed delivery. In addition, the logistics service providers are typically not allowed to sub-contract the work to third parties without our prior written consent.

During the Track Record Period, our online and offline delivery lead time by land transportation was usually about two to seven days, while maintaining low delivery damage and delay rate at 0.09% and 0.11% for online and offline delivery, respectively. In addition, with our integrated distribution network, customers can also order online with the products being delivered following the optimal delivery option. By doing so, we will have more access to customer feedback and increase cross-selling activities by driving online traffic to offline channels.

MARKETING AND PROMOTION

We have implemented multi-faceted omni-channel branding and marketing strategies based on our understanding of customers' psychology and the aspirations of our customers. Our omni-channel marketing approaches include online advertising, social media campaigns, cross-overs, and offline events and campaigns to increase customers awareness of our products and to create strong brand recognition. With the growing importance of social media in China, we identify and build relationships with influential individuals on social media or KOLs to create a "buzz" in certain target markets prior to the launch of a new product. In addition, we use our offline retail stores to convey our brand image, display products and interact with customers, which we believe are effective means for acquainting our customers with our products and advertising our brand philosophy.

To further enhance customer loyalty, we introduced our VIP membership program in 2009. Our members can convert bonus awards from online and offline purchases into different levels of discounts for future purchases and are entitled to participate in periodic, member-only promotion campaigns. They could receive notices of new product launching, exclusive product offering and offline exclusive events. We interact with customers both through our offline sales personnel and our online social network platforms. We routinely share our design philosophy with subscribers of our public accounts and provide information regarding our artistic and lifestyle taste and styling of clothes. These interactions enable us to nurture our loyal base of existing customers and enhance stickiness. We take advantage of our large base of young loyal customers promoting our brands on social network platforms, such as sharing discount information or writing product reviews, or through word-of-mouth recommendations among their social circles. In addition, compared with other online platforms, WeChat mini program provides an entry point to the largest amount of mobile traffic in China and a built-in and intuitive way to interact with our customers. Through this, we can conduct targeted marketing, offer personalized content and dynamic pricing to our target customers and expand our customer reach. Together with our integrated sales and distribution channel and our efforts to promote our brands, the number of our total members increased from approximately 6.1 million as of December 31, 2016 to approximately 11.2 million as of December 31, 2018.

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We plan to further implement our new retail strategy and utilize existing online and offline channels. Our online and offline channels allow us to collectively gather and analyze important customer data using our big data analytics, such as customer shopping amount and frequency, to implement coordinated marketing and cross-selling activities to drive offline customer traffic to our online channels and vice versa. We plan to (i) utilize our upgraded smart retail store network to further collect offline customer traffic and interaction information to enhance our customer data system; and (ii) further synchronize our online and offline VIP membership information to achieve personalized and targeted marketing. With these initiatives, we can make shift adjustments to address customers' needs and promote our brand image to help maintain customer loyalty, achieve incremental sales and facilitate the launch of new brands and products.

In 2016, 2017 and 2018, our advertising expenses amounted to RMB112.0 million, RMB171.1 million and RMB179.2 million, respectively, representing 3.7%, 4.9% and 4.7%, respectively, of our total revenue for these years.

- **Big data analytics via online and offline channels** — We deploy big data-enabled technologies to monitor customer data and adjust our marketing strategies accordingly. Our big data analytics could analyze correlations between customers' purchasing behavior against their geographical and demographic distribution. We leverage our online and offline channels to gather a broad range of data, including offline store traffic, product popularity, customers' purchasing amount, frequency, time and location, membership information and customers' feedback to sales personnel. The big data analytics contributes to helping us make decisions regarding product design, marketing focus and manage inventory level, and drive constant improvements to our marketing and promotion process, as well as adaptations of attributes of merchandises most attractive to customers, thereby enhancing the desirability of our products.
- **Fan-based and viral marketing strategies** — We have integrated our online and offline channels to build our “Fans Economy” (“粉絲經濟”), which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. We collect customers' data from our online platform and offline retail stores, and further analyze it through our big data capabilities, which help us understand customers' purchasing behaviors, construct customer profiles, and achieve our target of transforming new customers into loyal fans. We view retail stores as an effective means for acquainting our customers with our products and brand philosophy. To present a consistent brand image across our vast retail network, we impose a uniform guideline on store design and appearance among our self-owned, partnership and distributor stores. We followed our customers' purchasing pattern by selling products on major online platforms, such as Tmall, Taobao, WeChat mini program and Vipshop, to allow them to make purchases “24/7” on demand. Our social network platform on Weibo and WeChat convey our brand philosophy to our followers and educate them about our design and lifestyle taste by sharing information on our new products as well as design and fashion updates. Those customers who identify with our design philosophy and lifestyle vision become our fans. In addition, we have largely relied on the viral effect of our social media outreach and word-of-mouth marketing generated by our deep involvement with the fashion community and the strong popularity of our products. We intend to continue expanding the appeal of our brands via social media and marketing. We have developed strategic partnerships with social media celebrities who promote our products to their millions of fans and have to date relied on viral and word-of-mouth marketing campaigns, as well as our loyal following, to expand the reach of our brands and products through a grassroots effort. We intend to continue pursuing these avenues to maintain our core fan base as a strong foundation for our brands.
- **Cross-overs** — We utilize our omni-channel to implement new retail cross-over promotions. For example, in June 2018, inspired by Pepsi's young and popular brand image, gxg jeans launched a cross-over product line combining Pepsi's signature colors, red, white and blue, with the latest fashion trends to attract young customers. Sharing the same trendy concept, gxg jeans further worked with the Korean hip-hop icon “KRUNK bear” and American contemporary artist Ron English to enrich our street culture product design. In our “KRUNK bear” joint series of products, we focused on sweatshirts and jackets. In our cooperation with

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Ron English, we utilized his signature graphics across products such as smiley face. GXG also cooperated with Warrior, a long-standing Chinese national shoe brand, to add the new fashion elements to Warrior's classic logo and color. In the 2018 fall product series, gxg.kids collaborated with SpongeBob SquarePants to incorporate its fun and cheerful images into our kidswear design. To promote our cross-over products, we used social media, celebrities and KOLs' endorsement and pop-up stores with interactive installation, to provide customers with a new and fun shopping experience.

LOGISTICS AND INVENTORY MANAGEMENT SYSTEM

We are focused on optimizing our logistics and inventory management. We believe that our efficient and responsive inventory management system enables us to shorten our products' time to market, maximize full-price sales, increase rates of inventory turnover and maintain optimal inventory levels, thereby helping us remain competitive in our fast-paced industry. Our advanced information technology platform, which integrates our POS and ERP systems, provides us with daily sales and product tracking and reporting, enabling us to react rapidly to, and to synchronize production with, changing market trends and consumer demand.

Warehousing and Logistics Facility and Product Delivery

We manage our warehousing and logistics based on different types of inventory. In Ningbo, Zhejiang Province, we have a Central Distribution Center ("CDC") with a gross floor area of approximately 62,819 sq.m., which is generally responsible for sorting raw materials and in-season products as well as distributing in-season products to our retail stores. On the other hand, we rented an online platform warehouse with a gross floor area of approximately 66,451 sq.m. for the storage and shipment of off-season and returned products to online stores and factory outlets.

The CDC and online platform warehouse currently has a throughput capacity to sort and distribute approximately 40 million and 27 million pieces of products annually, respectively; through which we sorted and distributed approximately 17 million and 25 million pieces of products, respectively, in 2018. The CDC's capacity has been designed to handle our future sales need with adequate spare capacity, while the online platform warehouse is operating at or above designed capacity due to the fast growth of our online sales. To manage sales of our products through online network, we have engaged an additional third party warehouse for e-commerce products which charges on per order basis. We believe these facilities will have sufficient capacity to fulfill our business requirements for at least the next three to five years. Currently, we plan to establish our own smart logistics center to further implement new retail strategy. Once we establish it, we believe we may not need the two existing rented warehouses as the new self-owned smart logistics center will have enough capacity for our business operation. See "Future Plans and Use of Proceeds" for details.

Inventory Control

Our inventory system is able to produce real time information of inventories. All of our retail stores are equipped with a standard information management system (including POS terminals). Each product is barcoded and linked to warehouse management system. Through scanning the barcode, store sales information is collated and uploaded to our information management system on a real-time.

We have an inventory sharing and allocation system, which is designed to enhance customers' shopping experiences by optimizing product replenishment, shipment coordination and inventory control. Through this system, we closely monitor inventory levels of both excess inventory and products in high demand. When a certain product is out of stock in a given retail store, the inventory sharing and allocation system enables that store's staff to quickly locate an available item from another store nearby, place an order and ship the item directly to the consumer in the shortest possible time frame.

In August 2018, we have implemented a product lifecycle management system, which provides recommendations over the expected lifecycle of products, sufficiency of current inventory levels and other feedback, which enables us to react and better manage our supply chain, inventory and overall product strategies.

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Our planned production volume is based on a study of historical data which allows us to be more precise in specifying the volume we need. We also pre-sell certain new products online to test market acceptance since such data from online platforms can provide us with fast market responses and customer feedbacks. These approaches provide future guidance for mass production and inventory preparation as we have gained understandings on the expected sales of the new products, and further help us achieve balance between adequate supply and flexible supply chain to enhance our margins. When we first place orders, we only order for approximately 70% to 80% of our products, while reserving the rest for more popular products to retain flexibility. To enhance the efficiency of our new orders, we utilize our product lifecycle management system to provide recommendations over the sufficiency of current inventory levels. We plan to gradually ship our products directly from the factories instead of the warehouses to retail stores and end customers to speed up our time to market and lower operation cost. Leveraging our long-term relationships and flexible supply chain capabilities, our OEM suppliers can usually respond to our additional demands in one to several weeks. We also maintain a disciplined inventory replenishment policy to monitor the inventory levels of our distributors and partners. See “— Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Management of partnership and distributor stores” for details. In the case of off-season products, we adopt several measures to ensure they can be cleared efficiently. We periodically undertake promotional activities to sell unsold items and minimize overstocking.

QUALITY CONTROL

We recognize the importance of quality control over our products and believe that our continued commitment to high quality is crucial to our success.

Our quality control staff closely monitors the whole apparel production process, and each team is assigned to specific tasks to optimize efficiency and ensure product quality. As of December 31, 2018, our quality control team had 140 employees who carry out inspections at each of the following production stages:

- **Procurement:** Raw materials and ancillary materials are purchased from approved suppliers that meet our rigorous standards. Physical inspections are conducted on purchased raw materials on a random basis before they are delivered to our contracted manufacturers, and any identified defective materials are rejected.
- **Outsourced Manufacturing:** A majority of our manufacturers are located in Yangtze River Delta, and we therefore are able to exercise centralized quality control over the apparel manufacturing process. The contracted manufacturers’ workshop inspectors conduct inspections on the semi-finished products, and our quality control staff conduct random inspections on the semi-finished products, and any defective semi-finished products are disposed of, redone or repaired. The contracted manufacturers’ workshop inspectors are also responsible for the inspection of finished products. Random inspections are conducted by our quality control staff on finished products before warehouse delivery.

We comply with relevant PRC consumer protection laws with respect to policies on the return of merchandise. We provide product return or replacement with same product regardless of whether there is any product defect within seven days of purchase. If customers choose to replace with different product, they will need to pay for the price differences. Our sales team is also trained to deal with any complaints that may arise from end customers, including the verification of any alleged defects in the merchandise. As a result of our strict quality control policies, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive any material product return request from our customers or (ii) receive any material complaints from consumers.

INFORMATION TECHNOLOGY SYSTEMS

We have developed strong information technology capabilities. Our advanced information technology platform integrates an ERP system, CRM system, POS terminals, warehouse management system and order management system, which form our big data analytics capabilities. Our information technology systems enable us to quickly and efficiently retrieve and analyze our operational data and information including procurement, sales, inventory, logistics, customer and membership data and financial data on a real time basis, as well as to provide information technology support to all our retail stores and compile and analyze their operational and financial data on a daily basis. We use our information technology systems to assist us in planning and managing our product design, budgeting, human resources, inventory control, retail management and financial reporting.

During the exploration of our new retail business model, we gradually developed our own big data analytics capabilities with our new retail initiatives by utilizing and integrating the data originally scattered among our different information management systems and channels. We analyze these data and develop our own analytics and solutions to suit our business needs and further apply to our business operation. Our big data capabilities are demonstrated by our data collection, analytics and application.

We collect diversified data, such as (i) customer behavior data: customer portrait, shopping preference and frequency. We collect customer behavior data through customers' feedbacks to offline sales personnel and on online social platforms as well as our synchronized VIP membership program; (ii) product data: products sold to overall in-stock SKU rate and try on rate; (iii) regional data: weather and consumer purchasing power; and (iv) inventory data. Through the cooperation with other major online platforms, we also collect cross-category shopping data and social attribute data to have more thorough understandings of our customers and the markets. We use API, a set of functions and procedures that allow the creation of applications which access the features or data of an operating system, application or other service, and data table techniques to connect our different systems; therefore, the data we gathered can be shared and further utilized among our front end systems and back office systems.

To implement our new retail strategy, we focus on the enhancement and integration of our different systems. For example, after years of experience and development, our CRM system is now integrated with our ERP system. Our CRM system can extract product data real time from our ERP system and match them with the customer behavior data to further tag and categorize customers through their age, gender, region, purchasing power, preferences and shopping frequency. Our RFID and intelligent management system will also record product movement data such as try on rate and combine them with customers' purchasing record in our ERP system to further conduct data analytics.

Leveraging our big data analytics, we have integrated our online and offline inventories and operate a cloud-based inventory sharing and allocation system, which provides inventory level information of each online platforms and offline retail stores to our management, and allows them to adjust the product offerings and inventory allocation to improve sales performance. The inventory movement real-time data stored in our warehouse management system will transmit to our ERP system, and further to our in-house cloud-based inventory sharing and allocation system. Our system will first set up the available-for-sharing product range from each store and the authorization of the store to place order through our cloud-based inventory sharing and allocation system. With the authorization, even the particular desired item is out of stock in a particular store, such store can still sale the product to the customer. After the order is placed, our system will utilize big data analytics to decide the best suitable store to ship the products considering different dimensions, including location, inventory level, least package possible and credit limit of the store. All the order information are stored in our ERP system as a centralized order management center. In August 2018, we have implemented a product lifecycle management system, which provides recommendations over the expected lifecycle of products, sufficiency of current inventory levels and other feedback, which enables us to react and better manage our supply chain, inventory and overall product

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strategies. Based on the historical product sales and inventory data stored in our ERP system, we established our own forecast model to develop analytics and system regarding product lifecycle management. Furthermore, instead of using traditional analytical techniques which can only do sheet and statistics analytics, we installed big data analytical software and products, such as Apache Hive, Sqoop, Tableau series products, HDFS, to support our big data gathering, storage and calculation. In addition, we are in the process of establishing auto shipping and allocation system on the foundation of big data and machine learning capabilities. Through our analysis on history data and market performance, we hope to achieve real-time monitoring on each store, each SKU and inventory level to maximize sales margin and optimize operation efficiency.

Since we collect customer data through our online channels, we emphasize the importance of protecting the privacy of our customers and have set different levels of access authorizations within our internal information management system for processing and use of our customers' personal data to comply with the relevant regulations. See "Regulatory Overview — Regulations Relating to Privacy and Personal Data Protection" for details. Our customer data is stored only in our internal information management system and we do not share with other third parties. During the Track Record Period and as of the Latest Practicable Date, we have not received any complaints from our customers or any investigations or administrative penalties by the competent authorities in relation to the privacy and personal information protection. Our PRC Legal Advisers are of the view that we are currently in compliance with the regulations relating to privacy and personal data protection.

In addition, we must comply with the provisions of the E-Commerce Law of the PRC (《中華人民共和國電子商務法》) (the "**E-Commerce Law**") which came into effect on January 1, 2019. See "Regulatory Overview — Laws and Regulations Relating to the PRC Online Trading — E-Commerce Law of the PRC" for details. As advised by our PRC Legal Advisers, we are currently in compliance with the relevant provisions of the E-Commerce Law. We do not anticipate any material potential impact on our business operations resulting from the implementation of the E-Commerce Law.

DATA PRIVACY AND SECURITY

We are committed to protecting user data in our business and operations. We have access to an extensive volume of customer data during the course of business through the collection of customers' feedbacks from our offline sales personnel, online social platforms as well as our synchronized VIP membership program. Such data include customer basic background information such as name, gender, telephone number and delivery address, behavior data, product data and regional data. Through the cooperation with other major online platforms, we also collect cross-product shopping data and social attribute data to have more thorough understandings of our customers. We have explained the terms and conditions to customers and have also gained their prior consent before collecting their data.

We treat all customer data in our possession as highly confidential. We are legally obligated not to disclose any data or other confidential information to any third parties without prior consent of our customers. We have strict internal policy on our employees' access to customer data depending on their positions and seniority. Furthermore, we also enter into confidentiality agreements with our employees who have access to any aforementioned customer data. The confidentiality agreements provide that, among others, these employees are legally obligated not to misuse the confidential information while in office, to surrender all confidential information in possession while resigning, and to retain their confidential obligations after they leave office. The employees are subject to monetary damages if they breach their confidential obligations or otherwise commit misconduct resulting in leakage of our confidential information. For serious misconduct, we will refer to relevant judicial authority and the employees may bear legal liability. In addition, our business partners are legally obligated not to use any improper means to acquire our data.

We take safety precautions in information storage and processing. Our information technology network is configured with multiple layers of protection to secure our databases and servers. To ensure security throughout the various stages of our data analysis, all user data tagged and

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processed are protected with passwords and are stored on our firewall-protected physical servers. We back up user data on a daily basis in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. We have also implemented a variety of protocols and procedures, such as regular system checks, virus prevention measures, password policy, server access logging, network access authentication, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our data assets and prevent unauthorized access to our network. We continue to improve and enhance our data and system security through routine checks and timely upgrades to ensure the proper management of our operational data. During the Track Record Period, there were no incidents of security breach in respect of our data storage.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to operations of our retail stores, including strategic risks, operational risks, financial risks and legal risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on an annual basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

COMPETITION

We operate in the highly competitive and fragmented apparel industry. We compete with a broad range of fashion menswear brands. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. We compete with our main competitors mainly on product design, new retail integration and sustainable growth of online business. According to CIC, the top five players accounted for 14.4% of total market share in 2018. The key barriers to entry in the fashion menswear industry in China include, among others, brand awareness and recognition, design and product development capabilities, management competency and right decisions over business models, as well as online infrastructure and internal system facilities.

We believe we have several competitive strengths. For more information, see “— Our Strengths.” Our competitors include domestic fashion menswear companies in China. According to CIC, we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Through our new retail platform, we were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the omni-channel market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018.

PROPERTIES

Owned Properties

As of the Latest Practicable Date, we have the land use right over a parcel of land with the site area of approximately 13,576 sq.m. located in Yuanjia Village and Tuanjia Village, Panhuo Subdistrict, Yinzhou District, Ningbo. Pursuant to the supplemental land use right grant contract, we are required to commence development on or prior to January 30, 2020, and complete the construction by January 29, 2023. As of the Latest Practicable Date, we have not yet commenced the construction on the land in accordance with the land use right grant contract. We intend to use such parcel as our headquarter and obtain the construction permit for the construction of our office building on the land before January 30, 2020.

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During our acquisition of the land use right over this same parcel of land, its stipulated use was changed from “Industry Purpose” to “Commerce and Finance Purpose” by the local governmental authority, while the use of the buildings on such land remained “Industry Purpose”, which causes the inconsistency between the stipulated use of the land and that of the buildings on the land. The building was already on the land when we acquired the land through a public bidding process in May 2013. Pursuant to the PRC Urban and Rural Planning Law, we may be demanded by the competent planning authority to rectify and eliminate any influence caused by such inconsistency within a prescribed time limit and be fined of 5% to 10% of the construction cost; if such influence cannot be eliminated, we may be ordered to tear down the buildings within a prescribed time limit; and if the buildings cannot be torn down, we may be deprived of the ownership of such buildings or any illegal income therefrom, and could be fined no more than 10% of the construction cost. As of the Latest Practicable Date, we had not received any notice of penalty or be subject to any related governmental investigations. Our PRC Legal Advisers are of the opinion that since the inconsistency was mainly caused by the change of the use of the land while the use of our buildings remain unchanged, and we are about to demolish the buildings once we commence construction on the land, the risk of us being penalized by the competent planning authority is remote.

For more information, see “Risk Factors – Risks Relating to Our Business and Industries – Failure to commence development of land that we have been granted rights to use within the required timeframe and the inconsistency between the stipulated use of the land and that of the buildings on the land may subject us to penalties and default liabilities under land use right grant contracts and cause us to lose such land use rights, and the inconsistency between the use of the buildings and the use of the land on which they were constructed may subject us to the loss of the building ownerships and fines.”

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all of our interests in land or properties, for the reason that, as of December 31, 2018, none of our properties had a carrying amount of 15% or more of our consolidated total assets.

Leased Properties

As of the Latest Practicable Date, we leased 223 properties with an aggregate gross floor area of approximately 276,079 sq.m. from lessors to support our business activities and operations in China. All of these leased properties are used as retail stores, offices, warehouses and workshop buildings.

As of the Latest Practicable Date, 162 properties with a total gross floor area of approximately 89,660 sq.m. were leased from lessors who were unable to provide sufficient or valid ownership certificates or other ownership documents, or who had mortgaged their properties before leasing them to us and informed us of such accordingly in writing when or prior to the execution of the lease agreements. As of the Latest Practicable Date, these leased properties accounted for approximately 31.8% of our leased properties by gross floor area. These leased properties are being used as our self-owned stores, offices and warehouses. As of the Latest Practicable Date, 68 of our stores are located on leased properties that do not have sufficient or valid ownership documents. Though these leased properties are scattered across different regions and none of our leases have been terminated or voided during the Track Record Period, if any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. Based on information currently available to us, if we were required to relocate our retail stores that are located on these leased properties, we estimate that the costs would be ranged from approximately RMB0.2 million to RMB0.4 million for each retail store. Once we identify a new location, we believe that generally it would take us less than one month to relocate or reopen a retail store to a new location. As for the offices and warehouses we believe that there are alternative properties at comparable rental rates available on the market and the estimated total

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relocation cost and time will not be material. As advised by our PRC Legal Advisers, in case any such lease is deemed void due to the claim of rights by any third party over the property we leased from the lessor who was unable to provide sufficient and valid ownership certificate or other ownership documents, and we therefore can no longer use such property and are required to relocate, pursuant to Article 228 of the PRC Contract Law, we are entitled to demand a deduction of the rent or not to pay the rent. And in case the property we leased is transferred due to the enforcement of the mortgage over it, which had been set before the property was leased to us, and we have been informed of the mortgage in writing on or before the execution of the lease agreement, the lessor would be excused from compensating us for the losses incurred therefrom. Our Directors believe that these legal irregularities individually or collectively would not materially affect our business and results of operations. Please refer to “Risk Factors — Risks Relating to Our Business and Industries — Our rights to use our leased properties could be challenged by third parties, or we may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties.”

Pursuant to the applicable PRC laws and regulations, leases must be registered with housing administration authorities. As of the Latest Practicable Date, we, as the lessee, did not register various leases for our retail stores, offices, warehouses and workshop buildings. See “— Legal and Compliance” for further details.

We had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to register the leases described above. Our PRC Legal Advisers have advised us that our failure to register the lease agreements would not affect the validity of the lease agreements. In the event that we are required by competent authorities to rectify the non-compliance with lease registration requirement and we are not able to rectify due to lack of cooperation from the landlords, we intend to terminate the non-compliant leases, find alternative locations nearby and relocate without causing any material disturbances. GXG Trading has undertaken to indemnify us for any penalty or other monetary damages incurred as a result of our failure to register the lease agreements.

Concession and Lease Expiry Profile of Our Leased Properties

Our self-owned stores can be divided into two types, concession stores and standalone stores. We enter into concession agreements with department stores and outlets for our right to occupy and use the designated spaces in the department stores and outlets, and we enter into lease agreements with shopping malls and other lessors for our rights to open and operate our retail stores on leased properties. We also leased properties for our offices, warehouses and workshop buildings. The table below sets forth the term of these agreements and approximate gross floor area of our leased properties as of the Latest Practicable Date.

<u>Expiry Date of the Contracts</u>	<u>Number of Contracts</u>	<u>Approximate Gross Floor Area</u>
		(sq.m.)
Within three months	32	4,904
Between three months and one year	67	28,429
Between one year and two years	93	238,919
Between two years and three years	29	3,295
More than three years	2	532
Total	<u>223</u>	<u>276,079</u>

As of the Latest Practicable Date, 32 and 67 of the contracts were due to expire within three months and between three months and one year, respectively. We expect to renew most of these contracts upon their expiry and do not anticipate any material adverse impact related to the leasehold improvement. Even if we were required to relocate, we do not anticipate any material difficulties

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in the relocation or identification of new locations for continuous operation. Based on information currently available to us, if we were required to relocate our retail stores that are located on these leased properties, we estimate that the costs would be ranged from approximately RMB0.2 million to RMB0.4 million for each retail store. We believe that generally it would take us one month to relocate a retail store to a new location. As for the offices, we believe that there are alternative properties at comparable rental rates available on the market and the estimated total relocation cost and time will not be material.

INTELLECTUAL PROPERTY

We rely on a combination of trademark, trade secret and other intellectual property laws as well as confidentiality agreements with our employees, OEM suppliers, distributors and others to protect our product design, trade secrets and other intellectual property rights. As of the Latest Practicable Date, we had 208 trademarks registered in China and 32 trademarks registered in other countries or regions. As of the same date, we also had 45 and 39 pending applications to register trademarks in China and other countries or regions, respectively. As of the Latest Practicable Date, we had not been sued by any third party for infringement of intellectual property rights and we were not aware of any threatened material proceedings or claims against us relating to intellectual property rights.

AWARDS AND RECOGNITION

The table below sets forth our major industry and business awards and recognitions up to the Latest Practicable Date:

Awards/Recognitions	Year	Awarding Entity
2018 Zhejiang Top 100 E-commerce Enterprise	2018	Zhejiang Province E-commerce Association
2017 Quality Award for Menswear of Golden Wheat Award	2017	Golden Wheat Award
2016 Top Business	2017	Management Commission of Jiangbei Industrial Park
2016 Gold Award for Menswear of Golden Wheat Award	2016	Golden Wheat Award
2016 Star Enterprise of Service Industry	2016	Ningbo Jiangbei District People's Government
2016 Top Developing Textile and Apparel Brand	2016	China National Textile and Apparel Council
2016 Ningbo Top 100 Brands	2016	China Brand Research Center — Ningbo
2015-2016 Strategic Partners Award	2016	Shaanxi Committee of China Lions Club
GXG Deep Cooperation Award	2016	Shanghai Bailian Group Co., Ltd.
Manufacturing E-commerce Model Enterprises in Zhejiang Province	2016	Zhejiang Province Economic and Information Commission
2015 E-commerce Model Enterprise	2015	The Ministry of Commerce of the People's Republic of China
2014 The Fashionest Menswear Brands	2014	China Textile and Apparel Network Festival
2014 Top 10 Menswear Brands	2014	China Clothing Website
2012 Top 10 Menswear Brands	2013	China Clothing Website
2012 Industry Fashion Award	2013	Xin Qiao Newspaper

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INSURANCE

We have purchased property insurance covering major leased office facilities and inventory and goods insurance. We do not maintain business interruption insurance, including general product liability insurance or key-man life insurance.

Our Directors believe that our insurance policies are consistent with common industry practice in China. In 2016, we had a fire accident in our warehouse and had made an insurance claim of RMB68.5 million for our loss. See “— Environmental, Health and Safety Matters” for details. During the Track Record Period and as of the Latest Practicable Date, save as disclosed above, we had not made any material claims on any insurance policy maintained by us.

EMPLOYEES

We place great importance on attracting and retaining qualified employees. We offer competitive remuneration and are committed to investing in our employees’ training and development. As of the Latest Practicable Date, we had 885 full-time employees. Most of our employees are located in Ningbo, China. A breakdown of our employees by function as of the Latest Practicable Date is set forth below.

	Number of Employees	Percentage of Total
Sales and Marketing	438	49.5%
Supply Chain Management	201	22.7%
Accounting and Finance	58	6.6%
Product Design, Research and Development	113	12.8%
Human Resources	19	2.2%
Information Technology	27	3.1%
Administration	29	3.3%
Total	885	100.0%

We believe our success depends heavily upon our employees’ provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skills and quality of our employees, we place strong emphasis on training and development. We provide training periodically and across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace and grounds for termination.

Pursuant to regulations in each of the local jurisdictions where we operate, we make contributions to various employee benefit plans. Employee benefits covered by these arrangements include employee benefits required by PRC laws and regulations as well as accommodations, meals and travel allowances. Our expenses related to employee benefits in 2016, 2017 and 2018 was RMB253.3 million, RMB284.0 million and RMB145.2 million, respectively. Part of our employee benefits expenses include social insurance fund, covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and maternity insurance (where applicable) as well as a housing provident fund for our employees according to relevant PRC laws and regulations. During the Track Record Period, we failed to make contributions to the social insurance and housing provident funds in full amount as required by the PRC government. See “— Legal and Compliance” for details.

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Some of our employees are currently represented by labor unions. We have not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labor disputes. We believe that we maintain satisfactory working relationships with our employees.

During the Track Record Period, we had engaged dispatched employees. For details, see “Risk Factors — Risks Relating to Our Business and Industries — We engage outsourcing firms to provide outsourced services and have engaged dispatched employees for our operations. We have limited control over these services and may be liable for violations of applicable PRC labor laws and regulations.”

According to the Labor Dispatch Provisions promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees and dispatched employees, and dispatched employees can be used only for temporary, ancillary or substitutable positions. The Labor Dispatch Provisions further require any employer who is not in compliance with such requirements to rectify by March 1, 2016. During the Track Record Period and prior to February 28, 2018, we did not fully comply with the Labor Dispatch Provisions. However, we entered into a service outsourcing agreement with Qianjin Network Information Technology (Shanghai) Co., Ltd. (前錦網絡信息技術(上海)有限公司) on March 1, 2018 to rectify this non-compliance. As of the Latest Practicable Date, we had rectified the non-compliance and ceased using dispatched employees, and we had not received any notifications or administrative penalties in respect of labor dispatch from the competent authorities. Our PRC Legal Advisers are of the opinion that the risk of we being penalized for failing to rectify the non-compliance in respect of labor dispatch by March 1, 2016 is remote. However, if we are found not to have rectified such non-compliance within the specified time limit, we may be subject to a fine of RMB5,000 to RMB10,000 per dispatched employee.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

During the Track Record Period, we did not receive any complaint from our consumers or any other parties in respect of any environmental protection issues and we have not experienced any material environmental incidents arising from our operations. During the same period, no administrative sanctions or penalties have been imposed upon us for violation of environmental laws or regulations. During the Track Record Period, we incurred no cost for compliance with applicable environmental rules and regulations.

Our operations are subject to regulation and periodic monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations. We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. In 2016, we encountered a fire accident in our leased warehouse in Ningbo due to improper operation of our adjacent warehouse occupied by a third party with the fire spreading to our warehouse, which caused damage to our goods but no casualties. We had made an insurance claim and had been paid of RMB68.5 million for our loss and continue to seek compensation from the landlord. We have adopted the following approaches to prevent future recurrence: (i) enhance the implementation of our existing warehouse management procedures; (ii) selection of new higher-quality warehouse based on stricter criteria, such as the warehouse should not be connected to other buildings and the fire exits should not be occupied; and (iii) establish our self-owned advanced smart logistics center to have better control over our warehouse management and the associated cost compared with leased warehouses. See “Future Plans and Use of Proceeds” for details. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents as a result of our operations.

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LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

We confirm that, during the Track Record Period and up to the Latest Practicable Date, we have complied with all relevant applicable laws and regulations in all material respects and have obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our business in the jurisdictions we operate, save as disclosed in “— Legal and Compliance” below.

LEGAL AND COMPLIANCE

We from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. Neither we nor any of our Directors is currently a party to any material legal, arbitral or administrative proceedings. We are not aware of any threat of, any claims or any legal, arbitral or administrative proceedings, which, in our opinion, is likely to have a material adverse effect on our business, financial conditions or results of operations.

The following table sets forth our non-compliance incidents under the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date, and the corrective actions we have taken in response to this incident:

Non-compliance Incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<p>We failed to make contributions to the social insurance and housing provident funds in full amount as required by the PRC government.</p>	<p>These non-compliance incidents occurred primarily caused by inadvertent oversight of the relevant PRC laws and regulations, the implementation of which vary from city to city. Our staffs who were formerly in charge of this matter did not fully understand the different regulatory requirements in cities where we operated.</p>	<p>Our PRC Legal Advisers have advised us that, under PRC laws and regulations, we might be subject to late fees and fines for not making social insurance contributions in full amount in a timely manner. If any competent government authority is of the view that the social insurance payments we made for our employees do not satisfy the requirements under relevant PRC laws and regulations, we might be ordered to pay the unpaid amount within a certain period and a late fee that equals 0.05% of the total unpaid amount per day. If we fail to pay the unpaid amount or the late fee, we may be subject to a fine ranging between one to three times of the total unpaid amount of the social insurance fund contribution.</p>	<p>Our PRC subsidiaries have received no administrative penalties in respect of social insurance and housing provident fund from the competent authorities during the Track Record Period. Some of our PRC subsidiaries, including Chisage Mulsanne, Mulsanne E-commerce, Chisage Mulsanne E-commerce, Ningbo Yuexing, Shanghai Yuexing, Yatlas Shanghai, Mulsanne Maisi, Muxin-buer E-commerce, TwoXu Sports, have obtained written confirmations from the local social insurance authority and the housing provident fund authority, each stating that no administrative penalty has been imposed. We are advised by our PRC Legal Advisers that the relevant written confirmations were issued by the competent authorities.</p>
<p></p>	<p>Our PRC Legal Advisers have also advised us that, in the event that we fail to pay the housing provident fund in full amount, the housing provident fund administrative center will order us to pay the amount within a prescribed time limit; if we still fail to do so upon the expiration of the above-mentioned time limit, further application will be made to the People's Court for compulsory enforcement.</p>	<p>Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and house provident funds in full amount in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities.</p>	<p>Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and house provident funds in full amount in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities.</p>
<p></p>	<p>For more information relating to risk associated with this non-compliance, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industries — We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations."</p>	<p>GXG Trading has undertaken to indemnify us for any unpaid amount, penalty or other monetary damages incurred as a result of our failure to make contributions to the social security and housing provident funds in full amount.</p>	<p>As of December 31, 2016, 2017 and 2018, the carrying amount of our provisions for social insurance fund and housing provident fund contributions amounted to RMB83.2 million, RMB74.8 million and RMB49.7 million, respectively.</p>
<p></p>	<p></p>	<p>We have adopted the following measures: (i) we will adjust the contribution percentage and base according to the average salary of the employees of our relevant subsidiary in the preceding year and the requirements of relevant laws and regulations, and make full contributions accordingly; and (ii) we have established and implemented an internal control policy that requires full compliance with the relevant laws and regulations on social insurance fund and housing provident fund; and (iii) we have provided and plan to continue to provide senior management and relevant staffs with training regarding the legal and regulatory requirements applicable to our operations.</p>	<p></p>

Non-compliance Incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<p>As of the Latest Practicable Date, we have not registered 205 leases for retail stores, offices, warehouses and workshop buildings with housing administration authorities of the PRC as required under PRC law.</p>	<p>These non-compliance incidents were primarily caused by lack of cooperation from the landlords in registering lease agreements. Registration of lease agreements requires the landlords' cooperation, including submitting of their identity documentations and building title certificates to the relevant authorities.</p>	<p>We were advised by our PRC Legal Advisers that we might be ordered to rectify this non-compliance by competent authorities and if we fail to rectify within a certain period, a penalty of RMB1,000 to RMB10,000 per agreement may be imposed on us as a result of non-registration.</p> <p>The estimated total amount of penalty for our failure to register leases for leased properties is approximately RMB205,000 to RMB2,050,000.</p> <p>We did not receive any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to register the leases described above. Our PRC Legal Advisers have advised us that the failure to register the lease agreements would not affect the validity of the lease agreements.</p> <p>For more information relating to risks associated with this non-compliance, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industries — Our rights to use our leased properties could be challenged by third parties, or we may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties."</p>	<p>In the event that we are required by competent authorities to rectify the non-compliance with lease registration requirement, we intend to find alternative locations nearby and relocate without causing any material disturbances. Given the nature of our business, we do not believe relocation of any of these leased properties would cause any material disruption to our operations. Although we may incur additional relocation costs, our Directors believe that there will not be any material impact on our business, operation or financial condition.</p> <p>GXG Trading has undertaken to indemnify us for any penalty or other monetary damages incurred as a result of our failure to register the lease agreements.</p> <p>We have adopted the following measures: (i) we have completed the filing and registration procedures for the relevant lease agreements that the landlords were willing to cooperate; (ii) for new leases, we will communicate with potential landlords beforehand and select the landlords that are willing to cooperate to the extent possible; and (iii) we have provided and plan to continue to provide senior management and legal staff with training regarding the legal and regulatory requirements applicable to our operations from time to time.</p>

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Deed of Indemnity

GXG Trading has entered into the Deed of Indemnity in favor of our Company (for itself and as trustee for its subsidiaries), whereby GXG Trading has given indemnities to our Company (for itself and as trustee for its subsidiaries) against all unpaid amount, fines, penalties, claims, costs, expenses and losses (to the extent that provision, reserve or allowance has not been made for such fines, penalties, claims, costs, expenses or losses in the accounts) suffered by any member of our Group as a result of or in connection with the non-compliance incidents as disclosed in tables above.

Views of our Directors

Having considered the nature and reasons for the historical non-compliance incidents identified above and the advice from our PRC Legal Advisers, the corrective actions taken and the internal control measures adopted by our Company, our Directors are of the view that (i) our Group's internal control measures are adequate and effective for the purpose of Rule 3A.15(5) of the Listing Rules to prevent recurrence of future non-compliance incidents; and (ii) the past non-compliance incident does not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Our Directors, as advised by our PRC Legal Advisers, confirm that as of the Latest Practicable Date, except as disclosed in the above table, we had complied with relevant PRC laws in all material respects.

INTERNAL CONTROL MEASURES

During the Track Record Period, we have noticed the following internal control deficiencies and adopted the relevant internal control measures accordingly: (i) as disclosed in “— Sales and Distribution – Our Offline Channels – Partnership and distributor stores – Arrangement with partners and distributors,” some of our partners are our former employees and some of them became our partners prior to the termination of our employment relationships with them. We have set up relevant internal control policy to ensure the independence of our partners and distributors; (ii) we failed to make contributions to the social insurance and/or housing provident funds for some of our employees in full amount as required by the PRC government. See “— Legal and compliance” for more details regarding the internal control measures we adopted; (iii) we failed to collect, save and file the required licenses for store opening and operation, including business licenses, fire permits, ownership certificates, landlords' IDs and health permits. We have set up internal control policy regarding the filing and management of the relevant licenses and will conduct monthly update on the record to ensure its accuracy. See “Risk Factors – Risks Relating to Our Business and Industries – The risk management and internal control measures with respect to the business operations may not fully protect us against various risks inherent in our business” for more details; (iv) we failed to collect, save and file our distribution agreements, partnership agreements and concession agreements. We have set up internal control policies for our legal department to ensure the proper filing of such agreements. See “Risk Factors – Risks Relating to Our Business and Industries – The majority of our extensive offline retail network comprises retail stores that are operated by partners and distributors, which we have no control over, and they might improperly use our brand names” for more details and (v) we failed to maintain our dispatched employees percentage as required by Labor Dispatch Provisions. We had rectified the non-compliance, ceased using dispatched employees and set up internal control policy to ensure our compliance with Labor Dispatch Provisions. See “— Employees” for more details.

To protect our company against counterfeit products and stores, we have taken various measures to prevent the infringement of our intellectual property rights. We have registered our trademarks and patents so the government can monitor shipments and prevent the importation and exportation of counterfeit goods based upon the information provided in the registration. We conduct periodic check on the products sold by our licensed online channels to see whether there is any counterfeit product, and will punish them according to our internal policies, if any. We conduct periodic check through an independent third party to see whether there is any counterfeit store, and will raise intellectual property infringements complaint to the online platforms to protect our brands, if any. In addition, we have included confidentiality provisions in the agreements with our employees, distributors and OEM suppliers, and if we spot any counterfeit products or stores, we will take immediate legal action to stop the counterfeiters.

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You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements as of and for each of the years ended December 31, 2016, 2017 and 2018, and the accompanying notes included in the Accountant's Report set out in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with IFRSs. Potential investors should read the Accountant's Report set out in Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors."

OVERVIEW

We are a leading fashion menswear company based in China. We operate a new retail platform that focuses on providing customers with a seamless and integrated shopping experience and identifying customers' needs by integrating offline retail stores with online channels through the support of big data analytics. According to CIC, the market share of the fashion menswear market accounted for approximately 21.0% of the overall menswear market and approximately 7.5% of the apparel market in China in 2018. According to CIC, we accounted for approximately 3.3% of the fashion menswear market share and were ranked second in China in 2018 in terms of total retail revenue. Leveraging our leading position in the fashion menswear market in China, we have strategically expanded into the sportswear market and other segments to enrich our brand and product portfolio. Furthermore, the online market has become a new major battlefield for the fashion menswear companies in China. We were ranked first in terms of total online retail revenue, which accounted for approximately 5.2% of the total online retail revenue in China and with the highest online penetration rate of 36.0% in China in 2018, according to CIC, which demonstrated our strong ability to capture the online market opportunities. The online penetration rate, in terms of online apparel retail revenue out of total apparel retail revenue, reached 21.5% in China in 2018. Our core brand portfolio currently comprises two main categories — (i) GXG series: GXG, gxg jeans and gxg.kids, and (ii) sportswear: Yatlas and 2XU, each targeting a distinct customer segment and having a design identity. Our new retail platform integrating offline retail networks with online channels enables us to continue to build our brands, broaden product offerings, accumulate online and offline customer data, and capture future opportunities and position us for sustainable growth.

We integrate online and offline channels and leverage big data analytics capabilities and mindset to enhance customer experience and optimize operational efficiency. With our deep understanding of customers, we have adopted a customer-centered model to offer our customers a one-stop shopping experience. For both our online and offline channels, we provide a similar product range and unified pricing, shared inventories, as well as flexible and efficient logistics support. Moreover, by analyzing the big data generated from both online channels and offline retail stores through our product lifecycle management system, we can capture the precise level of demand and quickly react to the latest market trends by adjusting our production and inventory plan, which is highly helpful for our inventory control and supply chain management.

Our products target young customers who seek to express their individuality and lifestyle through fashionable clothing. We adopt a multi-brand strategy, and offer a wide range of products that cater to the needs and tastes of our customers and their families. Our founders first launched our flagship GXG branded products in 2007, which was considered one of the most recognizable fashion menswear brands in China in 2017, according to a customer survey conducted by CIC. Following the success of GXG, we introduced gxg jeans in 2010, targeting male customers of a slightly trendier demographic than GXG and with more stylish elements in its designs, and gxg.kids in 2012 to bring our GXG series design philosophy into the kidswear market. In addition, with a view to expanding into the fast-growing sportswear and performance gear industry, we introduced Yatlas in 2014 to offer athleisure apparel and 2XU in 2017 to offer performance sportswear.

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We have implemented multi-faceted omni-channel branding and marketing strategies based on our understanding of customer psychology and the aspirations of our customers. We strive to build our “Fans Economy” (“粉絲經濟”), which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. Furthermore, we expect to provide personalized marketing content with different products to respective customer groups based on their personal profile, which we collect through our integrated membership system and their historical activities. In addition, our offline retail stores, with high quality services, act as an important platform to promote brand awareness, display products and enhance customer experience. We collect customers’ data from our online platform and offline retail stores, and further analyze it through our big data capabilities, which help us understand customers’ purchasing behaviors, construct customer profiles, and achieve our target of transforming new customers into loyal fans. These interactions enable us to nurture our loyal base of existing customers and enhance stickiness.

During the Track Record Period, our revenue increased from RMB3,017.8 million in 2016 to RMB3,787.0 million in 2018, representing a CAGR of 12.0% from 2016 to 2018. Our profit for the year increased by 5.5% from RMB399.7 million in 2016 to RMB421.8 million in 2017, and decreased by 11.2% to RMB374.5 million in 2018. Our adjusted net profit increased from RMB390.8 million in 2016 to RMB482.5 million in 2018, representing a CAGR of 11.1% from 2016 to 2018.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe that a number of factors directly or indirectly affect our financial condition and results of operations, including those factors discussed below:

- brand recognition;
- growth of our retail network;
- channel mix;
- brand and product mix;
- seasonality;
- operating costs and operational efficiency;
- pricing strategy; and
- economic growth, urbanization and consumer spending in China.

Brand recognition

Brand recognition is a key factor in customers’ purchase decisions in the apparel industry. Accordingly, we believe that market acceptance of our brands may affect the selling prices and market demand for our products, the profit margins we are able to achieve and our ability to further grow our business. In order to capture business opportunities among different customer groups in China’s fashion menswear industry, we market and sell our products under two core brand categories, GXG series and sportswear, to appeal to customer groups of different age ranges, genders and consumption propensities. We employ a dedicated product design, research and development team for each of our own brands to craft the distinct brand image to ensure distinctiveness and independence of each brand. We also assemble a dedicated online design team to create a series of online exclusive products, which are generally more tailored to online customers’ preference. Our design team receive such customer feedbacks and reflect customers’ preferences in our design process. The big data analytics contributes to helping us drive constant improvements to our marketing and promotion process, and better displays products’ attributes to customers, thereby enhancing the desirability of our products. We believe that our strong brands and product quality have enabled us to foster a high degree of loyalty to our brands among our customers. As such, our ability to continue to enhance our brand recognition among target customer groups will significantly impact our ability to continue to increase our revenue, maintain or further improve our profitability and further grow our business.

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Our omni-channel marketing approaches include online advertising, social media campaigns, cross-overs, and offline events and campaigns to increase customers awareness of our products and to create strong brand recognition. In addition, WeChat mini program provides an entry point to the largest amount of mobile traffic in China and a built-in and intuitive way to interact with our customers. Through this, we can then conduct targeted marketing, offer personalized content and dynamic pricing to our target customers and expand our customer reach. In 2016, 2017 and 2018, our advertising expenses amounted to RMB112.0 million, RMB171.1 million and RMB179.2 million, respectively, representing 3.7%, 4.9% and 4.7%, respectively, of our total revenue for these years. In the future we plan to (i) utilize our upgraded smart retail store network to further collect offline customer traffic and interaction information to enhance our customer data system; and (ii) further synchronize our online and offline VIP membership information to achieve personalized and targeted marketing. With these initiatives, we can make shift adjustments to address customers' needs and promote our brand image to help maintain customer loyalty, achieve incremental sales and facilitate the launch of new brands and products.

Growth of our retail network

During the Track Record Period, the growth of our retail network was contributed by the increase in the average number of our offline stores during the year and our same store sales growth. The average number of our offline stores, which is calculated as the average of the beginning number and the ending number of our offline store number during the relevant year, increased from 2,206 in 2017 to 2,283 in 2018. The average number of our self-owned stores increased from 661.5 in 2017 to 722.5 in 2018, and the average number of our partnership stores increased from 498.5 in 2017 to 532.5 in 2018. Though the average number of our distributor stores decreased slightly from 1,046 in 2017 to 1,028 in 2018 because we gradually transformed some distributor stores to self-owned stores and partnership stores, our revenue from distributor stores still increased from 2017 to 2018 as a result of the decrease in our expected sales return rate due to our efforts to control procurement volume in 2018. See “Business — Sales and Distribution — Our Offline Channels” and “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors” for details. In addition, though the growth rate was lower in 2018 compared to 2017, same store sales growth still contributed to the revenue growth for our self-owned stores and online channels.

During the Track Record Period, we continue to open more stores in existing cities to increase penetration and expand geographical coverage to new cities. We closed retail stores which failed to meet our performance targets to enhance our profitability. In particular, following implementation of a new retail strategy to integrate our online and offline sales channels and the enhancement of our store operation and inventory management capabilities, we have ceased allowing our distributors to engage any new sub-distributors and terminated existing sub-distributors arrangements in late 2016. We also gradually transformed some of our distributor stores to self-owned stores and partnership stores. We adopted this approach because we can have direct control over our self-owned stores and collect market information first hand. Similarly, compared with distributor stores, we can have more control over partnership stores, which help us achieve effective management of our inventory, order, sales performance and provide direct access to customer feedback. At the same time, we will continue to leverage distributors' local knowledge and resources to help us reach a diverse consumer based in our existing geographic markets and expand into new geographic markets.

Our profitability is affected in part by our ability to successfully grow revenue from our existing stores. The same store sales growth rate provides a year-to-year comparison of store performance as it excludes the growth due to the opening of new stores by only comparing the operational and financial performance of those stores that have been in operation in both years. We define our same store base to be those offline retail stores and online channels that were in operation throughout the relevant years and with no material interruption. Same store sales growth rates amounted to 18.9% in 2017 and 5.6% in 2018. For our offline retail stores, same store sales growth rates amounted to 0.3% in 2017 and -0.4% in 2018. The decrease in overall rates was primarily due to a decrease in the same store sales growth rate of offline retail stores, which was resulted from the decrease in

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sales in department stores. Same store sales growth rates of our self-owned stores amounted to 4.2% in 2017 and 1.5% in 2018, primarily due to our various new retail initiatives, which enhanced the store operation, profitability and inventory management capabilities of our self-owned stores. The decrease in the same store sales growth rate of our self-owned stores from 2017 to 2018 was primarily due to a relatively slower same store sales growth in east China and central China. For our online channels, same store sales growth rates amounted to 57.9% and 13.3%, respectively, in 2017 and 2018. The decrease in online channel rates was primarily due to an increase in sales price on Tmall.

The table below sets forth the same store sales growth rate by region among our self-owned stores for the years indicated:

	<u>2016 versus 2017</u>	<u>2017 versus 2018</u>
Northeast China	-0.2%	-3.7%
North China	0.3%	0.5%
East China	4.9%	3.7%
South China	7.1%	-0.1%
Central China	7.4%	-4.4%
Southwest China	3.4%	1.9%
Northwest China	29.3%	6.8%
Total	<u>4.2%</u>	<u>1.5%</u>

Among our self-owned stores, same store sales growth rate for northeast China amounted to -0.2% in 2017 and -3.7% in 2018. The relatively low growth rates as compared with the same store sales growth rates of our overall self-owned stores were mainly affected by the local economy. For north China, same store sales growth rate remained relatively stable at 0.3% in 2017 and 0.5% in 2018. For east China, our focus region, same store sales growth rate amounted to 4.9% in 2017 and 3.7% in 2018, which were in line with the same store sales growth rates of our overall self-owned stores. The decrease in the same store sales growth rate from 2017 to 2018 was primarily due to the gradual market saturation of shopping malls in east China, resulting in the slower same store sales growth speed of our standalone stores in this region. For south China, same store sales growth rate decreased from 7.1% in 2017 to -0.1% in 2018, primarily due to the decrease in sales in department stores. For central China, same store sales growth rate decreased from 7.4% in 2017 to -4.4% in 2018, primarily due to the decrease in sales in department stores. For southwest China, same store sales growth rate decreased from 3.4% in 2017 to 1.9% in 2018, primarily due to the slow down in sales growth in department stores. Same store sales growth rate for our new market northwest China amounted to 29.3% in 2017 and 6.8% in 2018, primarily due to our business expansion. The decrease in same store sales growth rate from 2017 to 2018 was primarily because we experienced an exceptional growth rate in 2017, which has since subsided and returned to normal in 2018.

We plan to continue to enhance the performance of our existing stores by upgrading our offline retail stores to smart stores. We plan to renovate existing offline retail stores, including installing face recognition, behavior judgment, statistics facilities and full-scale RFID applications. We upgraded 121 offline retail stores to smart stores in 2018 and plan to finish the upgrade of approximately 500 offline retail stores to smart stores in each of 2019, 2020 and 2021, respectively. We also expect to conduct back office system consolidation by 2019. Currently, we expect to spend approximately RMB0.2 million to RMB0.3 million per store for renovation and smart equipment upgrade for flagship stores, and RMB30,000 per store for other stores. These big data initiatives can help us identify the popularity of different products in the market, support our customer portrait recognition, and connect our offline retail stores to our online platform. We will also strengthen store operation and inventory management, improve store design and appearance, raise service quality, enhance value-added experiences for our customers, optimize information management system and build flexible supply chain.

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Channel mix

Our overall revenue and results of operations are affected by the mix of channels through which our products are sold. Our retail network consists of both offline channels and online channels. As of December 31, 2018, our new retail platform consisted of (i) online channels, including major online platforms, such as Tmall, Taobao, WeChat mini program and Vipshop, and (ii) an offline network of 2,250 retail stores across China, including 720 self-owned stores, 532 partnership stores and 998 distributor stores. Through our self-owned stores, we sell our products to customers at retail prices while bearing the leasing expenses for our standalone stores and concession fees for our concession stores, which are included in our selling and distribution expenses. For partnership stores, a partner only bears the initial store investment and all operation costs including rental and staff costs. We record around 30% to 45% for products of current year and 25% to 30% for products from previous years of the recommended retail price as revenue when the products are sold to end customers by such partnership stores. For distributor stores, a distributor not only bears the initial store investment and operation costs but also the inventories. We sell our products to the distributors at around 35% to 45% of the recommended retail price. The offline retail store mix will affect our profitability because our self-owned stores had a higher gross profit margin than our partnership and distributor stores. An increase in our self-owned stores will also help the enhancement of our store operation and inventory management capabilities. In addition, our revenue generated from sales of apparel products through online channels increased by 69.1% from RMB715.4 million in 2016 to RMB1,209.6 million in 2017, and further increased by 11.6% to RMB1,350.3 million in 2018. The changes in channel mix not only affect our revenue and gross profit margin, but also our inventory, other receivables and prepaid expense. Among the growth of our self-owned stores, as we strategically opened more retail stores in shopping malls, our other receivables and prepaid expense increased accordingly during the Track Record Period mainly resulting from the increases in store deposits and prepaid expense to shopping malls.

Brand and product mix

As of the Latest Practicable Date, we offered two core brand categories, GXG series and sportswear. Each of our brands has its own brand concept and positioning, targets the needs of different customers and commands different selling prices. The sales performance of each brand depends greatly on its product mix. Our products include apparel for men, women and children, accessories and footwear. We have focused on and gained a leading position in the menswear market in China, and strategically expanded into the sportswear market and other segments to complete our brand and product portfolio. Our brand and product mix affects our financial performance as different brands, and different products within the same brand, have different prices, sales volume and gross profit margins, depending on factors such as customer demands and preferences, market competition, the cost of raw materials, production costs, brand and product positioning, pricing and marketing strategies. If the sales mix of our brands or products changes, our revenue and profitability will be affected.

Changes in brand and product mix in the past have affected, and are expected to continue to affect, our revenue and results of operations. We have adjusted our brand and product mix from time to time during the Track Record Period to increase our overall gross profit margin and maximize our gross profit. In addition, we plan to explore brand synergies and cross-selling opportunities among our brands by leveraging our market-leading position in China's fashion menswear industry. For example, in February 2017, gxg jeans and gxg.kids launched parent-child series at the same time, designing gxg.kids based on the spirit of gxg jeans.

Seasonality

Our financial condition and results of operations are subject to seasonal fluctuations due to various factors. We typically achieve higher revenue from the sales of our autumn and winter collections and lower revenue from the sales of our spring and summer collections due to the higher average selling price for our autumn and winter apparel as the materials for production are comparatively more costly. We also record higher sales typically during holiday seasons and major promotion periods such as Alibaba's Singles' Day (雙十一). For the same reason, we typically have higher

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levels of inventories to satisfy our increased sales during holiday seasons and promotion periods than other times in the year. In addition, extreme or unusual weather conditions, such as extended periods of warm weather during the winter season or cool weather during the summer season could render a portion of our products incompatible with such unseasonable conditions, and thus may affect our sales and inventory. As a result, any comparison of our sales and operating results between different periods within a single financial year, or between different periods in different financial years are not necessarily meaningful and cannot be relied on as indicators of our performance.

Operating costs and operational efficiency

We incur various types of operating expenses, such as cost of sales, selling and distribution expenses and administrative expenses.

In 2016, 2017 and 2018, our cost of sales was RMB1,400.2 million, RMB1,610.8 million and RMB1,754.8 million, respectively. Cost of sales primarily consists of cost of apparel products and cost of other products. During the Track Record Period, we outsourced substantially all production to OEM suppliers, which process raw materials purchased by themselves and provide us with finished products. We bear the cost of raw materials indirectly as part of finished goods purchased.

In 2016, 2017 and 2018, our selling and distribution expenses were RMB832.7 million, RMB1,096.8 million and RMB1,221.5 million, respectively. Selling and distribution expenses primarily consist of (i) operating lease rental in connection with leases of our self-owned stores and offices, and property management fees mainly for our concession stores, (ii) concession fees, (iii) employee benefits expenses, (iv) advertising expense and (v) store management fees. We pay rents to shopping malls and landlords for our standalone stores, and we pay concession fees to department stores and outlets for our concession stores.

Pricing strategy

We consider several factors in determining the selling prices of our products, such as procurement costs and profit margin. Any material change in our pricing strategy may have a material impact on our results of operations in the future. In line with industry practice, we offer sales discounts on prices of our products. We offer sales discounts for different purposes, such as promoting sales, enhancing brand awareness, increasing cash flow and managing inventory levels. The amount and timing of any discounts depend on, among others, levels of our cash and inventory, market responses to our products and the competitive landscape.

Economic growth, urbanization and consumer spending in China

Substantially all our business operations are in China, and substantially all our revenues are derived from our operations in China. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. China is now at the global forefront of the new retail model, which represents an integrated omni-channel model that capitalizes on online and offline strengths, and increases efficiencies in terms of inventory management, supply chain management, product selection and logistics. Economic growth in China has also driven increased per capita disposable income and consumer spending, which in turn have affected market demand for our products and our results of operations. In addition, the implementation of China's two-child policy is expected to boost the demand for our products.

According to CIC, per capita annual disposable income and total consumption expenditures in China increased at CAGRs of 8.8% and 6.9%, respectively, from 2014 to 2018. According to CIC, retail revenue generated in the Chinese apparel market increased at a CAGR of 13.1% from RMB1,411.8 billion in 2014 to RMB2,310.8 billion in 2018, driven in part by the increasing consumer spending power, a more diversified environment for various apparel brands, and a boost of demand from increasingly easier access to online shopping. We expect that our results of operations will continue to be affected by changes in the economy, per capita disposable income and consumer spending in China.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The summary of our significant accounting policies are set forth in Note 2.4 to the Accountant's Report in Appendix I. Significant accounting judgments and estimates are set forth in Note 3 to the Accountant's Report in Appendix I. Significant accounting judgments and estimates are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results in our management applied different assumptions or made different estimates. Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods.

Sale of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Sale of goods – distributors and partnership

A significant part of our products are sold to distributors and partnership, who have discretion over both price and distribution methods for products to be sold in their designated geographical areas.

Revenues are recognized upon delivery, which occurs when distributors pick up goods at our premises or when goods are handed over to a third-party forwarder as designated by the distributor or when goods are accepted by the end customers in partnership stores, the risks of obsolescence and loss have been transferred to the distributors and partnership, and acceptance by distributors and partnership occurs. Acceptance refers to either of the situations that distributors and partnership accept the goods in accordance with the sales contract or the acceptance provisions have lapsed or we have objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the distributors' and partnership's acceptance of the products.

Sale of products – retail

We sell our products to end customers via a chain of our retail stores or over third-party online retail platforms such as Tmall. Revenue is recognized when we can reasonably estimate the acceptance by end customers. For offline retail sales, acceptance by end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third-party payment platforms.

We consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer loyalty points). In determining the transaction price for the sale of goods, we consider the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. We use the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which we will be entitled. For goods that are expected to be returned, instead of revenue, we recognize a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

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Volume rebates

We provide retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, we apply the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. We then apply the requirements on constraining estimates of variable consideration and recognize a refund liability for the expected future rebates.

Loyalty points program

We have a loyalty points program, which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative standalone selling price and recognized as a contract liability until the points are redeemed or expired.

When estimating the standalone selling price of the loyalty points, we consider the likelihood that the customer will redeem the points. We update our estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods transferred to the customer. If we perform by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional (other than the passage of time).

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which we have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before we transfer goods to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when we perform under the contract.

Assets and liabilities arising from rights of return

Right of return assets

Right of return asset represents our right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. We update the measurement of the asset recorded for any revisions to our expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount we ultimately expect we will have to return to the customer. We update our estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods comprises cost of purchase. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year end.

Software

Purchased software are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of five years.

Trademarks

Purchased trademarks are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of ten years. Our trademarks registered in China and other countries have an effective period of ten years. Considering that the effective term of the registered trademark is shorter than the period over which the trademark is expected to generate net cash inflows from the commercialization of product, we are of the view that the useful economic life of trademark of ten years is reasonable.

Application of IFRS 9 and IFRS 15

IFRS 9 “Financial Instruments” replaces the previous standard IAS 39 “Financial Instruments: Recognition and Measurement.” The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. We applied IFRS 9 prospectively, with an initial application date of January 1, 2018. We have not restated financial information from January 1, 2016 to December 31, 2017 for financial instruments in the scope of IFRS 9, which continues to be reported under IAS 39 and is not comparable to the information presented for 2018. The principal effects of adopting IFRS 9 on January 1, 2018 are disclosed in Note 2.2 to the Accountants’ Report in Appendix I.

IFRS 15 “Revenue from contracts with customers” replaces the previous revenues standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. We have consistently applied IFRS 15 throughout the Track Record Period. The impacts on the adoption of IFRS 15 on our financial statements in 2016, 2017 and 2018 are as follows:

Presentation of right of return assets, refund liabilities and contract liabilities in the consolidated statement of financial position.

- *Right of return assets*

Under IFRS 15, we recognize the right to recover the goods expected to be returned by the customer as right of return assets. By applying IFRS 15, as of December 31, 2016, 2017 and 2018, we reclassified right of return assets from an offsetting account in other payables and accruals of RMB83.9 million, RMB137.2 million and RMB109.7 million, respectively.

- *Refund liabilities*

Under IFRS 15, we recognize the obligation to refund some or all of the consideration received or receivable from the customer by estimating the amount we ultimately expect we will have to return to the customer as refund liabilities. By applying IFRS 15, as of December 31, 2016, 2017 and 2018, we reclassified refund liabilities for sales return from other payables and accruals of RMB181.1 million, RMB287.2 million and RMB221.9 million, respectively, and refund liabilities for future sales rebate from other payables and accruals of RMB58.1 million, RMB50.3 million and RMB42.3 million, respectively.

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- *Contract liabilities*

Under IFRS 15, we recognize performance obligations that we have not yet satisfied but for which we have received consideration or an amount of consideration is due from the customer as contract liabilities. By applying IFRS 15, as of December 31, 2016, 2017 and 2018, we reclassified contract liabilities for advances from customers from advances from customers of RMB74.5 million, RMB44.0 million and RMB36.7 million, respectively, and contract liabilities for loyalty points from deferred revenue of RMB5.7 million, RMB4.1 million and RMB4.1 million, respectively.

Taking into account the impact disclosed above, we consider that the adoption of IFRS 9 and IFRS 15 did not have significant impact on our financial position and performance during the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the years indicated, of our consolidated results of operations in absolute amounts and as a percentage of our revenue for the year. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

Consolidated statements of profit or loss

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Revenue	3,017,838	100.0	3,510,301	100.0	3,787,042	100.0
Cost of sales	(1,400,228)	(46.4)	(1,610,822)	(45.9)	(1,754,835)	(46.3)
Gross profit	1,617,610	53.6	1,899,479	54.1	2,032,207	53.7
Other income and gains	25,680	0.9	30,625	0.9	64,359	1.7
Selling and distribution expenses ..	(832,667)	(27.6)	(1,096,830)	(31.2)	(1,221,526)	(32.3)
Administrative expenses	(204,293)	(6.8)	(211,768)	(6.0)	(268,364)	(7.1)
Other expenses	(32,880)	(1.1)	(5,351)	(0.2)	(3,929)	(0.1)
Operating profit	573,450	19.0	616,155	17.6	602,747	15.9
Finance costs	(141)	—*	(28,752)	(0.8)	(94,513)	(2.5)
Share of losses of associates	—	—	—	—	(550)	—*
Profit before tax	573,309	19.0	587,403	16.8	507,684	13.4
Income tax expense	(173,629)	(5.8)	(165,612)	(4.7)	(133,182)	(3.5)
Profit for the year	399,680	13.2	421,791	12.1	374,502	9.9
Non-IFRSs Measure						
Offshore financing expenses	—	—	25,178	0.7	84,964	2.2
Listing expenses	—	—	5,796	0.2	19,537	0.5
Foreign exchange (gains)/losses ...	(8,915)	(0.3)	(1,888)	(0.1)	3,533	0.1
Adjusted net profit⁽¹⁾	390,765	12.9	450,877	12.9	482,536	12.7

Note:

(1) We derive adjusted net profit from profit for the year by (i) adding offshore financing expenses, (ii) adding listing expenses, and (iii) adjusting for foreign exchange gains/losses. Please refer to the section headed "Financial Information — Non-IFRSs Measure."

* less than 0.1%

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We derive our revenue primarily from sales of our products to distributors and partners and to end customers in our self-owned stores and through online channels. Our revenue is stated as the net invoiced value of goods sold, after allowances for returns and trade discounts.

We generally allow our distributors to return products under certain circumstances, including, among other things, (i) certain percentages, currently 20% to 35%, of products each season, or policy returns, and (ii) products discovered to have a quality issue, or quality returns. For more details about the sales return policy for our distributors and partners, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.” For our end customers of our self-owned channels, we allow exchange or return of products with quality issues for both online and offline sales after purchase.

Revenue by brand

The following table sets forth a breakdown of our revenue by brand, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
GXG series						
<i>GXG</i>	1,990,677	66.0	2,357,787	67.2	2,504,720	66.1
<i>gxg jeans</i>	633,776	21.0	683,481	19.5	753,942	19.9
<i>gxg.kids</i>	285,072	9.4	357,236	10.2	387,252	10.2
Sportswear						
<i>Yatlas</i>	65,419	2.2	87,468	2.5	97,712	2.6
<i>2XU⁽¹⁾</i>	—	—	3,249	0.1	14,304	0.4
Others	42,894 ⁽²⁾	1.4	21,080 ⁽³⁾	0.5	29,112	0.8
Total revenue	3,017,838	100.0	3,510,301	100.0	3,787,042	100.0

Notes:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.
- (2) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.
- (3) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up, and our newly developed brands.

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Revenue by sales channel

We sell our products through an extensive network of offline retail stores consisting of self-owned stores, partnership stores and distributor stores as well as online channels. The following table sets forth a breakdown of our revenue by sales channel, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of apparel products						
Online channels	715,439	23.7	1,209,569	34.5	1,350,314	35.7
Offline channels	2,259,505	74.8	2,286,860	65.2	2,423,925	64.0
Self-owned stores	957,602	31.7	1,133,146	32.3	1,193,064	31.5
Partnership stores	296,961	9.8	377,796	10.8	397,277	10.5
Distributor stores	1,004,942	33.3	775,918	22.1	833,584	22.0
Sales of other products ⁽¹⁾	42,894	1.5	13,872	0.3	12,803	0.3
Total revenue	3,017,838	100.0	3,510,301	100.0	3,787,042	100.0

Note:

- (1) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.

During the Track Record Period, absolute amounts of revenue generated from sales of apparel products through our offline channels and online channels continued to increase, primarily due to the increase in the average number of our offline stores during the year, the operational efficiency of our offline stores and the rapid sales growth of online channels. The improvement in operational efficiency has contributed to the increase of sales of apparel products through our offline channels by focusing on the flexibility of supply chain. With such flexibility, we could have better inventory management by adjustments according to the demands of different products (i.e. placing more orders for products with higher demands, and vice versa). As a result, we could increase the sales volumes and reduce the number of obsolete inventories. As a percentage of our total revenue, revenue generated from sales of apparel products through our self-owned stores increased from 31.7% in 2016 to 32.3% in 2017, and decreased to 31.5% in 2018. The decrease in 2018 was primarily due to the significant increase of revenue generated from our online channels. Revenue generated from sales of apparel products through our online channels increased significantly from 23.7% in 2016 to 34.5% in 2017, and further to 35.7% in 2018, mainly due to (i) the overall growth of China's apparel market, (ii) our continued efforts in online channels expansion including more offerings of online exclusive SKUs, which are generally more tailored to online customers' preference, and (iii) an increase in online purchase contributed by our highly active loyal fans community.

We classified non-apparel sales such as store furniture and lighting equipment to distributors and partners as revenue instead of other income because this type of sale transaction is considered as our ordinary business which is within the business scope stipulated in the business license of one of our subsidiary. Additionally, the non-apparel sale transactions occur constantly every year with revenue of RMB42.9 million, RMB13.9 million and RMB12.8 million recorded in 2016, 2017 and 2018, respectively.

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Cost of sales

Cost of sales primarily consists of cost of apparel products and cost of other products. Our OEM suppliers process raw materials purchased by themselves and provide us with finished products. We bear the cost of raw materials indirectly as part of finished goods purchased. The following table sets forth a breakdown of our cost of sales, expressed as an absolute amount and as a percentage of our total cost of sales, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Cost of apparel products	1,360,725	97.2	1,597,793	99.2	1,742,914	99.3
Cost of other products	39,503	2.8	13,029	0.8	11,921	0.7
Total cost of sales	<u>1,400,228</u>	<u>100.0</u>	<u>1,610,822</u>	<u>100.0</u>	<u>1,754,835</u>	<u>100.0</u>

The following table sets forth a breakdown of our cost of sales by nature, expressed as an absolute amount and as a percentage of our total costs of sales, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Cost of inventories sold	1,381,713	98.7	1,585,837	98.4	1,776,150	101.2
Write-down of inventories to the net realizable value	18,515	1.3	24,985	1.6	(21,315)	(1.2)
Total cost of sales	<u>1,400,228</u>	<u>100.0</u>	<u>1,610,822</u>	<u>100.0</u>	<u>1,754,835</u>	<u>100.0</u>

Our cost of sales increased as an absolute amount during the Track Record Period, primarily due to increased sales that led to an increase in cost of apparel products, partially offset by a decrease in cost of other product relating to our purchase of equipment for partners and distributors.

The following table sets forth the sensitivity analysis on the impact of changes in cost of sales on our gross profit and profit for the year during the Track Record Period. The sensitivity analysis below is in line with historical fluctuations of our gross profit and profit for the year due to fluctuations of the above during the Track Record Period.

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Change in the gross profit if cost of sales increase/ (decrease) by 10%	(140,023) 140,023	(161,082) 161,082	(175,484) 175,484
Change in the profit for the year if cost of sales increase/(decrease) by 10%	(105,017) 105,017	(120,812) 120,812	(131,613) 131,613

Gross profit and gross profit margin

As a result of the foregoing, in 2016, 2017 and 2018, our gross profit was RMB1,617.6 million, RMB1,899.5 million and RMB2,032.2 million, respectively. Our overall gross profit margin was 53.6%, 54.1% and 53.7%, respectively, in the same years.

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The following table sets forth a breakdown of the gross profit and gross profit margin by brand for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%
GXG series						
<i>GXG</i>	1,105,874	55.6	1,319,498	56.0	1,393,630	55.6
<i>gxm jeans</i>	325,000	51.3	344,896	50.5	383,538	50.9
<i>gxm.kids</i>	140,055	49.1	171,841	48.1	186,946	48.3
Sportswear						
<i>Yatlas</i>	43,290	66.2	56,266	64.3	51,127	52.3
<i>2XU⁽¹⁾</i>	—	—	1,508	46.4	6,994	48.9
Others	3,391 ⁽²⁾	7.9	5,470 ⁽³⁾	25.9	9,972	34.3
Total gross profit	<u>1,617,610</u>	53.6	<u>1,899,479</u>	54.1	<u>2,032,207</u>	53.7

Notes:

- (1) We entered into an agreement with 2XU Pty Ltd. and 2XU HK Limited in May 2017 and introduced the 2XU brand in the PRC market.
- (2) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.
- (3) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up, and our newly developed brands.

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of apparel products						
Online channels	314,655	44.0	573,516	47.4	603,108	44.7
Offline channels	1,299,564	57.5	1,325,120	57.9	1,428,217	58.9
Self-owned stores	654,707	68.4	771,119	68.1	825,081	69.2
Partnership stores	122,401	41.2	167,758	44.4	186,392	46.9
Distributor stores	522,456	52.0	386,243	49.8	416,744	50.0
Sales of other products⁽¹⁾	3,391	7.9	843	6.1	882	6.9
Total	<u>1,617,610</u>	53.6	<u>1,899,479</u>	54.1	<u>2,032,207</u>	53.7

Note:

- (1) Include non-apparel sales such as store furniture and lighting equipment to our distributors and partners as part of their store set up.

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Our overall gross profit margin increased from 53.6% in 2016 to 54.1% in 2017, primarily because (i) increased revenue contribution from self-owned stores which have higher gross profit margin than partnership and distributor stores and (ii) higher gross profit margin for online channels due to more offerings of online exclusive SKUs, which have higher margins than online off-season products. Our overall gross profit margin later decreased to 53.7% in 2018, primarily due to (i) our efforts in improving the quality of our products which increased our cost of purchase while the prices remained stable, and (ii) the change in revenue mix: in May 2018, we opened new online stores that focus on old inventories in order to clear the inventories returned from VIP distributors during the period from 2017 to the first quarter of 2018. For details, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.” During the Track Record Period, our gross profit margins for offline channels were generally higher than the gross profit margins for online channels, primarily because (i) there was increased revenue contribution from self-owned stores which have higher gross profit margin among the three offline channels; and (ii) in general we offer higher discount rates in online channels due to off-season products sold online to clear our old inventories, while products sold on our offline channels mainly include in-season products which generally have higher gross profit margin.

Other income and gains

Our other income and gains primarily consist of government grants, foreign exchange gains, penalty charges received from distributors and bank interest income. The following table sets forth a breakdown of the key components of our other income and gains, each expressed as an absolute amount and as a percentage of our total other income and gains, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Bank interest income	1,431	5.6	2,147	7.0	1,966	3.1
Penalty charges received from distributors	4,072	15.9	3,778	12.3	1,194	1.9
Foreign exchange gains, net.	8,915	34.7	1,888	6.2	—	—
Rental income	—	—	2,410	7.9	2,410	3.7
Government grants	11,142	43.4	19,537	63.8	40,399	62.8
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	—	—	458	1.5	—	—
Fair value gain from financial assets at fair value through profit or loss	—	—	—	—	763	1.2
Fair value gain on derivative financial instruments – transactions not qualifying as hedges	—	—	—	—	9,070	14.0
Compensation for fire accident	—	—	—	—	3,814	5.9
Gains on disposal of subsidiaries	—	—	—	—	3,205	5.0
Others	120	0.4	407	1.3	1,538	2.4
Total	25,680	100.0	30,625	100.0	64,359	100.0

In 2016, 2017 and 2018, our other income and gains were RMB25.7 million, RMB30.6 million and RMB64.4 million, respectively. Our other income and gains increased as an absolute amount during the Track Record Period primarily due to an increase in government grants which we received from local PRC government authorities to encourage our business development. Such government grants were calculated based on our tax contribution. Government grants increased during the Track Record Period primarily because our tax contribution by Chisage Mulsanne E-commerce increased.

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Selling and distribution expenses

Our selling and distribution expenses primarily consist of (i) operating lease rental in connection with leases of our self-owned stores and offices, and property management fees mainly for our concession stores, (ii) concession fees, (iii) employee benefits expenses, (iv) advertising expense and (v) store management fees. The following table sets forth a breakdown of the key components of our selling and distribution expenses, each expressed as an absolute amount and as a percentage of our total selling and distribution expenses, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Operating lease rental	160,323	19.3	189,364	17.3	247,347	20.3
Concession fees	134,091	16.1	155,603	14.2	151,486	12.4
Employee benefit expenses	124,716	15.0	176,250	16.1	43,192	3.5
Advertising expenses	112,027	13.5	171,061	15.6	179,190	14.7
Store management fees	73,801	8.9	73,500	6.7	70,410	5.8
Transportation expenses	59,464	7.1	76,157	6.9	79,685	6.5
Commission expenses for online sales	47,804	5.7	66,966	6.1	77,035	6.3
Decoration charges	44,443	5.3	57,151	5.2	56,725	4.6
Depreciation and amortization	40,434	4.9	77,501	7.1	102,804	8.4
Entertainment and traveling expenses	12,103	1.5	18,359	1.7	19,427	1.6
Outsourcing service fee	—	—	—	—	152,656	12.5
Others	23,461	2.7	34,918	3.1	41,569	3.4
Total	<u>832,667</u>	<u>100.0</u>	<u>1,096,830</u>	<u>100.0</u>	<u>1,221,526</u>	<u>100.0</u>

Our selling and distribution expenses increased as an absolute amount during the Track Record Period, primarily due to an increase in sales from our self-owned stores and online channels. We incur minimal selling and distribution expenses relating to our partnership and distributor stores.

Operating lease rental refers to rents we pay to shopping malls and landlords for our standalone stores pursuant to lease agreements, and property management fees mainly for our concession stores. In 2016, 2017 and 2018, we incurred operating lease rental of RMB160.3 million, RMB189.4 million and RMB247.3 million, respectively, accounting for 19.3%, 17.3% and 20.3%, respectively, of our selling and distribution expenses for the same years. Operating lease rental decreased as a percentage of our selling and distribution expenses from 2016 to 2017, primarily due to an increase in our proportional sales in online channels. Operating lease rental increased as a percentage of our selling and distribution expenses from 2017 to 2018, primarily due to an increase in our self-owned stores, especially standalone stores in shopping malls.

Concession fees refer to the fees we pay to department stores and outlets. In 2016, 2017, and 2018, we incurred concession fees of RMB134.1 million, RMB155.6 million and RMB151.5 million, respectively, accounting for 16.1%, 14.2% and 12.4%, respectively, of our selling and distribution expenses for the same years. Concession fees decreased as a percentage of our selling and distribution expenses during the Track Record Period, primarily due to a faster increase in the number of our standalone stores in shopping malls than the concession stores in department stores and a general increase in the level of rents, which was categorized under operating lease rental mentioned above.

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Employee benefit expenses refer to employee salary and bonus paid to sales staffs. In 2016, 2017 and 2018, we incurred employee benefit expenses of RMB124.7 million, RMB176.3 million and RMB43.2 million, respectively, accounting for 15.0%, 16.1% and 3.5%, respectively, of our selling and distribution expenses for the same years. Employee benefit expenses increased as a percentage of our selling and distribution expenses from 2016 to 2017, primarily due to the increases in our self-owned stores and online channels which we bear the employee benefit expenses compared to partnership and distributor stores. Employee benefit expenses decreased as a percentage of our selling and distribution expenses from 2017 to 2018, primarily because we engaged outsourcing firms to provide outsourced services. As a result, we incurred outsourcing service fee of RMB152.7 million in 2018.

Advertising expenses refer to online and offline promotion expenses. In 2016, 2017 and 2018, we incurred RMB112.0 million, RMB171.1 million and RMB179.2 million, respectively, accounting for 13.5%, 15.6% and 14.7%, respectively, of our selling and distribution expenses for the same years. Advertising expenses increased as an absolute amount during the Track Record Period, primarily due to our focus and efforts on marketing to further boost online sales performance.

Administrative expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, (ii) business tax, government surcharges and other tax, (iii) depreciation and amortization, (iv) other professional service, (v) utilities charges and office expenses, (vi) entertainment and traveling expenses and (vii) operating lease rental. The following table sets forth a breakdown of the key components of our administrative expenses, each expressed as an absolute amount and as a percentage of our total administrative expenses, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefit expenses	128,620	63.0	107,785	50.9	101,997	38.0
Business tax, government surcharges and other tax	24,239	11.9	33,072	15.6	29,422	11.0
Depreciation and amortization	16,884	8.3	17,248	8.1	13,556	5.1
Other professional service	8,105	4.0	12,983	6.1	24,895	9.3
Utilities charges and office expenses	9,425	4.6	10,680	5.0	12,313	4.6
Operating lease rental	3,447	1.7	11,100	5.2	15,186	5.7
Outsourcing service fee	—	—	—	—	12,022	4.5
Entertainment and traveling expenses	10,471	5.1	8,535	4.0	7,965	3.0
IPO cost	—	—	5,796	2.7	19,537	7.3
Auditor's remuneration	890	0.4	890	0.4	960	0.4
Bank charge	5,589	2.7	7,636	3.6	8,571	3.2
Impairment/(reversal of impairment) of trade and other receivables	(4,482)	(2.2)	(7,393)	(3.5)	18,228	6.8
Others	1,105	0.5	3,436	1.9	3,712	1.1
Total	204,293	100.0	211,768	100.0	268,364	100.0

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In 2016, 2017 and 2018, our administrative expenses were RMB204.3 million, RMB211.8 million and RMB268.4 million, respectively, accounting for 6.8%, 6.0% and 7.1%, respectively, of our total revenue during the same years. Our administrative expenses increased as an absolute amount during the Track Record Period, primarily due to an increase in other professional services, which include platform information service fees and platform interface service fees, and an increase in IPO cost. Administrative expenses decreased as a percentage of our total revenue from 2016 to 2017, primarily due to economies of scales along with our business growth. Administrative expenses increased as a percentage of our total revenue from 2017 to 2018, primarily due to the aforementioned expenses relating to other professional services and the Global Offering. An increase in outsourcing service fee and impairment of trade and other receivables also led to the increase of administrative expenses from 2016 and 2017 to 2018.

Other expenses

Our other expenses primarily consist of (i) loss on disposal of property, plant and equipment, (ii) cost of rental income, (iii) realized losses on derivative financial instruments — transactions not qualifying as hedges and (iv) others. In 2016, we recorded loss due to a fire accident, which accounted for most of our other expenses for the year. See “Business – Environmental, Health and Safety Matters” for details. The following table sets forth a breakdown of the key components of our other expenses, each expressed as an absolute amount and as a percentage of our total other expenses, for the years indicated.

	For the year ended December 31,					
	2016		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss on disposal of property, plant and equipment	2,552	7.8	—	—	11	0.3
Loss due to a fire accident	27,365	83.2	—	—	—	—
Cost of rental income	—	—	661	12.4	—	—
Realized losses on derivative financial instruments — transactions not qualifying as hedges	—	—	4,537	84.8	—	—
Foreign exchange loss, net	—	—	—	—	3,533	89.9
Write-off of decorations	2,843	8.6	—	—	—	—
Penalty fee	—	—	—	—	226	5.8
Others	120	0.4	153	2.8	159	4.0
Total	<u>32,880</u>	<u>100.0</u>	<u>5,351</u>	<u>100.0</u>	<u>3,929</u>	<u>100.0</u>

In 2016, 2017 and 2018, our other expenses were RMB32.9 million, RMB5.4 million and RMB3.9 million, respectively. Our other expenses decreased as an absolute amount from 2016 to 2017, primarily because we encountered loss due to a fire accident in 2016. Our other expenses continued to decrease as an absolute amount from 2017 to 2018, primarily due to a decrease in realized losses on derivative financial instruments, partially offset by an increase in foreign exchange loss.

Finance costs

Our finance costs primarily consist of interest on bank loans. In 2016, 2017 and 2018, we had finance costs of RMB0.1 million, RMB28.8 million and RMB94.5 million, respectively. See “—Indebtedness” for a description of our bank loans.

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Income tax expense

Income tax expense primarily represents our total current and deferred tax expenses under the relevant PRC and Hong Kong income tax rules and regulations. Current income tax consists of PRC enterprise income tax, which is generally assessed at a rate of 25% and paid by our PRC subsidiaries on their taxable income. In 2016, 2017 and 2018, our effective tax rates were 30.3%, 28.2% and 26.2%, respectively, which were higher than the PRC statutory income tax rate of 25%. The elevated effective tax rates in 2016 were attributable to withholding tax for profit distributions of our PRC subsidiaries. The elevated effective tax rates in 2017 and 2018 were attributable to an increase in interests on offshore loans which were non-tax-deductible. Our effective tax rate decreased slightly from 2016 to 2017, primarily because we received dividends from our PRC subsidiary in 2016, which was categorized as income tax and non-tax-deductible. Our effective tax rate further decreased from 2017 to 2018, primarily because Joy Sonic, our direct wholly-owned subsidiary, had not obtained Hong Kong citizenship in 2017, which subjected our offshore dividend distribution to a higher tax rate at 10%. Joy Sonic obtained Hong Kong citizenship in 2018, lowering our offshore dividend distribution tax rate to 5%. Our income tax expense amounted to RMB173.6 million, RMB165.6 million and RMB133.2 million, respectively, in 2016, 2017 and 2018.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all of our tax obligations and did not have any unresolved tax disputes.

NON-IFRSs MEASURE

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRSs measure provides additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted net profit

We derive adjusted net profit from profit for the year by (i) adding offshore financing expenses, (ii) adding listing expenses and (iii) deducting foreign exchange gains and adding foreign exchange losses. Our management considers the offshore financing expenses, listing expenses and foreign exchange (gains)/losses to be non-operating in nature and not indicative of the operating performance. Our management also does not track such items as key operating or financial metrics internally when reviewing our performance. Therefore, by eliminating the impacts of such items in the calculation of adjusted profit, this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year.

For offshore financing expenses, we only incurred offshore financing expenses in 2017 and 2018. Therefore, such adjustment would make the Track Record Period financials more comparable. The offshore loan, which led to our offshore financing expenses in 2017 and 2018, was not used in our ordinary course of business but to pay dividends to Shareholders. We are planning to use approximately 45% of the net proceeds from the Global Offering to repay part of the outstanding amount in May 2019. Listing expenses are not related to our ordinary course of business and are non-recurring in nature. Foreign exchange (gains)/losses are related to our offshore assets and liabilities, which did not involve our ordinary course of business in China. The term of adjusted net profit is not defined under IFRSs. Items excluded from adjusted net profit are significant components in understanding and assessing our operating and financial performance.

In light of the foregoing limitations for this non-IFRSs measure, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is

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calculated in accordance with IFRSs. In addition, because this non-IFRSs measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

The following table reconciles our adjusted net profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is profit for the years indicated:

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Profit for the year	399,680	421,791	374,502
Offshore financing expenses	—	25,178	84,964
Listing expenses	—	5,796	19,537
Foreign exchange (gains)/losses	(8,915)	(1,888)	3,533
Adjusted net profit	390,765	450,877	482,536

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATION

Year ended 2018 compared to year ended 2017

Revenue

Our revenue increased by 7.9% from RMB3,510.3 million in 2017 to RMB3,787.0 million in 2018. The increase in our revenue was primarily due to our sales growth in both online and offline sales networks and, to a lesser extent, a decrease in discount rate of our self-owned stores and online channels. Specifically, for our offline retail network expansion, the average number of our offline stores, which is calculated as the average of the beginning number and the ending number of our offline store number during the year, increased from 2,206 in 2017 to 2,283 in 2018. The average number of our self-owned stores increased from 661.5 in 2017 to 722.5 in 2018, and the average number of our partnership stores increased from 498.5 in 2017 to 532.5 in 2018. Though the average number of our distributor stores decreased slightly from 1,046 in 2017 to 1,028 in 2018 because we gradually transformed some distributor stores to self-owned stores and partnership stores, our revenue from distributor stores still increased from 2017 to 2018 as a result of the decrease in our expected sales return rate due to our efforts to control procurement volume in 2018. See “Business — Sales and Distribution — Our Offline Channels” and “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors” for details. In addition, though the growth rate was lower in 2018 compared to 2017, same store sales growth still contributed to the revenue growth in 2018 for our self-owned stores and online channels.

Among our brands, revenue from sales of GXG increased by 6.2% from RMB2,357.8 million in 2017 to RMB2,504.7 million in 2018. Revenue from sales of gxg jeans increased by 10.3% from RMB683.5 million in 2017 to RMB753.9 million in 2018. Revenue from sales of gxg.kids increased by 8.4% from RMB357.2 million in 2017 to RMB387.3 million in 2018. Revenue from sales of YAtlas increased by 11.7% from RMB87.5 million in 2017 to RMB97.7 million in 2018. We started sales of 2XU via online channels and distributor multi-brands sports stores in September 2017 and the revenue from sales of 2XU increased by 340.3% from RMB3.2 million in 2017 to RMB14.3 million in 2018.

Cost of sales

Our cost of sales increased by 8.9% from RMB1,610.8 million in 2017 to RMB1,754.8 million in 2018, primarily due to increased sales that led to an increase in cost of apparel products.

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Gross profit

As a result of the foregoing, our gross profit increased by 7.0% from RMB1,899.5 million in 2017 to RMB2,032.2 million in 2018. Our overall gross profit margin decreased from 54.1% in 2017 to 53.7% in 2018, primarily due to (i) our efforts in improving the quality of our products which increased our cost of purchase while the prices remained stable, and (ii) the change in revenue mix: in May 2018, we opened new online stores that focus on old inventories in order to clear the inventories returned from VIP distributors during the period from 2017 to the first quarter of 2018. For details, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.” The increase in gross profit margin of partnership stores was primarily due to an increase in revenue contribution from partnership stores that have higher gross profit margin than other partnership stores. The gross profit margin of our distributor stores increased from 2017 to 2018, primarily because we reduced the amount of subsidy to and number of returns from the distributors.

Among our brands, gross profit from sales of GXG increased by 5.6% from RMB1,319.5 million in 2017 to RMB1,393.6 million in 2018. Gross profit margin of GXG decreased from 56.0% in 2017 to 55.6% in 2018, primarily due to our efforts in improving the quality of our products which increased our cost of purchase while the prices remained stable.

Gross profit from sales of gxg jeans increased by 11.2% from RMB344.9 million in 2017 to RMB383.5 million in 2018. Gross profit margin of gxg jeans increased from 50.5% in 2017 to 50.9% in 2018, primarily due to (i) a decrease in discount rate of our self-owned stores and online channels, especially our cross-over products, and (ii) higher gross profit margin for online channels due to more offerings of online exclusive SKUs, which have higher margins than online off-season products.

Gross profit from sales of gxg.kids increased by 8.8% from RMB171.8 million in 2017 to RMB186.9 million in 2018. Gross profit margin of gxg.kids remained stable at 48.1% in 2017 and 48.3% in 2018.

Gross profit from sales of YAtlas decreased by 9.1% from RMB56.3 million in 2017 to RMB51.1 million in 2018. Gross profit margin of YAtlas decreased from 64.3% in 2017 to 52.3% in 2018, primarily because we increased the discount rate of our products due to brand repositioning.

We started sales of 2XU via online channels and distributor multi-brands sports stores in September 2017. Gross profit from sales of 2XU increased by 363.8% from RMB1.5 million in 2017 to RMB7.0 million in 2018. Gross profit margin of 2XU increased from 46.4% in 2017 to 48.9% in 2018, primarily because we had more domestic suppliers in 2018, and the domestic suppliers charged us relatively lower prices as compared to overseas suppliers.

Other income and gains

Our other income and gains increased by 110.2% from RMB30.6 million in 2017 to RMB64.4 million in 2018, primarily due to an increase in government grants which we received from local PRC government authorities to encourage our business development. Our other income and gains as a percentage of our total revenue increased from 0.9% in 2017 to 1.7% in 2018.

Selling and distribution expenses

Our selling and distribution expenses increased by 11.4% from RMB1,096.8 million in 2017 to RMB1,221.5 million in 2018, primarily due to an increase in sales from our self-owned stores and online channels. Our selling and distribution expenses as a percentage of our total revenue increased from 31.2% in 2017 to 32.3% in 2018, among which our advertising expenses increased by 4.8% from RMB171.1 million in 2017 to RMB179.2 million in 2018, primarily due to our focus and efforts on marketing to further boost online sales performance and cross-over marketing activities.

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Administrative expenses

Our administrative expenses increased by 26.7% from RMB211.8 million in 2017 to RMB268.4 million in 2018, primarily due to (i) an increase in IPO cost, and (ii) an increase in other professional services, which include platform information service fees and platform interface service fees. An increase in outsourcing service fee and impairment of trade and other receivables also led to the increase of administrative expenses from 2017 to 2018. Our administrative expenses as a percentage of our total revenue increased from 6.0% in 2017 to 7.1% in 2018.

Other expenses

Our other expenses decreased from RMB5.4 million in 2017 to RMB3.9 million in 2018, primarily due to a decrease in realized losses on derivative financial instruments, partially offset by an increase in foreign exchange loss.

Finance costs

Our finance costs increased from RMB28.8 million in 2017 to RMB94.5 million in 2018, primarily due to an increase in bank borrowings.

Profit before tax

As a result of the foregoing, our profit before tax decreased by 13.6% from RMB587.4 million in 2017 to RMB507.7 million in 2018.

Income tax expense

Our income tax expense decreased by 19.6% from RMB165.6 million in 2017 to RMB133.2 million in 2018, primarily because Joy Sonic, our direct wholly-owned subsidiary, had not obtained Hong Kong citizenship in 2017, which subjected our offshore dividend distribution to a higher tax rate at 10%. Joy Sonic obtained Hong Kong citizenship in 2018, lowering our offshore dividend distribution tax rate to 5%. Additionally, in 2018, our effective tax rate was 26.2%, which is higher than the PRC statutory income tax rate of 25%. This elevated effective tax rate is attributable to an increase in interests on offshore loans which are non-tax-deductible.

Profit for the year

As a result of the foregoing, our profit for the year decreased by 11.2% from RMB421.8 million in 2017 to RMB374.5 million in 2018. Our net profit margin decreased from 12.1% in 2017 to 9.9% in 2018.

Year ended December 31, 2017 compared to year ended December 31, 2016

Revenue

Our revenue increased by 16.3% from RMB3,017.8 million in 2016 to RMB3,510.3 million in 2017. The increase in our revenue was primarily due to our sales growth in both online and offline sales networks.

The number of our self-owned stores increased from 598 as of December 31, 2016 to 725 as of December 31, 2017. The number of partnership stores and distributor stores increased from 1,498 as of December 31, 2016 to 1,591 as of December 31, 2017.

Among our brands, revenue from sales of GXG increased by 18.4% from RMB1,990.7 million in 2016 to RMB2,357.8 million in 2017. Revenue from sales of gxg jeans increased by 7.8% from RMB633.8 million in 2016 to RMB683.5 million in 2017. Revenue from sales of gxg.kids increased by 25.3% from RMB285.1 million in 2016 to RMB357.2 million in 2017. Revenue from sales of YAtlas increased by 33.7% from RMB65.4 million in 2016 to RMB87.5 million in 2017. We started sales of 2XU via online channels and distributor multi-brands sports stores in September 2017 and the revenue from sales of 2XU reached RMB3.2 million in 2017.

Cost of sales

Our cost of sales increased by 15.0% from RMB1,400.2 million in 2016 to RMB1,610.8 million in 2017, primarily due to increased sales that led to an increase in cost of apparel products.

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Gross profit

As a result of the foregoing, our gross profit increased by 17.4% from RMB1,617.6 million in 2016 to RMB1,899.5 million in 2017. Our overall gross profit margin increased from 53.6% in 2016 to 54.1% in 2017, primarily due to (i) higher gross profit margin for online channels due to more offerings of online exclusive SKUs, which have higher margins than online off-season products, and (ii) the increase in revenue contribution from self-owned stores that have higher gross profit margin than other channels. The gross profit margin of self-owned stores remained relatively stable during this year. The increase in gross profit margin of partnership stores was primarily due to (i) our increased bargaining power against partners; and (ii) an increase in revenue contribution from partnership stores that have higher gross profit margin than other partnership stores. The decrease in gross profit margin of our distributor stores was primarily due to higher discount we offered to distributors in 2017.

Among our brands, gross profit from sales of GXG increased by 19.3% from RMB1,105.9 million in 2016 to RMB1,319.5 million in 2017. Gross profit margin of GXG increased from 55.6% in 2016 to 56.0% in 2017, primarily due to the increase in revenue contribution from self-owned stores that have higher gross profit margin than other channels.

Gross profit from sales of gxg jeans increased by 6.1% from RMB325.0 million in 2016 to RMB344.9 million in 2017. Gross profit margin of gxg jeans decreased from 51.3% in 2016 to 50.5% in 2017, primarily due to an increased portion of sales from online channel. Though the online sales margin increased during the year, it still had a relatively lower gross profit margin than our self-owned stores.

Gross profit from sales of gxg.kids increased by 22.7% from RMB140.1 million in 2016 to RMB171.8 million in 2017. Gross profit margin of gxg.kids decreased from 49.1% in 2016 to 48.1% in 2017, primarily because we adopted a marketing strategy in November 2016 by offering more discounts in order to boost sales.

Gross profit from sales of YAtlas increased by 30.0% from RMB43.3 million in 2016 to RMB56.3 million in 2017. Gross profit margin of YAtlas decreased from 66.2% in 2016 to 64.3% in 2017, primarily because we adjusted the recommended retail price of our products due to brand repositioning.

We started sales of 2XU via online channels and distributor multi-brands sports stores in September 2017. The gross profit from sales of 2XU reached RMB1.5 million with gross profit margin of 46.4% in 2017.

Other income and gains

Our other income and gains increased by 19.3% from RMB25.7 million in 2016 to RMB30.6 million in 2017, primarily due to an increase in government grants which we received from local PRC government authorities to encourage our business development. Our other income and gains as a percentage of our total revenue remained stable at 0.9% in both 2016 and 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by 31.7% from RMB832.7 million in 2016 to RMB1,096.8 million in 2017, primarily due to an increase in sales from our self-owned stores and online channels. Our selling and distribution expenses as a percentage of our total revenue increased from 27.6% in 2016 to 31.2% in 2017. Among which our advertising expenses increased by 52.7% from RMB112.0 million in 2016 to RMB171.1 million in 2017, primarily due to our focus and efforts on marketing to further boost online sales performance. Our advertising expenses as a percentage of our total revenue increased from 3.7% in 2016 to 4.9% in 2017.

Administrative expenses

Our administrative expenses increased by 3.7% from RMB204.3 million in 2016 to RMB211.8 million in 2017, primarily due to an increase in other professional service, IPO cost and auditor's remuneration relating to our preparation of the Offering. Our administrative expenses as a percentage of our total revenue decreased from 6.8% in 2016 to 6.0% in 2017.

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Other expenses

Our other expenses decreased from RMB32.9 million in 2016 to RMB5.4 million in 2017, primarily because we encountered loss due to a fire accident in 2016.

Finance costs

Our finance costs increased from RMB0.1 million in 2016 to RMB28.8 million in 2017, primarily due to an increase in interest on bank loans resulting from our new borrowings in 2017.

Profit before tax

As a result of the foregoing, our profit before tax increased by 2.5% from RMB573.3 million in 2016 to RMB587.4 million in 2017.

Income tax expense

Our income tax expense decreased by 4.6% from RMB173.6 million in 2016 to RMB165.6 million in 2017, primarily due to a decrease in withholding tax as there was no dividend distribution plan from onshore to offshore entity. Additionally, in 2017, our effective tax rate was 28.2%, which is higher than the PRC statutory income tax rate of 25%. This elevated effective tax rate is attributable to an increase in interests on offshore loans which are non-tax-deductible.

Profit for the year

As a result of the foregoing, our profit for the year increased by 5.5% from RMB399.7 million in 2016 to RMB421.8 million in 2017. Our net profit margin decreased from 13.2% in 2016 to 12.1% in 2017.

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

The following table sets forth our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	185,826	166,866	171,525
Advance payments for property, plant and equipment	585	1,137	5,512
Prepaid land lease payments	63,359	22,976	22,315
Other intangible assets	5,725	6,233	10,339
Investments in associates	—	—	50
Derivative financial instruments	—	12,456	—
Deferred tax assets	103,454	106,755	94,955
Total non-current assets	358,949	316,423	304,696
Current assets			
Available-for-sale investments	—	50,000	—
Inventories	833,009	969,646	966,162
Right of return assets	83,933	137,214	109,731
Trade and notes receivables	494,629	616,019	830,823
Prepayments, deposits and other receivables	164,778	210,055	259,469
Derivative financial instruments	—	1,145	18,514
Due from directors	263	8,733	—
Due from related parties	—	47,055	84
Pledged short-term deposits	—	12,767	33,995
Cash and cash equivalents	511,170	593,910	653,502
Total current assets	2,087,782	2,646,544	2,872,280
Total assets	2,446,731	2,962,967	3,176,976

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	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
EQUITY			
Reserves	708,098	(230,300)	99,592
Equity attributable to owners of the parent ..	708,098	(230,300)	99,592
Non-controlling interests	299,382	(197)	(1,281)
Total equity/(net deficiency in assets)	1,007,480	(230,497)	98,311
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings	—	1,320,748	1,204,627
Deferred tax liabilities	49,630	28,000	—
Total non-current liabilities	49,630	1,348,748	1,204,627
Current liabilities			
Trade and notes payables	396,104	635,649	782,980
Other payables and accruals	339,258	422,054	359,881
Refund liabilities	239,201	337,494	264,197
Contract liabilities	80,196	48,118	40,735
Interest-bearing bank and other borrowings	136,305	224,636	290,933
Tax payable	137,536	146,691	103,679
Due to a director	—	15	—
Due to related parties	61,021	30,059	31,633
Total current liabilities	1,389,621	1,844,716	1,874,038
Total liabilities	1,439,251	3,193,464	3,078,665
Total equity and liabilities	2,446,731	2,962,967	3,176,976
Net current assets	698,161	801,828	998,242
Total assets less current liabilities	1,057,110	1,118,251	1,302,938
Net assets/(liabilities)	1,007,480	(230,497)	98,311

We recorded net assets of RMB1,007.5 million and RMB98.3 million as of December 31, 2016 and 2018, respectively, and recorded net liabilities of RMB230.5 million as of December 31, 2017. The change from 2016 to 2017 was primarily because we distributed dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017 by obtaining a banking facility of up to US\$226.0 million in September 2017. The below are the underlying reasons for such distribution and banking facility from the perspective of the Financial Investors following the investment in us by the Financial Investors: (i) the Financial Investors, namely L Catterton and Crescent Point, invested in us in 2016. The Financial Investors are investment firms and are focused on financial returns for investors in their funds; (ii) following the investment, the Financial Investors started to review our capital and financial structure, and the Financial Investors considered that their investment objective would be well served if we took on an appropriate level of external borrowing that would enhance their return on equity, which are legitimate and commercially rational considerations for investment firms and their risk appetite as such; and (iii) in determining the amount of the loan, the Financial Investors considered a number of factors, being our ability to service the debt based on our operating cashflow and our retained earnings as well as industry comparable.

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As disclosed in Note 30 to the Accountant's Report set out in Appendix I, we at company level recorded profits during the years ended December 31, 2016, 2017 and 2018. In addition, we were able to pay our liabilities as they fell due at all relevant times.

Conyers Dill & Pearman (“**Conyers**”), our Cayman legal adviser, have advised us (i) the Cayman Companies Law does not regulate the source of funds which may be used by a company to declare and pay a dividend; (ii) as such, at common law, the position follows the English law position that dividends may be declared and paid out of profits. Furthermore, under the relevant articles of association of the Company, the Directors may from time to time declare and authorize payment of dividends out of profits of the Company lawfully available therefor.

In the circumstances where (i) the Company has passed resolutions in accordance with the articles of association of the Company approving the declaration and payment of a dividend, (ii) the Company had profits in an amount equal to at least the amount of the dividend so declared on each of (1) the date of passing of such resolutions, and (2) at the time of the declaration and payment of the such dividend, and the dividend was declared and paid from such profits; and (iii) on each of (1) the date of passing of such resolutions, and (2) the declaring and paying of such dividend, the Company is and, after declaring and paying the dividend the Company will be, able to pay its liabilities as they become due, then the declaration and payment by the Company of such dividend will not violate the memorandum and articles of association of the Company nor any applicable law, regulation, order or decree in the Cayman Islands.

Conyers have also advised that a position of accumulated losses at the Company level does not necessarily restrict the Company from declaring and paying dividends, as dividends may still be declared and paid from sums standing to the credit of our share premium account.

Such dividend was also financed by the cash dividend received from our onshore operating company. Our PRC Legal Advisers are of the view that the declaration and payment of the dividends by our PRC subsidiaries to their respective shareholders during the Track Record Period have complied with the applicable PRC laws. The declared dividends of US\$238.5 million (RMB1,611.6 million) were settled by cash of US\$116.1 million (RMB767.3 million) and net off with the existing loan due from our Shareholder, Glory Cayman, of US\$122.4 million (RMB806.1 million). The difference between the total amount of dividends and settlement in RMB was due to the effect of foreign exchange rate changes. Approximately 45%, or HK\$437.9 million, of the net proceeds of the Global Offering will be used to partially repay such bank loans. See “— Interest-bearing bank and other borrowings”, “— Indebtedness” and “Future Plans and Use of Proceeds” for details.

Property, plant and equipment

Our property, plant and equipment decreased by RMB18.9 million from RMB185.8 million as of December 31, 2016 to RMB166.9 million as of December 31, 2017, primarily because we sold an old warehouse in Ningbo. We plan to use the proceeds to construct a self-owned warehouse with more capacity to support our future business expansion.

Our property, plant and equipment increased by RMB4.6 million from RMB166.9 million as of December 31, 2017 to RMB171.5 million as of December 31, 2018, primarily due to additions of construction in progress of RMB6.3 million relating to our office decoration.

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Inventories

Our inventories consist of finished goods, decorations and raw materials. To minimize the risk of inventory build-up, we review our inventory levels based on product collections on a daily basis. We believe that maintaining appropriate levels of inventories can help us better plan for the production and deliver our products to meet customer demands in a timely manner without straining our liquidity. The value of our inventories accounted for 39.9%, 36.6% and 33.6% of our total current assets as of December 2016, 2017 and 2018, respectively.

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Finished goods	807,389	944,994	932,284
Decorations	18,274	21,514	24,793
Raw materials	7,346	3,138	9,085
Total	833,009	969,646	966,162

Our inventory increased from RMB833.0 million as of December 31, 2016 to RMB969.6 million as of December 31, 2017, primarily due to an increase in sales from self-owned, partnership stores and online channels. Our inventory later decreased to RMB966.2 million as of December 31, 2018, primarily because we improved our inventory management by implementing strict controls on our purchases and limiting the amount of old stocks.

As of March 31, 2019, the subsequent usage and sale of our total inventories amounted to RMB247.4 million, 24.1% of our gross inventories as of December 31, 2018.

The following table sets forth our inventory turnover days for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
Inventory turnover days ⁽¹⁾	195	197	194

Note:

(1) Inventory turnover days is calculated as the average of the beginning and ending finished goods balances for the year, divided by the cost of apparel products for that year, multiplied by 360 days for 2016, 2017 and 2018.

Our inventory turnover days increased from 195 days in 2016 to 197 days in 2017, primarily due to an increase in revenue contribution from self-owned, partnership stores and online channels. Our inventory turnover days later decreased to 194 days in 2018, primarily because our inventory decreased as a result of our improved inventory management and our sales increased. We aim to continue to actively manage our inventory turnover days in the future.

Our products typically have a life cycle of three and a half years. After the first half year, a product becomes off-season and such product is sold at an increasing level of discount rate over the next three years of its life cycle. We typically expect the selling price of products will be lower than its cost in the last year of its life cycle. As part of our retail pricing strategy, discount rates cannot be higher than the maximum discount rates that are pre-determined by our management and implemented across our online and offline sales network to ensure consistent pricing.

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The following table sets forth the aging analysis of our finished goods as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
One to twelve months	642,988	737,412	681,494
One to two years	156,244	183,800	241,002
Over two years	8,157	23,782	9,788
Total	807,389	944,994	932,284

We make provisions to write down our inventories to the net realizable value if their expected net realizable value is lower than the cost of the inventories. We make provisions for inventories after one year, and such provisions are estimated and assessed by each product collection based on our marketing policies and the retail pricing strategy, strategy of each product line, sales forecast, physical condition of inventories and our management's historical experience of selling products of a similar nature. The following table sets forth the movements of our inventory provision for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Beginning of the year	48,508	58,554	83,539
Addition	10,046	24,985	(21,315)
End of the year	58,554	83,539	62,224

Provision for inventory relates to finished goods. As of December 31, 2016, 2017 and 2018, provision for finished goods totaled RMB58.6 million, RMB83.5 million and RMB62.2 million, respectively. The increase in our provision from 2016 to 2017 was mainly due to an increase in our inventory balance resulting from sales from self-owned, partnership stores and online channels. The decrease in our provision from 2017 to 2018 was mainly because we improved our inventory management by implementing strict controls on our purchases and limiting the amount of old stocks. Our Directors believe that our inventory provision policy is in compliance with the IFRSs and that the inventory provisions recognized as of December 31, 2016, 2017 and 2018 were adequate.

Right of return assets

Our right of return assets represents our right to inventories expected to be returned by our distributors. Our right of return assets increased from RMB83.9 million as of December 31, 2016 to RMB137.2 million as of December 31, 2017, primarily due to an increase in our expected return rate as a result of the return policy we adopted, allowing some VIP distributors to return all our products during the period from 2017 to the first quarter of 2018 to liquidate their surplus inventory in order to maintain a strong relationship with them. Our right of return assets decreased from RMB137.2 million as of December 31, 2017 to RMB109.7 million as of December 31, 2018, primarily because we changed our return policy and no longer accepted full returns from our VIP distributors starting from the second quarter of 2018.

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Trade and notes receivables

The following table sets forth our trade and notes receivables as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade receivables	366,863	534,742	740,022
Notes receivables	136,305	82,450	108,801
Less: impairment of trade receivables	(8,539)	(1,173)	(18,000)
Total	494,629	616,019	830,823

The following table sets forth our trade and notes receivables turnover days for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
Trade and notes receivables turnover days ⁽¹⁾ . . .	60	57	70

Note:

- (1) Trade and notes receivables turnover days is calculated as the average of the beginning and ending trade and notes receivables balances (before impairment), divided by total revenue for that year, multiplied by 360 days for 2016, 2017 and 2018.

Our trade and notes receivables turnover days remained relatively stable at 60 days in 2016 and 57 days in 2017 and increased to 70 days in 2018, primarily because we provided some online channels which focus on sales of old inventories with longer payment schedule to clear the inventories returned from VIP distributors during the period from 2017 to the first quarter of 2018. Because we changed our return policy and no longer accepted full returns from VIP distributors starting from the second quarter of 2018, we expect our trade and notes receivables turnover days to decrease in 2019. For details, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.”

The following table sets forth the aging analysis of our trade and notes receivables as of the dates indicated, based on the invoice date for trade receivables and due date for notes receivables and after impairment, respectively.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Less than three months	376,706	515,666	650,836
Between three months and six months	94,594	90,783	120,319
Between six months and twelve months	20,753	7,946	23,977
Between one year and two years	2,279	1,381	35,691
Over two years	297	243	—
Total	494,629	616,019	830,823

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As of March 31, 2019, the subsequent settlement of our trade and notes receivables amounted to RMB303.8 million, 35.8% of our gross trade and notes receivables as of December 31, 2018.

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

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Less than three months	314,081	491,467	595,125
Between three months and six months	27,818	33,018	70,656
Between six months and twelve months	21,521	8,106	28,849
Between one year and two years	2,849	1,666	44,372
Over two years	594	485	1,020
Total	366,863	534,742	740,022

The aging analysis of the trade receivables as of December 31, 2016 and 2017 that were neither individually nor collectively considered to be impaired under IAS 39 is as follows:

	As of December 31,	
	2016	2017
	RMB'000	RMB'000
Neither past due nor impaired	314,081	500,612
Less than three months past due	27,818	23,873
Total	341,899	524,485

The majority of our trade receivables represent receivables from department stores, partners, distributors and some of our online platforms such as Vipshop, which are generally collectible within 30 to 90 days from the invoice date. Our trade receivables increased from RMB366.9 million as of December 31, 2016 to RMB534.7 million as of December 31, 2017, and further to RMB740.0 million as of December 31, 2018, primarily due to an increase in trade receivables from department stores, partners, distributors and Vipshop. The increase in 2018 was also because we provided some online channels which focus on sales of old inventories with longer payment schedule to clear the inventories returned from VIP distributors during the period from 2017 to the first quarter of 2018. For details, see “Business — Sales and Distribution — Our Offline Channels — Partnership and distributor stores — Arrangements with partners and distributors.”

Our notes receivables represent our credit policy of accepting commercial acceptance bills to support our partners and distributors’ capital needs. Our notes receivables decreased from RMB136.3 million as of December 31, 2016 to RMB82.5 million as of December 31, 2017, primarily because we allowed lower percentage of commercial acceptance bills from partners and distributors. Our notes receivables later increased to RMB108.8 million as of December 31, 2018, primarily because of an increase in notes receivables from our distributors.

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Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables primarily consist of (i) other receivables paid to department stores and shopping malls, (ii) prepayments to suppliers in connection with our raw material purchases, (iii) prepaid expenses due within one year in connection with store rental, (iv) prepaid land lease payments, (v) value-added tax recoverable, and (vi) prepaid listing expenses. The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other receivables	116,840	154,527	191,578
Prepaid expense	22,790	33,491	44,828
Prepayments	24,137	15,231	15,011
Prepaid land lease payments	1,600	661	661
Tax recoverable	138	3,986	2,056
Prepaid listing expenses	—	1,879	7,614
Others	1,552	2,532	1,374
Less: Impairment of other receivables	(2,279)	(2,252)	(3,653)
Total	164,778	210,055	259,469

Our prepayments, deposits and other receivables increased by RMB45.3 million from RMB164.8 million as of December 31, 2016 to RMB210.1 million as of December 31, 2017, primarily due to (i) an increase in other receivables resulting from the increase in deposits to shopping malls, (ii) an increase in prepaid expense to shopping malls, and (iii) an increase in the sales rebate granted by Tmall.

Our prepayments, deposits and other receivables increased by RMB49.4 million from RMB210.1 million as of December 31, 2017 to RMB259.5 million as of December 31, 2018, primarily due to (i) an increase in other receivables resulting from the increase in deposits to shopping malls, (ii) an increase in prepaid expense to shopping malls, and (iii) an increase in prepaid listing expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand and at Alipay. As of December 31, 2016, 2017 and 2018, cash and cash equivalents amounted to RMB511.2 million, RMB593.9 million and RMB653.5 million, respectively. Most of our cash and cash equivalents were denominated in RMB and USD while the remaining balances were denominated in other currencies.

Trade and notes payables

As of December 31, 2016, 2017 and 2018, our trade and notes payables totaled RMB396.1 million, RMB635.6 million and RMB783.0 million, respectively.

Our trade and notes payables mainly relate to purchases of finished products from OEM suppliers. Our trade payables are non-interest-bearing and are normally settled on 90-day terms. Our trade and notes payables increased by 60.5% from RMB396.1 million as of December 31, 2016 to RMB635.6 million as of December 31, 2017, primarily due to our strong relationships and great bargain power to negotiate payment schedule with suppliers based on our capital requirement. Our trade and notes payables continued to increase to RMB783.0 million as of December 31, 2018, primarily because our notes payables increased by RMB126.6 million in 2018, which was a result of our increased

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use of bank acceptance bills as our payment method in 2018. The following table sets forth our trade and notes payables turnover days for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
Trade and notes payables turnover days ⁽¹⁾	102	115	146

Note:

(1) Trade and notes payables turnover days is calculated as the average of the beginning and ending trade and notes payables balances, divided by total cost of sales for that year, multiplied by 360 days for 2016, 2017 and 2018.

Our trade and notes payables turnover days were 102 days in 2016, 115 days in 2017 and 146 days in 2018. Our trade and notes payables turnover days increased from 2016 to 2017, primarily due to our strong relationships and great bargain power to negotiate payment schedule with suppliers based on our capital requirement. Our trade and notes payables turnover days further increased in 2018, primarily because we increased the use of bank acceptance bills as our payment method in 2018.

The following table sets forth the aging analysis of our trade and notes payables as of the dates indicated, based on the invoice date for trade payables and issue date for notes payables, respectively.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within three months	358,079	629,270	758,893
Between three months and six months	28,310	1,952	19,403
Between six months and twelve months	4,840	1,189	3,310
Between one year and two years	4,075	2,442	463
Over two years	800	796	911
Total	396,104	635,649	782,980

As of March 31, 2019, the subsequent payment of our trade and notes payables amounted to RMB599.4 million, 76.6% of our trade and notes payables as of December 31, 2018.

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

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within three months	358,079	506,600	509,643
Between three months and six months	28,310	1,952	19,403
Between six months and twelve months	4,840	1,189	3,310
Between one year and two years	4,075	2,442	463
Over two years	800	796	911
Total	396,104	512,979	533,730

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and non-trade and notes payables.

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Other payables and accruals

Our other payables and accruals primarily consist of accrued payroll and other payables. As of December 31, 2016, 2017 and 2018, our other payables and accruals totaled RMB339.3 million, RMB422.1 million and RMB359.9 million, respectively.

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Accrued payroll	161,082	142,660	76,949
Other payables	125,503	135,876	126,525
Tax payable other than corporate income tax ..	31,816	106,730	100,381
Accrued expenses	20,857	34,867	54,367
Interest payables	—	1,921	1,659
Total	339,258	422,054	359,881

Our other payables and accruals increased by 24.4% from RMB339.3 million as of December 31, 2016 to RMB422.1 million as of December 31, 2017, primarily due to an increase in tax payable other than corporate income tax resulting from our deferred payment of VAT. To meet our liquidity need in preparation for the Alibaba's Singles' Day (雙十一) in 2017 and better manage our cash flow, we applied to the Ningbo State Taxation Bureau to defer our payment of VAT in an amount of approximately RMB105.6 million from October 2017 to February 2018. Based on the reason that our cash and cash equivalents of the month, after deducting employees' salaries and social security funds, were not enough to pay our tax payment, we obtained the approval from the Ningbo State Taxation Bureau in November 2017 to defer our tax payment of VAT. We later settled the outstanding amount in February 2018.

Our other payables and accruals decreased by 14.7% from RMB422.1 million as of December 31, 2017 to RMB359.9 million as of December 31, 2018, primarily due to (i) a decrease in accrued payroll resulting from a decrease of our year-end bonus distributed in 2018, and (ii) we paying relevant expenses in a timely manner.

Refund liabilities

Our refund liabilities represent our obligation to refund some or all of the consideration as a result of the expected sales return or sales rebate from partners and distributors. Our refund liabilities increased from RMB239.2 million as of December 31, 2016 to RMB337.5 million as of December 31 2017, primarily due to an increase in our expected return rate as a result of the return policy we adopted, allowing some VIP distributors to return all our products during the period from 2017 to the first quarter of 2018 to liquidate their surplus inventory in order to maintain a strong relationship with them. Our refund liabilities decreased from RMB337.5 million as of December 31, 2017 to RMB264.2 million as of December 31, 2018, primarily because we changed our return policy and no longer accepted full returns from our VIP distributors starting from the second quarter of 2018.

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Contract liabilities

Our contract liabilities primarily represent our obligation to transfer goods to distributors for which we have received consideration and offer rebates to VIP members after they accumulated loyalty points. Our contract liabilities decreased from RMB80.2 million as of December 31, 2016 to RMB48.1 million as of December 31, 2017 primarily due to (i) a decrease in our sales to distributors, and (ii) lower percentage of advances from distributors. Our contract liabilities decreased from RMB48.1 million as of December 31, 2017 to RMB40.7 million as of December 31, 2018, primarily due to a decrease in advance payments from distributors. Our contract liabilities relating to our loyalty points program amounted to RMB5.7 million, RMB4.1 million and RMB4.1 million as of December 31, 2016, 2017 and 2018. The fluctuation during the Track Record Period primarily related to the changes in our membership reward policy.

Interest-bearing bank and other borrowings

During the Track Record Period, we used bank loans to manage our working capital requirements. The following table sets forth the breakdown of our interest-bearing bank and other borrowings as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Discounted notes receivable			
Within one year on demand	136,305	79,850	107,321
Bank loans			
Within one year or on demand	—	144,786	183,612
In the second year	—	174,912	217,152
In the third to fifth years, inclusive	—	1,145,836	987,475
Total	<u>136,305</u>	<u>1,545,384</u>	<u>1,495,560</u>

As of December 31, 2016, 2017 and 2018, we had bank loans in the amount as shown in the following table:

	As of December 31, 2016			As of December 31, 2017			As of December 31, 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Company									
Current									
Current portion of long-term bank loans – secured				3-month LIBOR	Within		1-month LIBOR	Within	
US\$226,000,000	—	—	—	plus 3.9%	2018	144,786	plus 3.25%	2019	183,612
Non-current									
Bank loans – secured				3-month LIBOR	2019-		1-month LIBOR	2020-	
US\$226,000,000 bank loans ..	—	—	—	plus 3.9%	2022	1,320,748	plus 3.25%	2022	1,204,627
						<u>1,465,534</u>			<u>1,388,239</u>

All of our outstanding interest-bearing bank and other borrowings were denominated in RMB and USD. We had RMB107.3 million and US\$202.3 million of outstanding interest-bearing bank and other borrowings as of December 31, 2018. As of the Latest Practicable Date, we did not have any unutilized banking facilities. For more information, see “— Indebtedness.”

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NET CURRENT ASSETS

We recorded net current assets of RMB698.2 million, RMB801.8 million, RMB998.2 million and RMB879.6 million, respectively, as of December 31, 2016, 2017 and 2018, and March 31, 2019. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Available-for-sale investments	—	50,000	—	—
Inventories	833,009	969,646	966,162	901,716
Right of return assets	83,933	137,214	109,731	99,044
Trade and notes receivables	494,629	616,019	830,823	688,833
Prepayments, deposits and other receivables	164,778	210,055	259,469	278,790
Derivative financial instruments	—	1,145	18,514	9,457
Due from directors	263	8,733	—	—
Due from related parties	—	47,055	84	269
Pledged short-term deposits	—	12,767	33,995	21,746
Cash and cash equivalents	511,170	593,910	653,502	406,444
Total current assets	<u>2,087,782</u>	<u>2,646,544</u>	<u>2,872,280</u>	<u>2,406,299</u>
Current liabilities				
Trade and notes payables	396,104	635,649	782,980	487,083
Other payables and accruals	339,258	422,054	359,881	291,756
Refund liabilities	239,201	337,494	264,197	219,743
Contract liabilities	80,196	48,118	40,735	56,972
Lease liabilities ⁽¹⁾	—	—	—	120,390
Interest-bearing bank and other borrowings	136,305	224,636	290,933	232,639
Tax payable	137,536	146,691	103,679	107,677
Due to a director	—	15	—	—
Due to related parties	61,021	30,059	31,633	10,425
Total current liabilities	<u>1,389,621</u>	<u>1,844,716</u>	<u>1,874,038</u>	<u>1,526,685</u>
Net current assets	<u>698,161</u>	<u>801,828</u>	<u>998,242</u>	<u>879,614</u>

Note:

(1) The new line item “lease liabilities” as of March 31, 2019 was due to the adoption of IFRS 16 Lease effective from January 1, 2019.

Our net current assets decreased by RMB118.6 million from RMB998.2 million as of December 31, 2018 to RMB879.6 million as of March 31, 2019, primarily due to (i) a decrease in cash and cash equivalents of RMB247.1 million, (ii) a decrease in trade and notes receivables of RMB142.0 million, (iii) an increase in lease liabilities of RMB120.4 million, and (iv) a decrease in inventories of RMB64.4 million, partially offset by (i) a decrease in trade and notes payables of RMB295.9 million, (ii) a decrease in other payables and accruals of RMB68.1 million, and (iii) a decrease in interest-bearing bank and other borrowings of RMB58.3 million.

Our net current assets increased by RMB196.4 million from RMB801.8 million as of December 31, 2017 to RMB998.2 million as of December 31, 2018, primarily due to (i) an increase in trade and notes receivables of RMB214.8 million, (ii) a decrease in refund liabilities of RMB73.3 million, (iii) a decrease in other payables and accruals of RMB62.2 million, partially offset by (i) a decrease in due from related parties of RMB47.0 million, and (ii) an increase in trade and notes payables of RMB147.3 million.

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Our net current assets increased by RMB103.6 million from RMB698.2 million as of December 31, 2016 to RMB801.8 million as of December 31, 2017, primarily due to (i) an increase in inventories of RMB136.6 million, (ii) an increase in trade and notes receivables of RMB121.4 million, and (iii) an increase in cash and cash equivalents of RMB82.7 million, partially offset by (i) an increase in trade and notes payables of RMB239.5 million, and (ii) an increase in interest-bearing bank and other borrowings of RMB88.3 million.

Working Capital Sufficiency

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities and the estimated net proceeds available to us from the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below the low end of the indicative Offer Price range), our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus. As of December 31, 2018, we had cash and cash equivalents of RMB653.5 million.

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment and intangible assets, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to issue debt securities or borrow from lending institutions. See “Risk Factors — Risks Relating to Our Business and Industries — We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your investment in us may be negatively impacted.”

LIQUIDITY AND CAPITAL RESOURCES

Historically, we funded our operations primarily with net cash generated from our operations and bank borrowings. Our main cash requirements relate to funding for our retail store expansion and working capital and other general corporate purposes. As of December 31, 2018, we had RMB653.5 million in cash and cash equivalents, most of which were denominated in RMB and USD. Our cash and cash equivalents primarily consist of cash at bank, in hand and at Alipay.

Consolidated statements of cash flow

The following table sets forth a summary of our consolidated statements of cash flow for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Net cash flows generated from operating activities	91,372	416,354	203,500
Net cash flows used in investing activities	(62,666)	(134,063)	(36,594)
Net cash flows generated from/ (used in) financing activities	236,129	(194,237)	(117,033)
Net increase in cash and cash equivalents	264,835	88,054	49,873
Effect of foreign exchange rate changes, net	1,419	(5,314)	9,719
Cash and cash equivalents at beginning of the year	244,916	511,170	593,910
Cash and cash equivalents at end of the year	511,170	593,910	653,502

Operating activities

We derive our cash inflows from operations principally from the receipts in respect of the sales of our products. Our cash outflows from operations are principally payments for purchases of products and raw materials, selling and distribution expenses, administrative expenses and other expenses.

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Cash generated from operations reflects our profit before tax, adjusted for (i) the cash flow effects of non-cash items, including depreciation of property, plant and equipment, amortization of intangible assets, amortization of prepaid land lease payments, loss on disposal of property, plant and equipment, foreign exchange differences and finance costs, and (ii) the effects of changes in our working capital, including changes in trade and notes receivables, prepayments, deposits and other receivables, amounts due from related parties, inventories, amounts due from directors, trade and notes payables, other payables and accruals, amounts due to related parties and deferred income.

For further discussion of our revenue and gross profit, please refer to relevant year to year comparison of revenue and gross profit in this section. For further discussion of our provisions for inventories, please see “— Analysis of Selected Consolidated Statements of Financial Position Items — Inventories” in this section.

In 2018, our net cash flows generated from operating activities was RMB203.5 million. During this year, our operating profit before working capital changes but after adjustments for non-cash income and expenses was RMB706.5 million. Negative working capital adjustments reflected primarily (i) an increase in trade and notes receivables of RMB312.1 million, (ii) a decrease in refund liabilities of RMB73.3 million, and (iii) an increase in prepayments, deposits and other receivables of RMB50.6 million. Such negative adjustments were partially offset by cash inflows including (i) an increase in trade and notes payables of RMB151.3 million, and (ii) a decrease in right of return assets of RMB27.5 million.

In 2017, our net cash flows generated from operating activities was RMB416.4 million. In 2017, our operating profit before working capital changes but after adjustments for non-cash income and expenses was RMB731.3 million. Negative working capital adjustments reflected primarily (i) an increase in trade and notes receivables of RMB250.3 million, and (ii) an increase in inventories of RMB161.6 million. Such negative adjustments were partially offset by cash inflows including (i) an increase in trade and notes payables of RMB239.5 million, and (ii) an increase in refund liabilities of RMB98.3 million.

In 2016, our net cash flows generated from operating activities was RMB91.4 million. In 2016, our operating profit before working capital changes but after adjustments for non-cash income and expenses was RMB630.0 million. Negative working capital adjustments reflected primarily (i) an increase in trade and notes receivables of RMB235.1 million, and (ii) an increase in inventories of RMB152.9 million. Such negative adjustments were partially offset by cash inflows including an increase in other payables and accruals of RMB74.0 million.

Investing activities

Our cash outflows from investing activities reflect purchases of property, plant and equipment, purchases of intangible assets, acquisition of business, payments for available-for-sale investments, proceeds from disposal of available-for-sale investments, purchases of derivative financial instruments and proceeds from disposal of property, plant and equipment. Our available-for-sale investments represent mainly structured financial products issued by banks and investments in certain financial assets issued by licensed financial institutions.

Net cash used in investing activities in 2018 was RMB36.6 million, which was primarily attributable to (i) purchase of items of property, plant and equipment of RMB129.1 million, and (ii) payments for financial assets at fair value through profit or loss of RMB70.0 million, partially offset by (i) proceeds from disposal of financial assets at fair value through profit or loss of RMB120.0 million, and (ii) proceeds from disposal of items of property, plant and equipment and prepaid land lease payments of RMB48.8 million.

Net cash used in investing activities in 2017 was RMB134.1 million, which was primarily attributable to (i) purchases of items of property, plant and equipment of RMB128.0 million, and (ii) payments for available-for-sale investments of RMB100.0 million, partially offset by (i) proceeds from disposal of available-for-sale investments of RMB50.0 million, and (ii) proceeds from disposal of items of property, plant and equipment and prepaid land lease payments of RMB48.1 million.

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Net cash used in investing activities in 2016 was RMB62.7 million, which was primarily attributable to purchases of items of property, plant and equipment of RMB95.0 million, partially offset by proceeds from disposal of available-for-sale investments of RMB34.0 million.

Financing activities

Our cash inflows from financing activities primarily include proceeds from loans and contribution from shareholder. Our cash outflows from financing activities primarily include repayment of bank borrowings, repayment of finance charges, interest paid and dividends paid to our shareholders.

Net cash used in financing activities in 2018 was RMB117.0 million, which was attributable to (i) repayment of bank and other borrowings of RMB493.1 million, and (ii) interest paid of RMB89.8 million, partially offset by proceeds from bank and other borrowings of RMB457.3 million.

Net cash used in financing activities in 2017 was RMB194.2 million, which was attributable to (i) dividends distribution of RMB860.0 million, (ii) acquisition of non-controlling interests of RMB265.1 million, and (iii) repayment of bank and other borrowings of RMB150.0 million, partially offset by (i) proceeds from bank and other borrowings of RMB900.2 million, and (ii) capital injection from the immediate holding company of RMB263.7 million.

Net cash generated from financing activities in 2016 was RMB236.1 million, which was attributable to (i) contribution from a shareholder of RMB501.6 million, and (ii) proceeds from bank and other borrowings of RMB170.5 million, partially offset by acquisition of business relating to the acquisition of 70% of the equity interests in Chisage Mulsanne of RMB439.8 million.

CAPITAL EXPENDITURES

Our capital expenditures amounted to RMB97.1 million, RMB130.8 million and RMB139.0 million, respectively, in 2016, 2017 and 2018. Our capital expenditures were used primarily for the renovation of our retail stores and purchase of fixed assets used in daily operations. The following table sets forth our capital expenditures for the years indicated.

	For the year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Addition to:			
Purchases of items of property, plant and equipment	95,018	128,049	129,132
Purchases of other intangible assets	2,111	2,758	9,821
Total	97,129	130,807	138,953

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations. For 2019, our planned capital expenditure was RMB227.8 million, primarily for the purchases of property, plant, equipment, purchase of land and other intangible assets, subject to adjustment based on market conditions. In particular, to build our smart logistics center, we plan to spend approximately RMB31.8 million in 2019, for the purchase of land and spend approximately RMB40.0 million and RMB80.0 million in 2019 and 2020, respectively, for its construction. In addition, we plan to spend approximately RMB9.0 million for the installation of full-scale RFID applications in 2019. We plan to fund our planned capital expenditure by using the cash on our balance sheet, the cash flow generated from our operations, the cash from bank borrowings and the net proceeds from the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the Global Offering.

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CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Capital commitments

Our capital commitments during the Track Record Period were primarily relating to the renovation of an office building. As of December 31, 2018, the total amount of our capital expenditures contracted but not yet provided for was RMB5.8 million. See Note 35 to the Accountant's Report in Appendix I for details.

Operating lease commitments

We lease properties primarily for store and office premises under non-cancellable lease agreements. The following table sets forth the future aggregate minimum lease payments in respect of our rented premises under our non-cancellable lease agreements as of the dates indicated.

	As of December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within one year	92,225	142,764	168,011
In the second to fifth years, inclusive	79,682	109,927	151,269
	<u>171,907</u>	<u>252,691</u>	<u>319,280</u>

INDEBTEDNESS

Except for our borrowings as disclosed in “— Analysis of Selected Consolidated Statements of Financial Position Items — Interest-bearing bank and other borrowings” above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of March 31, 2019, being the latest practicable date for our indebtedness statement.

In September 2017, we obtained a syndicated banking facility (the “**Facility**”) of up to US\$226.0 million in total from Citibank, N.A., Hong Kong Branch, CTBC Bank Co., Ltd., E.Sun Commercial Bank, Ltd., Offshore Banking Unit, Taishin International Bank, Yuanta Commercial Bank Co., Ltd., Bank Sinopac Co. Ltd., CMB International Finance Limited, Entie Commercial Bank, Ltd., Cathay United Bank, Co., Ltd., Shinhan Asia Limited and KGI Bank. The Facility are secured by: (i) share mortgages and fixed charges over the equity interests in our Company held by the immediate holding company, Glory Cayman⁽¹⁾; (ii) share mortgages and fixed charges over the equity interests in Glory Cayman held by the intermediate holding company, Glorious Cayman⁽¹⁾; (iii) share mortgages and fixed charged over our equity interests in Joy Sonic and Alpha Sonic; and (iv) share mortgages and fixed charges over Joy Sonic's equity interests in Chisage Mulsanne and Yatlas Shanghai. The Facility contains the following financial covenants: (i) offshore cashflow cover, being the ratio of offshore cashflow to offshore debt service, as defined in the Facility, in respect of a relevant period ending on or after September 30, 2017 shall not be less than 1.10:1.00; (ii) a requirement on our Company to ensure that interest cover, being the ratio of EBITDA to net finance charges, as defined in the Facility, in respect of a relevant period shall not be less than the ratio ranging from 5.0x to 6.0x set out in the Facility applicable for such period during the term of the Facility; (iii) leverage, being the ratio of total net debt on the last day of a particular period to EBITDA in respect of that period, as defined in the Facility, in respect of a relevant period shall not exceed the ratio ranging from 2.825:1 to 1.750:1 set out in the Facility applicable for such period during the term of the Facility; and (iv) generally our aggregate capital expenditure (excluding any capital expenditure which is funded out of excluded disposal proceeds, as defined in the Facility)

(1) Such charges have been released following our pre-Listing reorganizations. Please see the section headed “Our History and Development — Our Pre-Listing Reorganization” for further details of the reorganization.

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in respect of any financial year (commencing on and from the financial year ended December 31, 2017) shall not exceed US\$30.0 million (or its equivalent), subject to the adjustments as set out in the Facility.

As of December 31, 2018, we have passed the covenant testing for the above financial covenants as shown in the table below.

Covenants:	Test:
Offshore cash flow cover: not be less than 1.10:1.00	1.25x
Interest cover: not be less than the ratio ranging from 5.0x to 6.0x	7.6x
Leverage: not exceed the ratio ranging from 2.825:1 to 1.750:1	1.75x
Capital expenditure: not exceed US\$30.0 million (or its equivalent)	US\$21.0 million

The offshore cashflow cover is going to be released and the capital expenditure will be increased to US\$40.0 million (or its equivalent) after the Global Offering and if leverage is less than 2.00:1 (after giving pro forma effect for the Global Offering). We believe that our ability to distribute dividends in the future will not be hindered by the financial covenants under the Facility because we are allowed to declare and make any lawful distribution if: (i) leverage above 2.00:1 but below 3.00:1 and the distribution not exceed 50% of our net profit, or leverage equal to or below 2:00:1; and (ii) no default is continuing or would result from such distribution. As of December 31, 2018, our leverage was below the required ratios to distribute dividends. In addition, in the event of a change of control (defined in the Facility to mean L Catterton (and/or funds managed and advised by it) not owning or ceasing to own beneficially directly or indirectly more than 30% (both on an actual and fully diluted basis) after the Global Offering of the aggregate voting power as well as equity interests of our Company, or any person or persons acting in concert (other than L Catterton) (and/or funds managed and advised by it) holding, owning or acquiring voting power or equity interests in our Company that is equal to or greater than that of L Catterton (and/or funds managed and advised by it)), all outstanding amounts under the Facility shall become immediately due and repayable. As of December 31, 2018, all of the amount had been drawn down under the Facility. Such borrowing is scheduled to mature in September 20, 2022 and currently bears an interest rate of the London Interbank Offered Rate plus 3.25% per month. Proceeds from the borrowing have been used for the enhancement of capital structure. Prior to the date of this prospectus, US\$22.6 million of such borrowing has been repaid. We expect to repay part of such loan using the net proceeds from the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds” for details.

Except for the US\$226.0 million bank loans which are denominated in USD, all borrowings are in RMB. Since December 31, 2018 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities. Currently, we do not have any external financing plans. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners’ equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

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MAJOR FINANCIAL RATIOS

The following table sets forth a summary of our major financial ratios as of the dates or for the years indicated.

Financial Ratios	Formulae	As of/for the year ended December 31,		
		2016	2017	2018
Profitability ratios:				
1. Return on equity	Profit for the year/Average total equity x 100%	50.9%	N/A ⁽¹⁾	N/A ⁽¹⁾
2. Return on total assets	Profit for the year/Average total assets x 100%	18.0%	15.6%	12.2%
Liquidity ratios:				
1. Current ratio	Current assets/Current liabilities	1.5	1.4	1.5
2. Quick ratio	(Current assets — Inventories)/Current liabilities	0.9	0.9	1.0
Capital adequacy ratios:				
1. Gearing ratio	(Total interest-bearing bank and other borrowings — cash and cash equivalents)/Total equity x 100%	Net Cash	N/A ⁽¹⁾	856.5%
2. Interest coverage	Profit before interest and tax/Net finance cost	4,067.0x	21.4x	6.4x

Note:

(1) The above ratios were not meaningful since we had net deficiency in assets as of December 31, 2017, primarily because we distributed dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017. We have later regained positive equity position as of December 31, 2018.

Return on equity ratio. The return on equity ratio was 50.9% in 2016.

Return on total assets ratio. The return on total assets ratio decreased from 18.0% in 2016 to 15.6% in 2017, primarily due to an increase in total assets resulting from the increase in inventories, trade and notes receivables, and cash and cash equivalents. The return on total assets ratio decreased from 15.6% in 2017 to 12.2% in 2018, primarily due to an increase in total assets resulting from the increase in trade and notes receivables.

Current ratio. The current ratio remained relatively stable at 1.5 as of December 31, 2016 and 2018, and 1.4 as of December 31, 2017.

Quick ratio. The quick ratio remained relatively stable at 0.9 as of December 31, 2016 and 2017 and 1.0 as of December 31, 2018.

Gearing ratio. We recorded net cash balance as of December 31, 2016. The gearing ratio was 856.5% as of December 31, 2018.

Interest coverage. The interest coverage ratio decreased from 4,067.0x in 2016 to 21.4x in 2017, and further to 6.4x in 2018, primarily as a result of an increase in offshore finance expenses primarily due to our new borrowings in 2017.

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CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal financial instruments comprise interest-bearing bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for our operations. We have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from our operations. The main risks arising from our financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk, which are summarized below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our interest-bearing bank and other borrowings with floating interest rates. Our policy is to manage interest cost using a mix of fixed and floating rate debts and also derivative financial instruments like interest rate options. See Note 26 to the Accountant's Report in Appendix I.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which we conduct business may affect our financial condition and results of operations. We seek to limit our exposure to foreign currency risk by minimizing our net foreign currency position and by using derivative financial instruments like foreign exchange options. See Note 26 to the Accountant's Report in Appendix I.

Credit risk

We trade mainly with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of senior management.

The credit risk of our other financial assets, which comprise cash and cash equivalents, other receivables and amounts due from directors and related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within us as the customer bases of our trade receivables are widely dispersed in different regions.

Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings to meet our working capital requirements.

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RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of us are also considered as related parties. Of our due to related parties, Mr. Yu, our executive director and chief executive officer, has provided us with loans through Joy Asia International Limited, an entity controlled by him, in the amount of US\$3.0 million as of December 31, 2017. We repaid the loan in January 2019. See Note 36(c)(iii) to the Accountant's Report in Appendix I. For a detailed discussion of related party transactions, also see Note 36 to the Accountant's Report in Appendix I.

DIVIDENDS

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our total profit for the year attributable to the Group for any particular year. Assuming the Listing occurs, 2019 will be the first year for which our total profit for the year attributable to the Group will be used for purposes of declaring and paying dividends as set forth in the foregoing sentence.

The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon our Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions our Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends. In addition, our Directors may reassess our dividend policy in the future.

We may distribute dividends by way of cash or by other means that we consider appropriate. We are a holding company incorporated in the Cayman Islands. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in the PRC. In particular, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in the PRC. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, each of our PRC subsidiaries is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if we or any of our subsidiaries incur debt on our or its own behalf in the future, the instruments governing the debt may restrict our or their ability to pay dividends or make other payments to our Shareholders or to us.

We did not declare dividends in 2016. We declared and settled dividends to a Shareholder, Glory Cayman, of RMB1,611.6 million in 2017. As of December 31, 2018, we had no dividend payables.

DISTRIBUTABLE RESERVES

Our reserves available for distributions to Shareholders mainly include capital reserves and retained profits of the Company. As of December 31, 2016, 2017 and 2018, the aggregated amount of capital reserves and retained profits of our Company were RMB2,740.1 million, RMB2,761.9 million and RMB3,465.5 million, respectively. See Note 30 to the Accountant's Report in Appendix I for details.

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RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD

For the two months ended February 28, 2019, our unaudited revenue decreased by approximately 11% to RMB571.4 million and our gross profit decreased by approximately 15% to RMB290.5 million, compared to the corresponding period in 2018. We believe the possible major reasons include (i) the earlier occurrence of the Chinese New Year in 2019 on February 5 compared to February 16 in 2018, as we typically record lower sales figures after the Chinese New Year, (ii) more rainy days in east China during the two months ended February 28, 2019 with 30 average raining days in Hangzhou, Hefei, Nanjing, Ningbo and Shanghai of east China compared to 19 average raining days during the same period in 2018, which we believe may have negative impact on our offline sales in this region, one of our major regional markets, and (iii) improved supply chain management with optimized product replenishment, shipment coordination and inventory control, which allowed us to achieve shorter supply chain lead time. Such improvement benefited by our enhancement of flexible supply chain capabilities in the second half of 2018 gives us the flexibility to postpone the delivery of some of our summer collection products to our distributors from February to March when the level of demand for the products are clearer, causing our revenue for such sales to be recognized in March rather than in February. The drop in our revenue during the two months ended February 28, 2019 was mainly caused by the decrease in our offline sales due to the above three reasons. In addition, our profit for the period dropped significantly, which we believe was primarily due to the above three reasons, and fair value loss on derivative financial instruments from the depreciation of U.S. dollars against RMB during the two months ended February 28, 2019.

The financial information for the two months ended February 28, 2019 as mentioned above is extracted from our interim financial information for the two months ended February 28, 2019, which has been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. However, the financial information for the two months ended February 28, 2018 is mainly based on our management accounts and has not been audited or reviewed by our reporting accountants.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2018, and there is no event since December 31, 2018 which would materially affect the information shown in Accountant's Report in Appendix I.

LISTING EXPENSE INCURRED AND TO BE INCURRED

During the Track Record Period, we incurred listing expenses of RMB32.9 million (HK\$38.4 million), of which RMB25.3 million (HK\$29.5 million) was recognized as administrative expenses in our consolidated statement of profit or loss for the Track Record Period, and RMB7.6 million (HK\$8.9 million) was capitalized as current assets in our consolidated statements of financial position as of December 31, 2018 and recognized as a prepayment. We expect to incur additional listing expenses of approximately RMB38.3 million (HK\$44.6 million) after December 31, 2018 (assuming that the Global Offering is conducted at the mid-point of the Offer Price range), of which RMB13.6 million (HK\$15.8 million) is expected to be recognized as administrative expenses in 2019 and RMB24.7 million (HK\$28.8 million) is expected to be recognized as a deduction in equity directly. Our Directors do not expect such expenses to have a material adverse impact on our financial results in 2019.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to equity shareholders of the Company as of December 31, 2018 as if the Global Offering had taken place on that date.

FINANCIAL INFORMATION

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets attributable to equity shareholders of the Company had the Global Offering been completed as of December 31, 2018 or at any future dates. It is prepared based on the consolidated net assets of the Group as of December 31, 2018 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

	Consolidated net tangible assets attributable to owners of the parent as of December 31, 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent as of December 31, 2018	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as of December 31, 2018	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as of December 31, 2018
	RMB'000	RMB'000	RMB'000	RMB	(HK\$ equivalent)
Based on an Offer Price of HK\$4.22 per Share, after a Downward Offer Price Adjustment of 10%	89,253	659,602	748,855	0.79	0.92
Based on an Offer Price of HK\$4.68 per Share	89,253	735,800	825,053	0.87	1.01
Based on an Offer Price of HK\$5.88 per Share	89,253	934,576	1,023,829	1.08	1.26

Notes:

1. The consolidated net tangible assets attributable to owners of the parent as of December 31, 2018 is arrived at after deducting other intangible assets of RMB10,339,000 from consolidated equity attributable to owners of the parent of RMB99,592,000 as of December 31, 2018, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on estimated offer prices of HK\$4.68 or HK\$5.88 per Share and also based on an Offer Price of HK\$4.22 per Share after making a Downward Offer Price Adjustment of 10%, after deduction of the underwriting fees and commissions, incentive fees and estimated expenses payable by us and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 950,000,000 Shares are in issue assuming that the Global Offering has been completed on December 31, 2018.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.1650.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed in this prospectus, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), Great World Glory will be entitled to exercise voting rights of approximately 38.32% of the issued share capital of our Company. Great World Glory is a private limited company incorporated in Singapore that is majority owned by L Capital Asia 2, a private equity fund managed by L Catterton, an investment manager licensed by the Financial Services Commission of Mauritius and advised by L Catterton Singapore Pte. Ltd., an investment adviser licensed by the Monetary Authority of Singapore. Accordingly, Great World Glory and L Capital Asia 2 are our Controlling Shareholders.

The core business of our Group focuses on design, promotion and sale of fashion menswear brands and sportswear in the PRC. Apart from its interest in the business of the Group as described in this prospectus, neither Great World Glory nor L Capital Asia 2 have any interest, directly or indirectly, in any business the principal business of which competes or is likely to compete, directly or indirectly, with our core business. Certain funds advised by L Catterton or its affiliates have investments in various other companies. However, each of these other businesses is separately operated and does not compete, directly or indirectly, with our core business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and their respective associates after the Global Offering.

Management Independence

The Board comprises one executive Director, five non-executive Directors and three independent non-executive Directors. Our management and operational decisions are made by our executive Director and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. Please see the section “Directors and Senior Management” for further details.

Three of our non-executive Directors, Mr. Huang Hanji, Mr. Ong Yew Thiong, Gilbert and Mr. Ravinder Singh Thakran, are employees of L Catterton. Each of Mr. Huang Hanji, Mr. Ong Yew Thiong, Gilbert and Mr. Ravinder Singh Thakran also holds other non-executive positions on the boards of directors of other portfolio companies of L Capital Asia 2.

Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest and shall not be counted in the quorum present at the particular Board meeting.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

L Capital Asia 2 controls a broad portfolio of businesses which operate in a wide range of different consumer categories. L Capital Asia 2 does not actively carry on any business activities other than making investments. The Group has its own independent access to resources required for its operations. We have full rights to carry out our day to day business operations independently. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group has our own internal control, accounting and financial management system, independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs. Our Group makes no reliance on the same or similar functions that may exist at our Controlling Shareholders.

In addition, we have independent access to third party financing and our Group does not rely on our Controlling Shareholders and/or their associates for financial assistance. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Based on the above, our Directors believe that we have the ability to operate independently of our Controlling Shareholders and their respective associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective associates.

NON-COMPETITION UNDERTAKING

Apart from our business, our non-executive Director, Mr. Yang, also has interests in certain companies with womenswear business (the “**Other Business**”), which do not form part of our Group. In view of the fact that revenue contributed from our womenswear business for the year ended December 31, 2016, 2017 and 2018 only accounted for nil, less than 0.2% and less than 0.4% of our total revenue, we do not consider womenswear business forms part of our core business.

To safeguard our Group from any potential competition, Mr. Yang (the “**Covenantor**”) has entered into a deed of non-competition (the “**Deed of Non-Competition**”) in favor of our Group on May 9, 2019 pursuant to which the Covenantor has unconditionally and irrevocably undertaken with our Group that he will not (except through our Group and any investment or interests held through our Group), and will procure that his close associates (other than any member of our Group) not to, directly or indirectly (including through nominees), either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, invest in, participate in, engage in and/or operate or be interested in (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which competes or is likely to compete, directly or indirectly, with the existing businesses of any member of our Group as described in this prospectus, namely fashion menswear brands and sportswear in the PRC (the “**Restricted Business**”) during the Restricted Period (as defined below). The non-competition undertaking does not apply where the Covenantor or his close associates (except for any members of our Group) do not individually and in aggregate hold or control, directly or indirectly, the voting rights in respect of 10% or more of the issued share capital in any company that is engaged in the Restricted Business and are not able to control the board of such company. The restricted period stated in the Deed of Non-Competition refers to the period commencing from the Listing Date and ending on the earlier of the date that (1) the Shares being canceled or ceased to be listed on the Stock Exchange; or (2) the Covenantor is no longer our Director (the “**Restricted Period**”).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Option for New Business Opportunities

The Covenantor has undertaken that, during the Restricted Period, if the Covenantor or his close associates (except for any members of our Group) become aware of, notice, are recommended or provided with any new business opportunities which will directly or indirectly compete or is likely to compete with the Restricted Business, including but not limited to the opportunities which are the same with or similar to the Restricted Business (the “**New Business Opportunities**”), the Covenantor shall and shall procure his close associates (except for any members of our Group) to refer or recommend the New Business Opportunities to our Group subject to relevant laws, requirements or contractual arrangements with third parties:

- (a) the Covenantor or his close associates (except for any members of our Group) shall as soon as reasonably practicable, and procure his/its close associates (except for members of our Group) as soon as reasonably practicable, once became aware of the New Opportunities, provide us with a written notification which includes all reasonable and necessary information known by the Covenantor or his close associates (except for any members of our Group) (including the nature of the New Business Opportunities and necessary information relating to the cost of relevant investment or acquisition) for us to consider whether the New Business Opportunities would constitute competition or potential competition to the Restricted Business and whether engaging in such New Business Opportunities would be in the best interests of our Group and our Shareholders as a whole (the “**Offer Notice**”); and
- (b) we shall as soon as possible and in any case within thirty (30) days upon receipt of the Offer Notice respond to the Covenantor or his close associates (except for any members of our Group). If we determine to take up the New Business Opportunities, the Covenantor or his close associates (except for any members of our Group) would be obligated to offer such New Business Opportunities to us.

Further Undertaking

The Covenantor has further undertaken that:

- (a) upon our request, he will, and will procure his close associates (except for any members of our Group) to provide us with all necessary information for the implementation of the undertakings contained in the Deed of Non-Competition;
- (b) he will allow our authorized representatives or our auditors to have reasonable access to the financial and corporate information necessary to assess its transactions with third parties, which would assist with our judgments in respect of whether the Covenantor or his close associates (except for any members of our Group) have complied with the undertakings contained in the Deed of Non-Competition; and
- (c) he will ensure that within ten (10) days of receipt of our written request, necessary written confirmation will be made as to the performance by the Covenantor or his close associates (except for any members of our Group) under the undertakings contained in the Deed of Non-Competition and the Covenantor or his close associates (except for any members of our Group) shall allow such confirmation to be included into our annual reports.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into a number of continuing agreements and arrangements with our connected persons (as defined under Chapter 14A of the Listing Rules) in our ordinary and usual course of business. Upon the listing of the Shares on the Stock Exchange, the transactions disclosed under this section will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

The following persons will be our connected persons upon Listing:

- Mr. Yang, a non-executive Director of our Company, hence our connected person;
- Ningbo Chisage Wenmo E-Commerce Co., Ltd., a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Ningbo Chisage Wenmo Branding Management Co., Ltd., a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Ningbo Songhe Apparel Co., Ltd., a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Chisage Holding Group Co., Ltd., a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Ningbo Hehe Import and Export Co., Ltd, a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Ningbo Chisage Apparel Co., Ltd. (“**Ningbo Chisage Apparel**”), a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- Huaian Chisage Industrial Co., Ltd. (“**Huaian Chisage Industrial**”), a limited company incorporated in the PRC, with Mr. Yang controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Yang and our connected person;
- L Capital Asia 2, our substantial Shareholder, hence our connected person;
- 2XU Pty Ltd., a limited company incorporated in Australia, with L Capital Asia 2 indirectly controlling the exercise of 30% or more of the voting power at the general meetings, hence an associate (as defined under Chapter 14A of the Listing Rules) of L Capital Asia 2 and our connected person;
- 2XU HK Limited, a limited company incorporated in Hong Kong and wholly-owned by 2XU Pty Ltd., hence an associate (as defined under Chapter 14A of the Listing Rules) of L Capital Asia 2 and our connected person; and
- TwoXu Sports, a limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of our Company, with 2XU HK Limited (our connected person as explained above) directly controlling the exercise of 30% or more of the voting power at the general meetings, hence a connected subsidiary (as defined under Chapter 14A of the Listing Rules) of the Company.

CONNECTED TRANSACTIONS

FULLY EXEMPTED CONTINUING CONNECTED TRANSACTION

We set out below details of the continuing connected transactions which are exempt from the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(a) Premises leased to Ningbo Chisage Wenmo E-Commerce Co., Ltd. and Ningbo Chisage Wenmo Branding Management Co., Ltd.

We, as landlord, entered into two leases with Ningbo Chisage Wenmo E-Commerce Co., Ltd. and Ningbo Chisage Wenmo Branding Management Co., Ltd., respectively as tenants, under which we agreed to lease certain premises in Ningbo to Ningbo Chisage Wenmo E-Commerce Co., Ltd. and Ningbo Chisage Wenmo Branding Management Co., Ltd., respectively, as warehouses and offices. The terms of each of the leases is for a period of two years, commencing from January 1, 2018 and ending on December 31, 2019. These transactions are conducted on normal commercial terms or better and the leases are entered into in the ordinary and usual course of business of our Group.

Since each of the relevant percentage ratios (other than the profit ratio) under the Listing Rules in respect of the rent payable under the above-mentioned two leases is expected to be less than 0.1%, the transactions under the leases constitute de minimis transactions which will be exempted from the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Rule 14A.76(1).

(b) Framework trading agreement with Ningbo Hehe Import and Export Co., Ltd.

We entered into a framework trading agreement with Ningbo Hehe Import and Export Co., Ltd., pursuant to which Ningbo Hehe Import and Export Co., Ltd. agreed to provide to us export trading services in relation to sales of our stores located outside of mainland China, currently in Macau. Ningbo Hehe Import and Export Co., Ltd. primarily focuses on apparel import and export related business. The term of the framework trading agreement is not more than three years commencing from January 1, 2018 and ending on December 31, 2020. We opened two stores in Macau in second half of 2017 and the shipping of products to these two stores requires certain export custom administrative procedures. Given the sales volumes at these stores are relatively low at early stage, we do not have a dedicated team for such export procedures and engaged Ningbo Hehe Import and Export Co., Ltd to arrange all necessary export custom administrative procedures. These transactions are conducted on normal commercial terms or better and the framework agreement is entered into in the ordinary and usual course of business of our Group.

Since each of the relevant percentage ratios (other than the profit ratio) under the Listing Rules in respect of the total annual payable under this framework agreement is expected to be less than 0.1%, the transactions under this framework agreement constitute de minimis transactions which will be exempted from the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Rule 14A.76(1).

(c) Ancillary services under the 2XU Agreement

We entered into the 2XU Agreement with 2XU on May 5, 2017. Please see the section headed "Our History and Development – Agreement with 2XU" for details. Pursuant to the 2XU Agreement, we agreed to provide certain ancillary services to TwoXu Sports, the company we invested with 2XU, such as warehouse and software sharing. The services were provided as part of the arrangement of the 2XU Agreement and we do not charge additional fees for such services.

Since each of the relevant percentage ratios (other than the profit ratio) under the Listing Rules in respect of such ancillary services is expected to be less than 0.1%, the ancillary services provided under the 2XU Agreement constitute de minimis transactions which will be exempted from the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Rule 14A.76(1).

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(a) Premises leased from Ningbo Songhe Apparel Co., Ltd. and Chisage Holding Group Co., Ltd.

We, as tenants, entered into various leases with Ningbo Songhe Apparel Co., Ltd. and Chisage Holding Group Co., Ltd.. Pursuant to such leases, Ningbo Songhe Apparel Co., Ltd. and Chisage Holding Group Co., Ltd., respectively as landlords, agreed to lease to us certain premises in Ningbo for office, warehouse and other ancillary purposes. The term of each of the leases is for a period of three years, commencing from January 1, 2018 and ending on December 31, 2020. Other major terms of the leases are listed below:

<u>Landlord</u>	<u>Tenant</u>	<u>Size</u>	<u>Uses</u>	<u>Payment Schedule</u>	<u>Rent per annum</u>
		sq.m.			RMB
(i) Ningbo Songhe Apparel Co., Ltd. . .	Ningbo Chisage Mulsanne E-commerce Co., Ltd.	6,671.64	office, warehouse and other ancillary purposes	semiannually in advance	1,200,895
(ii) Ningbo Songhe Apparel Co., Ltd. . .	Ningbo Chisage Mulsanne Holding Co., Ltd.	27,044.82	office, warehouse and other ancillary purposes	semiannually in advance	4,868,068
(iii) Chisage Holding Group Co., Ltd. . . .	Ningbo Chisage Mulsanne Holding Co., Ltd.	62,818.96	warehouse	semiannually in advance	8,711,277

For each of the three years ended December 31, 2016, 2017 and 2018, the total annual rent expenses for leasing the above premises (including the lease with Ningbo Chisage Mulsanne Holding Co., Ltd as listed in (iii) above, being a new transaction started on January 1, 2018) amounted to RMB4,935,017, RMB5,771,393 and RMB11,407,098, respectively. In 2018, the landlords have granted us a six month rent-free period for each of the above three leases. The rental expense for 2018 to 2020 is amortized over the whole three-year rental period under the above leases including the six-month rent-free period in 2018. Before such amortization, the total annual rent payment for the above leases for the year ended December 31, 2018 was RMB7,390,121. The proposed annual caps for leasing arrangement under the above leases (including the lease with Ningbo Chisage Mulsanne Holding Co., Ltd as listed in (iii) above) for each of the two years ending December 31, 2019 and 2020, taking into account the amortization described above, will be RMB11,407,098 and RMB11,407,098, respectively. The annual caps for the leases reflect the terms of the leases agreed and the amortization of the leases over the relevant three-year period. In determining the pricing terms of the leases, our Directors have considered the historical rental amounts with reference to a three-year rental period, as well as the valuation report issued by Ningbo Zheng Ping Assets Evaluation Co., Ltd., an independent property valuer, who confirmed that the rent payable under the above leases reflects the prevailing market rates. Our Directors confirm that the annual rent payable is determined on normal commercial terms and with reference to market price.

CONNECTED TRANSACTIONS

(b) Manufacturing agreement with 2XU Pty Ltd.

Principal terms: We entered into a manufacturing agreement with 2XU Pty Ltd., pursuant to which we are authorized to design, manufacture and exclusively distribute, as approved by 2XU Pty Ltd., certain products under 2XU brand name, in the PRC, excluding Hong Kong, Macau and Taiwan.

The term of the manufacturing agreement is from May 5, 2017 to December 31, 2024, subject to any renewal upon the fulfillment of certain conditions.

We will pay 2XU Pty Ltd., on a quarterly basis, a royalty fee calculated based on our revenue generated from such sales.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for the continuing connected transactions must not exceed three years, except in the cases where the nature of the transaction requires the agreement to be of a duration longer than three years. We are of the view that the agreement was entered into on normal commercial terms and that entering into such agreement with a duration of over three years is in line with normal business practice. Our Directors consider that the longer term of the agreement is beneficial to us because (a) the agreement enables us to have the flexibility to adopt designs that particularly meet PRC customers' preferences, (b) the agreement also grants us the exclusive right to distribute such products in the PRC, and (c) it is valuable to us to secure such flexibility and exclusive rights for a longer period of time. Our Directors also confirm that the terms are determined on normal commercial terms and with reference to market practice. The Joint Sponsors, after consultation with CIC and based on the information provided by the Company, have no reason to believe that the Directors' view that it is in line with the normal business practice for this kind of manufacturing agreement to have such a duration is unreasonable.

Pricing policy: Pursuant to the manufacturing agreement, the royalty fee are determined as certain percentages of the actual revenue generated from sales of such products. Our Directors are of the view that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

Reasons for the transaction: Leveraging our extensive experience in menswear industry, we are able to capture the latest trend and maintain the flexibility to design and exclusively distribute products that suit consumers in the PRC.

CONNECTED TRANSACTIONS

Historical figures: The royalty fees incurred under the manufacturing agreement amounted to RMB270,143 for the year ended December 31, 2018.

Annual Caps: The maximum aggregate annual royalty fee to be paid by us for the years ending December 31, 2019 and 2020 respectively shall not exceed the caps set out below:

	Proposed Annual Cap for the Year ending December 31,	
	2019	2020
	(RMB'000)	
Total royalty fees	3,000.8	6,099.4

Basis of Caps: In determining the above annual caps, our Directors have considered the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities and the amount of sales projections for apparel products under this agreement of approximately 200%-400% growth from 2019 to 2020 as agreed with 2XU. The 200%-400% growth of sales projections is determined with reference to the expansion plan of 2XU offline retail stores, the sales split between apparel and compression wear portfolio products, as well as the projected revenue increase in online channels due to the annual growth in number of customers and average selling prices.

(c) Distribution agreement with 2XU Pty Ltd. and 2XU HK Limited

Principal terms: We entered into a distribution agreement with 2XU Pty Ltd. and 2XU HK Limited, pursuant to which we are the exclusive distributor of 2XU products in the PRC, excluding Hong Kong, Macau and Taiwan.

The term of the distribution agreement is from May 5, 2017 to December 31, 2024, subject to any renewal upon the fulfillment of certain conditions.

In 2017, 50% of the procurement fee was paid upon placing the order and the remaining 50% was paid upon shipping. From January 1, 2018 onwards, 20% of the procurement fee shall be paid upon placing order and the remaining 80% shall be paid upon shipping.

CONNECTED TRANSACTIONS

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for the continuing connected transactions must not exceed three years, except in the cases where the nature of the transaction requires the agreement to be of a duration longer than three years. We are of the view that the agreement was entered into on normal commercial terms and that entering into such agreement with a duration of over three years is in line with normal business practice. Our Directors consider that the longer term of the agreement is beneficial to us because (a) the agreement grants us exclusive rights as a distributor and it is valuable to us to secure exclusive rights for a longer period of time, (b) the time required to develop the brand and its products in a new market (i.e. the PRC) for us to derive longer term commercial benefits from the arrangement, and (c) we have invested substantial resources in marketing and developing the 2XU brand in the PRC and thus shortening the distribution period would be detrimental to us. Our Directors also confirm that the terms are determined on normal commercial terms and with reference to market practice. The Joint Sponsors, after consultation with CIC and based on the information provided by the Company, have no reason to believe that the Directors' view that it is in line with normal business practice for this kind of distribution agreement to have such a duration is unreasonable.

Pricing policy: Pursuant to the distribution agreement, the purchase prices are determined as a certain percentage of the recommended retail price. The recommended retail price typically refer to the recommended retail prices in the U.S., or by mutual consent between 2XU Pty Ltd. and TwoXu Sports. 2XU Pty Ltd. and TwoXu Sports have the joint right to determine the recommended retail price of a particular product in good faith if there is no relevant U.S. recommended retail price available. Our Directors are of the view that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

Reasons for the transaction: It is part of our Group's strategy to increase our product portfolio and capture the market trend in performance sportswear industry.

Historical figures: The historical figures of the total purchase amount are set out below:

Year ended December 31,		
2016	2017	2018
—	3,937	10,538
	(RMB'000)	

CONNECTED TRANSACTIONS

Annual Caps: The maximum aggregate annual purchase amount payable by us for the years ending December 31, 2019 and 2020 respectively shall not exceed the caps set out below:

	Proposed Annual Cap for the Year ending December 31,	
	2019	2020
	(RMB'000)	
Total procurement amount	15,210.1	33,553.9

Basis of Caps: In determining the above annual caps, our Directors have considered the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities, the amount of purchase projections as agreed with 2XU, the recommended retail price in the U.S., as well as the potential increase in procurement volume of compression wear products of approximately 100%-200% growth from 2019 to 2020. The 100%-200% growth of procurement volume projections is determined with reference to the expansion plan of 2XU offline retail stores, the sales split between apparel and compression wear portfolio products, as well as the projected revenue increase in online channels due to the annual growth in number of customers and average selling prices.

(d) Loan services framework agreement with TwoXu Sports

Principal terms: We entered into a loan services framework agreement with TwoXu Sports, pursuant to which we agreed to provide loan services as permitted by PRC laws and regulations for TwoXu Sports to fund certain of TwoXu Sports' general working capital.

The term of the loan services framework agreement is from December 21, 2018 to December 20, 2021, subject to renewal through mutual consent by parties.

Pricing policy: Under the loan services framework agreement, the interests rate is determined with reference to the interest rates for loans of similar types offered for the same period by commercial banks offered to us and our subsidiaries. Our Directors are of the view that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

CONNECTED TRANSACTIONS

Reasons for the transaction: TwoXu Sports is an indirect non-wholly owned subsidiary of our Group.

Historical figures: The historical figures of the principal and interests of the loans provided to TwoXu Sports are set out below:

Year ended December 31,		
2016	2017	2018
(RMB'000)		
—	—	17,000

Annual Caps: The maximum annual balance of the principal and interests of the loans provided to TwoXu Sports for the years ending December 31, 2019, 2020 and 2021 respectively shall not exceed the caps set out below:

Proposed Annual Cap for the Year ending		
December 31, 2019	December 31, 2020	December 20, 2021
(RMB'000)		

Total balance of the principal and interests of the loans	40,000	40,000	40,000
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Basis of Caps: In determining the above annual caps, our Directors have considered the historical figures, the potential increase in financial and operational needs of TwoXu Sports based on potential business expansion plans and the benchmark lending rate published by the PBOC from time to time. Our Directors believe that the additional loans of RMB23,000,000 in the year of 2019 will be sufficient for TwoXu Sports to support its future financial and operational needs. As such, no additional loans will be provided in the years of 2020 and 2021.

(e) Framework apparel manufacturing agreement with Ningbo Chisage Apparel

Principal terms: We entered into framework apparel manufacturing agreement with Ningbo Chisage Apparel, pursuant to which Ningbo Chisage Apparel agreed to manufacture apparel products, in particular tops products, for us.

The term of the apparel manufacturing agreements are from July 1, 2018 to December 31, 2020.

CONNECTED TRANSACTIONS

Pricing policy: Under the apparel manufacturing agreement, the manufacturing prices are determined with reference to the cost of material and production cost negotiated between us and our suppliers (including independent third party suppliers and Ningbo Chisage Apparel). Prior to each order, we generally obtain quotes from a minimum of three suppliers (including at least two independent third party suppliers) selected from our approved suppliers list. When reviewing quotes, we also consider various other factors, including but not limited to historical relationships with potential suppliers, quality, time required for delivery, production capacity as required by relevant orders. Under such circumstances, we will select the supplier who can meet our requirements provided the quote is not more than 5% higher than the lowest price quoted. In addition, the purchase amount from suppliers with higher price quotes shall not be more than 20% of our total annual purchase amount from all suppliers of similar type of products. Our Directors are of the view that the transactions will be conducted on normal commercial or better terms and not prejudicial to the interest of the Company's minority Shareholders.

Reasons for the transaction: Ningbo Chisage Apparel has extensive experience in apparel manufacturing business and has been our supplier for over 10 years. We have established a long term and reliable business relationship.

Historical figures: The historical figures of the annual supply amount by Ningbo Chisage Apparel are set out below:

	Year ended December 31,		
	2016	2017	2018
	(RMB'000)		
Total procurement amount	40,416	70,993	83,053

Annual Caps: The maximum aggregate annual supply amount by Ningbo Chisage Apparel for the years ending December 31, 2019 and 2020 respectively shall not exceed the caps set out below:

	Proposed Annual Cap for the Year ending December 31,	
	2019	2020
	(RMB'000)	
Total procurement amount	103,000	117,000

CONNECTED TRANSACTIONS

Basis of Caps: In determining the above annual caps, our Directors have considered the forecast on production capacity available to us (with not more than 20% estimated growth from 2017 to 2018 and not more than 15% estimated growth each year from 2018 to 2020 due to limitation on production capacity) and the flexibility of supply chains of Ningbo Chisage Apparel, the historical figures and the potential increase in procurement volume due to our business expansion plan as well as potential increase in labor costs.

(f) Framework apparel manufacturing agreement with Huaian Chisage Industrial

Principal terms: We entered into framework apparel manufacturing agreement with Huaian Chisage Industrial, pursuant to which Huaian Chisage Industrial agreed to manufacture apparel products, in particular trousers products, for us.

The term of the apparel manufacturing agreements are from July 1, 2018 to December 31, 2020.

Pricing policy: Under the apparel manufacturing agreements, the manufacturing prices are determined with reference to the cost of material and production cost negotiated between us and the suppliers (including independent third party suppliers and Huaian Chisage Industrial). Prior to each order, we generally obtain quotes from a minimum of three suppliers (including at least two independent third party suppliers) selected from our approved suppliers list. When reviewing quotes, we also consider various other factors, including but not limited to historical relationships with potential suppliers, quality, time required for delivery, production capacity as required by relevant orders. Under such circumstances, we will select the supplier who can meet our requirements provided the quote is not more than 5% higher than the lowest price quoted. In addition, the purchase amount from suppliers with higher price quotes shall not be more than 20% of our total annual purchase amount from all suppliers of similar type of products. Our Directors are of the view that the transactions will be conducted on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

Reasons for the transaction: Huaian Chisage Industrial is specialized in manufacturing trousers and has been a long term and reliable supplier of the Group.

Historical figures: The historical figures of the annual supply amount by Huaian Chisage Industrial are set out below:

	Year ended December 31,		
	2016	2017	2018
	(RMB'000)		
Total procurement amount	25,813	24,365	22,553

CONNECTED TRANSACTIONS

Annual Caps: The maximum aggregate annual supply amount by Huaian Chisage Industrial for the years ending December 31, 2019 and 2020 respectively shall not exceed the caps set out below:

	Proposed Annual Cap for the Year ending December 31,	
	2019	2020
	(RMB'000)	
Total procurement amount	31,000	35,000

Basis of Caps: In determining the above annual caps, our Directors have considered the forecast on production capacity available to us (with not more than 15% estimated growth each year from 2018 to 2020 due to limitation on production capacity) and the availability on the supply of product types of Huaian Chisage Industrial, the historical figures and the potential increase in procurement volume due to our business expansion plan as well as potential increase in labor costs.

For transactions described under (e) and (f) above, since Ningbo Chisage Apparel and Huaian Chisage Industrial are both associates of Mr. Yang, our connected person, and our transactions with these two entities under (e) and (f) above are of similar nature, the transactions within each category will be aggregated and treated as if they were one transaction pursuant to Rules 14A.82(1) and 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of transactions with each of these entities under categories (e) and (f) above are aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14 of the Listing Rules. The transactions under categories (e) and (f) where at least one of the relevant “percentage ratios” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors currently expect, be, on an annual basis, more than 5%. The transactions will be subject to the annual reporting, annual review, announcement, circular (including independent financial advice) and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

THE DIRECTORS’ VIEWS

In the view of the Directors (including the independent non-executive Directors), it is in the interests of our Group to continue with all the connected transactions described in this section after the Listing, and that all these transactions are conducted on normal commercial terms or better, are entered into in the ordinary and usual course of business of our Group, the terms are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. In addition, the proposed annual caps for the non-exempt continuing connected transactions described above are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant documents and information provided by our Group. Based on the data and information provided by the Company and the valuation report issued by Ningbo Zheng Ping Assets Evaluation Co., Ltd., having made reasonable inquiries and after due and careful consideration, the Joint Sponsors are of the view that as of the date of this prospectus, the non-exempt continuing connected transactions described above, and for which waivers have been sought, are entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that the respective proposed annual caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

CONNECTED TRANSACTIONS

APPLICATION FOR WAIVER

In respect of the transactions described in categories (a) to (d) in “– Non-Exempt Continuing Connected Transactions” above, as the Directors currently expect, all relevant “percentage ratios” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be, on an annual basis, less than 5%. The transactions will be exempt from the circular (including independent financial advice) and independent Shareholders’ approval requirements but subject to the annual reporting and announcement requirements as set out in Rules 14A.49 and 14A.35 of the Listing Rules and the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Listing Rules.

As the term of the transactions described in categories (b) and (c) in “– Non-Exempt Continuing Connected Transactions” above exceeds three years, when the annual caps of such transactions expire, the Board will set new annual caps and will comply with all applicable requirements under Chapter 14A of the Listing Rules or apply for a new waiver.

In respect of the transactions described in categories (e) and (f) in “– Non-Exempt Continuing Connected Transactions” above, as the Directors currently expect, at least one of the relevant “percentage ratios” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules, will, on an annual basis and as aggregated, be more than 5%, therefore the transactions are subject to the reporting, annual review, announcement, independent shareholders’ approval and circular requirements under Chapter 14A of the Listing Rules.

As described above, we expect these non-exempt continuing connected transactions to be carried out on a continuing basis and to extend over a period of time. Our Directors therefore consider that strict compliance with the announcement, circular and independent Shareholders’ approval requirements under the Listing Rules would be impractical and unduly burdensome and would impose unnecessary administrative costs upon us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement relating to the continuing connected transactions under Rule 14A.35 of the Listing Rules in respect of the transactions described in categories (a) to (d) in “– Non-Exempt Continuing Connected Transactions”, and a waiver from strict compliance with the announcement, circular and independent Shareholders’ approval requirements relating to the continuing connected transactions under Rules 14A.35, 14A.36, 14A.46, and 14A.53(3) of the Listing Rules in respect of the transactions described in categories (e) and (f) in “– Non-Exempt Continuing Connected Transactions”.

We will, however, comply at all times with the applicable provisions under Rules 14A.34, 14A.49, 14A.51, 14A.59, and 14A.71 of the Listing Rules in respect of these non-exempt continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and immediately following the completion of the Capitalization Issue and the Global Offering:

Authorized share capital

	<u>Shares</u>	<u>Nominal Value</u>	<u>Total nominal value</u>
As of the Latest Practicable Date	10,000,000,000	HK\$0.01	HK\$100,000,000

The following is a description of the issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Capitalization Issue and the Global Offering:

Issued share capital

<u>Shares</u>	<u>Description of Shares</u>	<u>Nominal value</u>	<u>Total nominal value</u>
200,000	Shares in issue as of the date of this prospectus	HK\$0.01	HK\$2,000
749,800,000	Shares to be issued pursuant to the Capitalization Issue	HK\$0.01	HK\$7,498,000
200,000,000	Shares to be issued pursuant to the Global Offering	HK\$0.01	HK\$2,000,000
<u>950,000,000</u>	Total		<u>HK\$9,500,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see the sub-section headed “Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see the sub-section headed “Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Companies Law” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Subject to the conditions stated in “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandate, please see the section headed “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on April 26, 2019” in Appendix IV to this prospectus.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

As part of the Global Offering, we and the Joint Global Coordinators have entered into separate cornerstone investment agreements with Wanda Investment (Hong Kong) Limited (“**Wanda**”) and Sasseur Cayman Holding Limited (“**Sasseur**”) (collectively “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to subscribe for Offer Shares at the Offer Price (the “**Cornerstone Placing**”).

OUR CORNERSTONE INVESTORS

Cornerstone Investor	Investment Amount	Indicative Offer Price	Number of Shares to be subscribed for	Approximate percentages of the International Offer Shares (assuming Over-allotment Option is not exercised)	Approximate percentages of the International Offer Shares (assuming Over-allotment Option is exercised)	Approximate percentages of the Offer Shares (assuming Over-allotment Option is not exercised)	Approximate percentages of the Offer Shares (assuming Over-allotment Option is exercised)	Approximate percentages of the total issued share capital of the Company immediately after Global Offering (assuming Over-allotment Option is not exercised)	Approximate percentages of the total issued share capital of the Company immediately after Global Offering (assuming Over-allotment Option is exercised)
Wanda	US\$20.0 million (equivalent to HK\$156.9 million) ¹	Low-end after a Downward Offer Price Adjustment: HK\$4.22	37,180,000 Shares	20.66%	17.70%	18.59%	16.17%	3.91%	3.91%
		Low-end: HK\$4.68	33,525,500 Shares	18.63%	15.96%	16.76%	14.58%	3.53%	3.53%
		Mid-point: HK\$5.28	29,715,500 Shares	16.51%	14.15%	14.86%	12.92%	3.13%	3.13%
		High-end: HK\$5.88	26,683,500 Shares	14.82%	12.71%	13.34%	11.60%	2.81%	2.81%
Sasseur	HK\$40.0 million	Low-end after a Downward Offer Price Adjustment: HK\$4.22	9,478,500 Shares	5.27%	4.51%	4.74%	4.12%	1.00%	1.00%
		Low-end: HK\$4.68	8,547,000 Shares	4.75%	4.07%	4.27%	3.72%	0.90%	0.90%
		Mid-point: HK\$5.28	7,575,500 Shares	4.21%	3.61%	3.79%	3.29%	0.80%	0.80%
		High-end: HK\$5.88	6,802,500 Shares	3.78%	3.24%	3.40%	2.96%	0.72%	0.72%

Note 1: Calculated based on the exchange rate of US\$1.00: HK\$7.8450.

1. Wanda Investment (Hong Kong) Limited

Wanda was incorporated in Hong Kong in 2014. It is indirectly wholly-owned by Dalian Wanda Group Co., Ltd. (“**Wanda Group**”). Wanda Group is incorporated in the PRC, and its principle business include commercial real estate investment and management, hotel construction investment and management, movie theater and cultural industry investment and management, investment and asset management and project management.

Wanda has agreed to subscribe for, at the Offer Price, such number of Offer Shares (rounded down to the nearest whole board lot of 500 Shares) that may be purchased for an aggregate amount of US\$20.0 million (approximately HK\$156.9 million, assuming an exchange rate of US\$1.00 = HK\$7.8450).

CORNERSTONE INVESTORS

Assuming an Offer Price of HK\$4.22 (being the low-end of the indicative Offer Price range after a Downward Offer Price Adjustment of 10% stated in this prospectus), the total number of Offer Shares to be subscribed for by Wanda would be 37,180,000, representing approximately 3.91% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$4.68 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Wanda would be 33,525,500, representing approximately 3.53% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$5.28 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Wanda would be 29,715,500, representing approximately 3.13% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$5.88 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Wanda would be 26,683,500, representing approximately 2.81% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

2. Sasseur Cayman Holding Limited

Sasseur was incorporated in the Cayman Islands in 2011. It is one of the leading premium outlet groups in the PRC, with about 30 years of experience in the development and operation of retail outlet malls in the PRC. According to its official website, it currently manages and operates ten premium outlet malls in nine municipalities or provincial capital cities in the PRC. It established Sasseur Real Estate Investment Trust (“**Sasseur REIT**”), which invests in a portfolio of long-term income producing real estate used primarily for outlet retail purposes. Sasseur REIT, listed on the main board of the Singapore Exchange Limited (stock code: CRPU) on March 28, 2018, is the first listed outlet mall real estate investment trust in Asia.

Sasseur has agreed to subscribe for, at the Offer Price, such number of Offer Shares (rounded down to the nearest whole board lot of 500 Shares) that may be purchased for an aggregate amount of HK\$40.0 million.

Assuming an Offer Price of HK\$4.22 (being the low-end of the indicative Offer Price range after a Downward Offer Price Adjustment of 10% stated in this prospectus), the total number of Offer Shares to be subscribed for by Sasseur would be 9,478,500, representing approximately 1.00% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$4.68 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Sasseur would be 8,547,000, representing approximately 0.90% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$5.28 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Sasseur would be 7,575,500, representing approximately 0.80% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$5.88 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Sasseur would be 6,802,500, representing approximately 0.72% of the total issued share capital of the Company immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

To the best of our knowledge, the Cornerstone Investors are independent third parties and are not our connected persons or close associates. The Cornerstone Investors will subscribe for the Offer Shares pursuant to, and as part of, the Global Offering. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering, other than pursuant to the respective cornerstone investment agreements.

CORNERSTONE INVESTORS

The Offer Shares to be acquired by the Cornerstone Investors will rank pari passu with the fully paid Shares then in issue and to be listed on the Stock Exchange and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any representation on the Board or become our substantial shareholders. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

The Offer Shares to be acquired by the Cornerstone Investors will not be subject to re-allocation of Shares between the Global Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be issued by the Company on or around May 24, 2019.

CONDITIONS PRECEDENT

The obligations of each of the Cornerstone Investors to subscribe for the Offer Shares under the respective cornerstone investment agreements are subject to, among other things, the following conditions precedent:

- (a) the Underwriting Agreements having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the respective Underwriting Agreements or as subsequently waived or varied by agreement of the parties thereto;
- (b) none of the Underwriting Agreements having been terminated;
- (c) the Offer Price having been agreed by the Joint Global Coordinators (on behalf of the Underwriters) and the Company in connection with the Global Offering;
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Main Board of the Stock Exchange;
- (e) the respective representations, warranties, undertakings, confirmations and acknowledgements of the Cornerstone Investors under the cornerstone investment agreement being accurate, true and not misleading and there being no breach of the cornerstone investment agreement on the part of the Cornerstone Investors; and
- (f) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or under the cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of, or agree or contract to dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares acquired under the respective cornerstone investment agreements or any legal or beneficial interest therein or any interest in any company or entity holding such Shares or any voting right or any other right attaching thereto or any shares or other securities deriving from such Shares other than transfers to any of its wholly-owned subsidiaries.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons will have an interest or a short position in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ⁽¹⁾	
		Number of Shares ⁽²⁾	Percentage
Great World Glory ⁽³⁾	Beneficial owner	364,087,500	38.32%
L Capital Asia 2 ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Capital Asia 2 Sing LP ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Capital Asia 2 LP ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Capital Asia 2 Sing GP Pte Ltd ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Capital Asia 2 GP ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Catterton Asia Advisors ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Catterton Asia Holdings Limited ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Catterton Management Limited ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
Catterton Holdings, LLC ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Catterton, L.P. ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
L Catterton GP, LLC ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
Mr. J. Michael Chu and Mr. Scott A. Dahnke ⁽³⁾	Interest in controlled corporation	364,087,500	38.32%
Crescent Glory ⁽⁴⁾	Beneficial owner	134,662,500	14.18%
Crescent Capital Investments Ltd. ⁽⁴⁾	Interest in controlled corporation	134,662,500	14.18%
Crescent GP Ltd. ⁽⁴⁾	Interest in controlled corporation	134,662,500	14.18%
Mr. David McKee Hand ⁽⁴⁾	Interest in controlled corporation	134,662,500	14.18%
GXG Trading	Beneficial owner	213,750,000	22.50%
Madison International	Interest in controlled corporation	213,750,000	22.50%
Mr. Yang ⁽⁵⁾	Interest in controlled corporation	213,750,000	22.50%
Mr. Yu ⁽⁵⁾	Interest in controlled corporation	213,750,000	22.50%

Notes:

- (1) The calculation is based on the total number of 950,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised).
- (2) All interests stated are long positions.
- (3) Each of L Capital Asia 2 (as the controlling shareholder of Great World Glory), L Capital Asia 2 Sing LP and L Capital Asia 2 LP (as the limited partners of L Capital Asia 2), L Capital Asia 2 Sing GP Pte Ltd and L Capital Asia 2 GP (as the general partners of L Capital Asia 2 Sing LP and L Capital Asia 2 LP, respectively), L Catterton Asia Advisors (as the sole shareholder of L Capital Asia 2 Sing GP Pte Ltd and L Capital Asia 2 GP), L Catterton Asia Holdings Limited (as the sole shareholder of L Catterton Asia Advisors), L Catterton Management Limited (as the sole shareholder of L Catterton Asia Holdings Limited), Catterton Holdings, LLC (as the controlling shareholder of L Catterton Management Limited), L Catterton, L.P. (as the sole shareholder of Catterton Holdings, LLC), L Catterton GP, LLC (as the general partner of L Catterton, L.P.) and J. Michael Chu and Scott A. Dahnke (as managing members of L Catterton GP, LLC) is deemed to be interested in the Shares. Mr. J. Michael Chu and Scott A. Dahnke disclaim beneficial ownership of the Shares.
- (4) Each of Crescent Capital Investments Ltd. (as the sole voting shareholder of Crescent Glory), Crescent GP Ltd. (as the controlling shareholder of Crescent Capital Investments Ltd.) and Mr. David McKee Hand (as the controlling shareholder of Crescent GP Ltd.) are deemed to be interested in the Shares. Mr. David McKee Hand disclaims beneficial ownership of the Shares.
- (5) Each of Mr. Yang (our non-executive Director) and Mr. Yu (our executive Director) is entitled to exercise or control the exercise of one-third of the voting power at general meetings of Madison International (which holds the entire equity interest in GXG Trading), and is therefore deemed to be interested in the Shares in which GXG Trading is interested.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above and in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests” in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

GENERAL

The following table sets out certain information in respect of our Directors and senior management:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
<i>Directors</i>						
HUANG Hanji (黃晗躋)	47	Chairman and Non-executive Director	October 2016	September 2016	Coordinating board affairs and providing strategic advice on the business development and management of our Group	N/A
YU Yong (余勇)	41	Executive Director and Chief Executive Officer	August 2018	March 2007	Formulating the development strategies and annual and investment plans, reviewing the financial budgeting and general policies and overseeing the capital operation of our Group	N/A
YANG Herong (楊和榮)	55	Non-executive Director	August 2018	November 2007	Providing strategic advice on the business development, operations and management of our Group	N/A
LIN Lin (林林)	46	Non-executive Director	August 2018	September 2016	Providing strategic advice on the business development and management of our Group	N/A
ONG Yew Thiong, Gilbert	46	Non-executive Director	August 2018	November 2017	Providing strategic advice on the business development and management of our Group	N/A
Ravinder Singh THAKRAN	55	Non-executive Director	August 2018	September 2016	Providing strategic advice on the business development and management of our Group	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
GU Jiong (顧炯)	46	Independent non-executive Director	April 2019	April 2019	Providing independent judgment and advice to our Board	N/A
YUAN Tao (袁濤)	49	Independent non-executive Director	April 2019	April 2019	Providing independent judgment and advice to our Board	N/A
Paolo BODO	77	Independent non-executive Director	April 2019	April 2019	Providing independent judgment and advice to our Board	N/A

Name	Age	Position	Date of appointment as senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
Senior Management						
DING Dade (丁大德)	43	Chief Financial Officer and vice president of finance	August 2010	September 2010	Making major operational and management decisions, providing financial advice on our Group's operations, management, business development and project investment, and advising on risk management	N/A
TU Guangjun (屠光君)	41	Chief Operating Officer and vice president of operations	June 2011	September 2007	Formulating and implementing the overall marketing and sales strategies, and making decisions on marketing and sales	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
WU Lei (吳磊) . . .	31	Vice president of retail and general manager of e-commerce	April 2012	July 2010	Overseeing the e-commerce projects, formulating e-commerce strategies and business model, managing the operation and maintenance and development of e-commerce platforms of our Group	N/A

DIRECTORS

The Board currently consists of nine Directors, comprising one executive Director, five non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Mr. HUANG Hanji (黃哈躋), aged 47, is a non-executive Director and chairman of our Group. He is principally responsible for coordinating board affairs and providing strategic advice on the business development and management of our Group. Mr. Huang is concurrently a director of each of Joy Sonic, Alpha Sonic and Chisage Mulsanne. From September 2000 to July 2005, he served as an associate director at Intel Capital, Hong Kong and South Korea, a company managing corporate venture capital and global investment. From August 2005 to June 2007, he served as a vice president at Affinity Equity Partners, Singapore, an independently-owned buyout fund manager. From June 2007 to April 2010, he served as an executive director at D. E. Shaw & Co., Hong Kong, a global investment and technology development firm. Since June 2010, he has been the managing director of L Catterton and has been responsible for overseeing its operations in the Greater China Region.

Mr. Huang graduated from Ningbo University, the PRC, with a bachelor's degree in business and economics in July 1994. In August 1996, he obtained a master's degree in business administration from University of San Francisco, the United States.

Mr. YU Yong (余勇), aged 41, is an executive Director and the Chief Executive Officer of our Group. He is principally responsible for formulating the development strategies and annual and investment plans, reviewing the financial budgeting and general policies and overseeing the capital operation of our Group. Mr. Yu concurrently holds various positions at our subsidiaries, including general manager at Chisage Mulsanne, Chisage Mulsanne E-commerce and Yatlas Shanghai, director and general manager at Mulsanne E-commerce, executive director at Mulsanne Maisi, chairman of TwoXu Sports, executive director and general manager at Shanghai Yuexing, and executive director and manager at Ningbo Yuexing. He has over 17 years of business operation experience in the apparel manufacturing industry. From January 2001 to April 2002, Mr. Yu worked as a general manager at the Changchun branch of Ningbo Beyond Holding Group Co., Ltd. (寧波博洋控股集團有限公司), an apparel manufacturing company, where he managed the daily

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operations. He also served as the sales director at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877), from May 2002 to February 2007, during which he was responsible for overseeing the sales of apparel products. Since March 2007, Mr. Yu has been the Chief Executive Officer of our Group.

Mr. Yu graduated from Chongqing University (重慶大學), the PRC, with a college's degree in marketing in July 2014 through an online course. He also obtained an Executive Master of Business Administration (EMBA) degree from Overseas Education College of Shanghai Jiao Tong University (上海交通大學), the PRC, in May 2012.

Mr. YANG Herong (楊和榮), aged 55, is a non-executive Director of our Group. He is primarily responsible for providing strategic advice on the business development, operations and management of our Group. Mr. Yang is concurrently the chairman of the board of Chisage Mulsanne, Chisage Mulsanne E-commerce and Mulsanne E-commerce, director of Joy Sonic and an executive director of Yatlas Shanghai. Prior to founding our Group in March 2007, Mr. Yang worked at China Construction Bank Corporation (中國建設銀行股份有限公司), where he was president of the Yinzhou branch from October 1997 to December 2001. During the period between December 2001 to April 2005, he served as the chairman of the board at Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司). Mr. Yang became the chairman of the board of Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司) from May 2005 to October 2007. Since November 2007, he has been the chairman of Zhejiang Chisage Holding Group Co., Ltd. (浙江中哲控股集團有限公司) (currently known as Chisage Holding Group Co., Ltd. (中哲控股集團有限公司)).

Mr. Yang graduated from Huainan Mining Institute (淮南礦業學院) (now merged into Anhui University of Science & Technology (安徽理工大學)), the PRC, with a bachelor of engineering degree in December 1982. He also received a Master of Business Administration degree from Nanyang Technological University (南洋理工大學), Singapore, in May 2010. Since March 2017, he has been a deputy to National People's Congress of Ningbo City (寧波市人民代表大會).

Mr. LIN Lin (林林), aged 46, is a non-executive Director of our Group and is responsible for providing strategic advice on the business development and management of our Group. He is concurrently a director of each of Joy Sonic, Chisage Mulsanne and TwoXu Sports. Mr. Lin possesses over 18 years of experience in finance and investment. From July 2000 to March 2004, he served at Morgan Stanley group of companies as an associate in the investment banking division in Hong Kong. Mr. Lin later worked at Credit Suisse (Hong Kong) Limited Shanghai Representative office, where his last capacity was director in China Investment Banking Division, from July 2005 to July 2008. Since July 2008, he has also been serving as the executive partner of a private equity firm Crescent HydePark Advisors (Shanghai) Co., Ltd. (海益得凱欣投資諮詢(上海)有限公司), the investment advisor for Crescent Point.

Mr. Lin graduated from Illinois State University, the United States, with a bachelor of science degree in December 1995. He also received from The University of Chicago in the United States a master of business administration degree in December 1999. Since August 1995, Mr. Lin has been a certified public accountant in the United States. He was also certified as a chartered financial analyst (CFA) of the Association for Investment Management and Research (currently known as CFA Institute) in September 2001.

Mr. ONG Yew Thiong, Gilbert, aged 46, is a non-executive Director of our Group and is primarily responsible for providing strategic advice on the business development and management of our Group. He is concurrently a director of Chisage Mulsanne. Mr. Ong has over 20 years of experience in finance and investment management. From June 1997 to June 2002, he worked at an audit firm PricewaterhouseCoopers, where his last position was an assistant manager. Mr. Ong then became the head of finance of Arisaig Partners (Asia) Pte Ltd, an investment management firm, from July 2002 to December 2008. During the period between December 2008 and March 2010, he served at Sindicatum Carbon & Energy Management (Singapore) Limited, a company engaged in activities ancillary to financial services activities, as vice president of finance. Since March 2010, Mr. Ong has been the chief financial officer of L Catterton (which provides investment advice and management services).

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Mr. Ong received a degree of bachelor of accountancy from Nanyang Technological University (南洋理工大學), Singapore, in July 1997. In September 2000, he was admitted as a member of Institute of Singapore Chartered Accountants.

Mr. Ravinder Singh THAKRAN, aged 55, is a non-executive Director of our Group and is responsible for providing strategic advice on the business development and management of our Group. He is concurrently a director of Chisage Mulsanne. Mr. Thakran spent 18 years with LVMH Moët Hennessy Louis Vuitton SE (the world leading luxury products group), where he has been appointed as the Group President of LVMH, South & South East Asia, Australia & Middle East since August 2008. Mr. Thakran founded L Catterton in March 2009. Since May 2018, Mr. Thakran has been an additional director of Future Lifestyle Fashion Limited (a fashion company listed in The National Stock Exchange of India Limited, stock symbol: FLFL); and since August 2018, Mr. Thakran has been a director of Secoo Holding Limited (a company which operates online and offline shopping platform in the PRC and listed on NASDAQ, stock symbol: SECO).

Mr. Thakran graduated from the Harvana Agricultural University, India, with a bachelor of veterinary science and animal husbandry degree in December 1984. He also obtained his Master of Business Administration (MBA) degree from the Indian Institute of Management, Ahmedabad in April 1988.

Independent Non-executive Directors

Mr. GU Jiong (顧炯), aged 46, joined our Group in April 2019 when he was appointed as an independent non-executive Director. Mr. Gu is mainly responsible for providing independent judgment and advice to our Board. From July 1995 to April 2004, he had worked for Ernst & Young's Shanghai Office and was the senior manager of audit department when he left. Mr. Gu subsequently joined UTStarcom Holdings Corp. (formerly known as UTStarcom, Inc.), a global telecom infrastructure provider of packet optical transport and broadband access products to network operators which is listed on NASDAQ (ticker symbol: UTSI), from April 2004 to December 2009, and he was a financial controller when he left the company. During the period between January 2010 to August 2013, he served as the chief financial officer at BesTV New Media Co., Ltd. (百視通新媒體股份有限公司), which principally provides technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through media source platforms and listed on Shanghai Stock Exchange (stock code: 600637). Since September 2013, Mr. Gu has been the chief financial officer of CMC Capital Partners (華人文化產業投資基金) (an investment fund specializing in media and entertainment inside and outside the PRC); and since October 2015, he has been the chief financial officer of CMC Holdings Limited (華人文化有限責任公司) (an investment platform focusing on media and entertainment investments). Since March 2017, he has been appointed as the independent non-executive director of Amlogic (Shanghai) Co., Ltd. (晶晨半導體(上海)有限公司) (a company which involves in wholesale distribution of electronic parts and electronic communications equipment).

Mr. Gu was a non-executive director and an alternative director of Shaw Brothers Holdings Limited (邵氏兄弟控股有限公司) (a company engaging in investment of films, dramas and artiste and event management and listed on the Stock Exchange, stock code: 953) from January 2016 to October 2016 and from October 2016 to December 2018, respectively. Since June 2015, he has been an independent non-executive director of Chen Xing Development Holdings Limited (辰興發展控股有限公司) (a real estate development company listed on the Stock Exchange, stock code: 2286) and Xinming China Holdings Limited (新明中國控股有限公司) (a PRC property developer listed on the Stock Exchange, stock code: 2699). Since April 2018, Mr. Gu has been an independent non-executive director of Ascletris Pharma Inc. (歌禮製藥有限公司) (a biotechnology company listed on the Stock Exchange, stock code: 1672). Since September 2018, he has been appointed as an independent non-executive director of DaFa Properties Group Limited (a real estate developer listed on the Stock Exchange, stock code: 6111).

Mr. Gu received a bachelor's degree in financial management from Fudan University (復旦大學), the PRC, in July 1995. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants since April 2004.

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Mr. YUAN Tao (袁濤), aged 49, joined our Group in April 2019 when he was appointed as an independent non-executive Director. He is principally responsible for providing independent judgment and advice to our Board. Mr. Yuan is known as a pioneer and leader in the Chinese music and entertainment industries, with over 21 years of extensive experience in building brand images and public relations.

Prior to joining us, Mr. Yuan worked at Rock Records (China) Company (滾石唱片(中國)公司) as head of planning department from 1996 to 2003, during which he was responsible for marketing and promotion plan of music records for Taiwanese singers in the PRC. From November 2004 to January 2016, he became the general manager of Huayi Brothers Music Co., Ltd. (華誼兄弟音樂公司), a top-tier Chinese records company, where he was responsible for making major decisions and business operations. Throughout the years, he has launched successful promotion campaigns for various famous music artists and groups in the PRC. In December 2016, Mr. Yuan established Xinxi Cultural Development Co., Ltd. (杭州心喜文化發展有限公司), where he served as the chief executive officer and was in charge of formulating and establishing pan entertainment business model and operating system.

Mr. Paolo BODO, aged 77, joined our Group in April 2019 when he was appointed as an independent non-executive Director. He is primarily responsible for providing independent judgment and advice to our Board. Mr. Bodo has extensive experience in apparel and fashion industry. Prior to joining us, he served at Sixty Far East Limited, an apparel and accessories manufacturers, as the chief executive officer and was responsible for business development in different countries from 2002 to 2011. In October 2014, Mr. Bodo founded an apparel retail company Nipi Italia Srl and has been its chairman since then. Mr. Bodo has also been a director of Fashion Box S.P.A. (which manufactures and distributes casual wear, accessories and footwear) since May 2017.

Mr. Bodo completed a diploma in science from Liceo Scientifico A. Avogadro, Italy, in June 2008.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Director listed above, is as follows:

Mr. DING Dade (丁大德), aged 43, is the Chief Financial Officer and vice president of finance of our Group and joint company secretary of our Company. He is primarily responsible for making major operational and management decisions, providing financial advice on our Group's operations, management, business development and project investment, and advising on risk management. Mr. Ding has been a director of Chisage Mulsanne E-commerce since September 2010 and Mulsanne E-commerce since August 2014. Prior to joining our Group, Mr. Ding served as a financial manager at Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司), a company engaged in exports and imports of apparel, from July 2002 to June 2010. During the period between September 2010 and August 2016, he worked as a financial manager at Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司). Mr. Ding was appointed as the Chief Financial Officer and vice president of finance of Chisage Mulsanne in September 2016.

Mr. Ding graduated from Zhejiang College of Finance and Economics (浙江財經學院) (currently known as Zhejiang University of Finance and Economics (浙江財經大學)), the PRC, with a diploma in accountancy in July 1996.

Ms. TU Guangjun (屠光君), aged 41, is the Chief Operating Officer and vice president of operations of our Group. She is primarily responsible for formulating and implementing the overall marketing and sales strategies, and making decisions on marketing and sales of our Group. Ms. Tu is concurrently a director of TwoXu Sports. Ms. Tu has over 17 years of working experience in the apparel manufacturing industry. Before joining us in July 2007, she served as sales manager at Ningbo Shanshan Ruixiang Sweater Co., Ltd (寧波杉杉瑞祥毛衫有限公司), a company manufacturing and selling apparel products, from June 2000 to December 2002. From May 2003 to

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August 2006, Ms. Tu worked as manager of marketing department at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877). She then joined Ningbo Hehe Jessica Clothing Co., Ltd. (寧波合和杰斯卡服飾有限公司), the predecessor of Chisage Mulsanne, as marketing manager at in September 2007 and marketing director in June 2011, and was subsequently promoted as the Chief Operating Officer and vice president of operations at Chisage Mulsanne in September 2016.

Mr. WU Lei (吳磊), aged 31, is the vice president of retail and general manager of e-commerce of our Group. He is primarily responsible for overseeing the e-commerce projects, formulating e-commerce strategies and business model and managing the operation, maintenance and development of e-commerce platforms of our Group. Mr. Wu is concurrently an executive director and manager of Muxin-buer E-commerce. When Mr. Wu joined Ningbo Hehe Jessica E-commerce Co., Ltd. (寧波合和杰斯卡電子商務有限公司), the predecessor of Chisage Mulsanne E-commerce, in July 2010, he served as a senior operation officer and became the operation director in April 2012; he was later promoted as vice president of retail and general manager of e-commerce of Chisage Mulsanne in August 2014.

Mr. Wu obtained a bachelor's degree in advertisement from Zhejiang Wanli University (浙江萬里學院), the PRC, in June 2010.

Save as disclosed above, none of our Directors or senior management members holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. Please refer to the section headed "Statutory and General Information" in Appendix IV to this prospectus for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed herein, there are no other matters in respect of each of our directors or senior management members that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matters relating to our directors or senior management members that need to be brought to the attention of our shareholders.

JOINT COMPANY SECRETARIES

Mr. DING Dade (丁大德), aged 43, is the Chief Financial Officer and vice president of finance of our Group and was appointed as our joint company secretary in April 2019. Please refer to his biography under the paragraph headed "— Senior Management" above.

Ms. NG Sau Mei (伍秀薇), aged 41, was appointed as our joint company secretary in April 2019. Ms. Ng is an associate director of the listing services department of TMF Hong Kong Limited, a company engaged in the business of providing corporate services. Ms. Ng has over 18 years of professional experience in the company secretarial field. Ms. Ng holds a Bachelor Degree in Laws from City University of Hong Kong in November 2001 and a Master Degree in Laws from University of London in the United Kingdom in December 2017. She is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom since September 2007. Ms. Ng currently serves as the joint company secretary for various companies listed on the Stock Exchange, including China Reinsurance (Group) Corporation (stock code: 1508), FIT Hon Teng Limited (stock code: 6088) and JNBY Design Limited (stock code: 3306).

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

The Company established an audit committee in compliance with Rules 3.21 to 3.23 of the Listing Rules with written terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review, supervise and approve our financial reporting process and internal control system and to provide advice and comments to our Board.

Members of the audit committee are Mr. GU Jiong, Mr. YUAN Tao and Mr. Paolo BODO. Mr. GU Jiong is the chairman of the audit committee.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The remuneration committee reviews and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by our remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

Members of the remuneration committee are Mr. GU Jiong, Mr. YUAN Tao, Mr. Paolo BODO, Mr. Yang Herong and Mr. LIN Lin. Mr. GU Jiong is the chairman of the remuneration committee.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary responsibilities of the nomination committee are to consider and recommend to our Board suitable and qualified candidates of Directors, and to review the structure, size and composition of our Board and the board diversity policy adopted by our Company on a regular basis.

Members of the nomination committee are Mr. HUANG Hanji, Mr. GU Jiong and Mr. YUAN Tao. Mr. HUANG Hanji is the chairman of the nomination committee.

BOARD DIVERSITY

To enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve board diversity by taking into consideration of various factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, fashion, retail marketing, finance, investment, auditing and accounting. They obtained academic degrees in various majors, including business and economics, marketing, engineering, veterinary science and animal husbandry and accounting. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the members of our Board. Furthermore, our Board has a wide range of age, ranging from 41 years old to 77 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to the Board and the management levels. While we recognize that the gender diversity at the Board can be improved given its current composition of all male Directors, we will continue to apply the principle of appointments based on merits with reference to our board diversity policy.

DIRECTORS AND SENIOR MANAGEMENT

Our Nomination Committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the Corporate Governance Code contained in Appendix 14 of the Listing Rules. Our Nomination Committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

We are also committed to adopting similar approach to promote diversity, including but not limited to gender diversity, at all other levels of our Company from the Board downwards to enhance the effectiveness of our corporate governance as a whole.

WAIVERS GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waivers from Strict Compliance with the Listing Rules – Management Presence in Hong Kong” in this prospectus.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration our Directors have received (including salaries, bonuses, allowances, benefits in kind and pension scheme contributions) for the years ended December 31, 2016, 2017 and 2018 was RMB5.1 million, RMB5.1 million and RMB5.1 million, respectively.

The aggregate amount of salaries, bonuses, allowances, benefits in kind and pension scheme contributions paid to our five highest paid individuals of our Company, including Directors, during each of the years ended December 31, 2016, 2017 and 2018, was RMB8.7 million, RMB8.6 million and RMB8.8 million, respectively.

Under the arrangement currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2019 is estimated to be approximately RMB5.7 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2016, 2017 and 2018. Further, none of our Directors had waived any remuneration during the same years.

Save as disclosed above, no other payments have been made or are payable in respect of each of the years ended December 31, 2016, 2017 and 2018 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISERS

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisers (the “**Compliance Advisers**”) upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisers will provide advice to us when consulted by us in the following circumstances:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and this appointment may be subject to extension by mutual agreement.

RESTRICTED SHARE UNIT SCHEME

In order to recognize our employees for their service and contribution to our Group, and to motivate and retain skilled and experienced personnel, we have adopted the RSU Scheme. A summary of the principal terms of the RSU Scheme is set out in the section headed “Statutory and General Information — D. Share Incentive Scheme” in Appendix IV.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$5.28 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$973.0 million, after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by us in connection with the Global Offering.

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is at HK\$5.28 per Offer Share (being the mid-point of the indicative Offer Price Range).

- Approximately 45%, or HK\$437.9 million, will be used to repay our existing indebtedness and reduce our financial expenses. We will immediately use the net proceeds of the Global Offering to repay part of our bank borrowing under a banking facility of up to US\$226.0 million, which are scheduled to mature in September 20, 2022 and currently bears an interest rate of the London Interbank Offered Rate plus 3.25% per month. See “Financial Information – Indebtedness” for details.
- Approximately 15%, or HK\$146.0 million, will be used to expand our brand and product portfolio by pursuing brand acquisitions or strategic alliances. We plan to, among others, selectively pursue brand acquisitions of or develop strategic alliances with companies in mid-to high-end fashion womenswear, mid-end fashion kidswear for children aged from two to 15, and mid-end fashion sportswear, to complement our existing channels, positioning and price. We will target brands with considerable market share and business scale in China and overseas, or overseas brands which still have many growth potential in China. Under our new retail strategy, we will use our big data analytics capabilities relating to customers and goods to seek the brands that can integrate fully with our existing brand and product portfolio and match our brand positioning and target customer group. As of the Latest Practicable Date, we had not identified or committed to any acquisition targets for our use of net proceeds from the Global Offering. Currently, we are actively looking for suitable targets and plan to use such net proceeds in one to three years. See “Business — Business Strategies — Further implement our multi-brand strategy and seek potential cooperation opportunities” for details.
- Approximately 10%, or HK\$97.3 million, will be used to upgrade our offline retail stores to smart stores. We plan to renovate existing offline retail stores, including installing face recognition, behavior judgment, statistics facilities and full-scale RFID applications. We upgraded 121 offline retail stores to smart stores in 2018 and plan to finish the upgrade of approximately 500 offline retail stores to smart stores in each of 2019, 2020 and 2021, respectively. We also expect to conduct back office system consolidation by 2019. Currently, we expect to spend approximately RMB0.2 million to RMB0.3 million per store for renovation and smart equipment upgrade for flagship stores, and RMB30,000 per store for other stores. These big data initiatives can help us identify the popularity of different products in the market, support our customer portrait recognition, and connect our offline retail stores to our online platform. In addition, with more detailed customer profiles available, our sales personnel can understand our customers better and provide high-quality services to them. See “Business — Business Strategies — Steadily expand our offline retail network and structure as well as optimize our online and offline channel mix and integration” for details.

FUTURE PLANS AND USE OF PROCEEDS

- Approximately 20%, or HK\$194.6 million, will be used to purchase land and establish our self-owned advanced smart logistics center, which is expected to cover a gross floor area of approximately 200,000 to 250,000 sq.m. Since we plan to implement new retail initiatives in various aspects, including smart equipment upgrade and intelligent logistics management, we believe it is more beneficial and sustainable for us to build our own smart logistics center compared to continuing to rent warehouses. It is difficult to upgrade our current two rented warehouses. To install the new equipment, we will need to make changes to the building structure. However, one of the landlords does not allow changes to the building structure and the lease term of the other warehouse is not long enough and cannot be extended so that material changes to the building structure are very difficult to be approved by the landlord. With our new self-owned smart logistics center, we can ensure enough gross floor area for the upgrade and installation of our equipment. We can also be prevented from incurring expensive removal cost when the leases are expired or terminated and avoid the possibility of interruptions to our operations. Furthermore, we will be able to control our logistics cost and increase operational efficiency with one high-capacity self-owned logistics center. We expect to use the net proceeds from the Global Offering to purchase the land by 2019, install the full-scale RFID applications by 2019 and finish the construction of such logistics center by 2021. We will seek a convenient location near Ningbo which is close to highways and other logistics suppliers' base with suitable infrastructure. In order to meet the logistics needs of our new retail platform, the capacity of the new logistics center is expected to be up to 20.0 million units for storage with a total annual throughput capacity to sort and distribute of 80.0 million units. Through RFID and intelligent management, we can further enhance the sorting, distributing and storing capacity of our new logistics center. Moreover, such smart logistics center can enhance our sorting and distributing speed significantly. Benefited from our intelligent management and economies of scale, we expect to lower our staff and shipping expenses and reduce our fixed logistic costs as well as increase our operational efficiency. With the combination of the logistics information feedback, we can further achieve visualization of all our logistics orders. Our smart logistics center will be linked to our offline smart stores to track the sales and after-sales of each item and further enrich our operating database. See “Business — Business Strategies — Strengthen our supply chain management and enhance warehousing and logistics infrastructure” and “Financial Information — Capital Expenditures” for details.
- Approximately 10%, or HK\$97.3 million, will be immediately used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is at a higher or lower level compared to the mid-point of the estimated offer price range.

If the Offer Price is at HK\$5.88 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive net proceeds of approximately HK\$1,088.8 million, after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by us in connection with the Global Offering.

If the Offer Price is at HK\$4.68 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds we receive will be approximately HK\$857.2 million, after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by us in connection with the Global Offering.

To the extent our net proceeds are either more or less than expected, we will adjust the allocation of the proceeds for the above purposes on a pro rata basis.

If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$4.22 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced by an additional amount of approximately HK\$768.5 million. To the extent our net proceeds are further reduced, we will adjust our allocation of the net proceeds for the above purposes accordingly on a pro rata basis, and we will consider internal resources or external financing for the relevant purposes in the case of decrease of net proceeds.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

We estimate that the net proceeds to be received by the Over-allotment Grantors from the sale of the Shares to be sold pursuant to the Over-allotment Option (after deduction of underwriting fees and commissions, incentive fees and estimated expenses payable by the Over-allotment Grantors in relation to the Global Offering, and assuming an Offer Price of HK\$5.28 per Offer Share, being the mid-point of the Offer Price range in this prospectus and the Over-allotment Option is fully exercised) are approximately HK\$152.9 million.

We will not receive any of the proceeds from the Shares to be sold pursuant to the Over-allotment Option.

UNDERWRITING

HONG KONG UNDERWRITERS

Credit Suisse (Hong Kong) Limited
Citigroup Global Markets Asia Limited
CMB International Capital Limited
Haitong International Securities Company Limited
China Industrial Securities International Capital Limited

UNDERWRITING AGREEMENT AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 20,000,000 Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee granting the listing of and permission to deal in the Shares; (ii) the International Underwriting Agreement having been signed and becoming unconditional; and (iii) certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for their respective proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

Grounds for Termination

The Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, shall be entitled by notice (in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional or international event or circumstance in the nature of force majeure (including any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting the Cayman Islands, the British Virgin Islands, Hong Kong, China, the United States, the United Kingdom or the European Union (collectively, the “**Relevant Jurisdictions**”); or
 - (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdictions; or
 - (iii) any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, or the London Stock Exchange; or

UNDERWRITING

- (iv) any general moratorium on commercial banking activities in the Cayman Islands, Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), China, New York (imposed at Federal or New York State level or other competent authority), London, or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (v) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, under any sanction laws or regulations in Hong Kong, China or any other Relevant Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxes or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (ix) a Director named in this prospectus being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management or taking directorship of a company; or
- (x) the chief executive officer or the chief financial officer of our Company vacating his office; or
- (xi) an authority in any Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xii) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xiii) a prohibition by an authority on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any Shares that may be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents issued or used in connection with the contemplated offer and sale of Shares) pursuant to the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC unless such supplement or amendment has been issued with the prior written approval of the Joint Sponsors and the Joint Global Coordinators; or
- (xvi) an order or petition for the winding-up of any member of our Group, or any composition or arrangement made by any member of our Group with our creditors, or a scheme of arrangement entered into by any member of our Group, or any resolution for the winding-up of any member of our Group, or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group, or anything analogous thereto occurring in respect of any member of our Group,

UNDERWRITING

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators, (1) has or will have or may have a Material Adverse Change on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group taken as a whole; or (2) has or will have or may have a Material Adverse Change on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (collectively, the “**Public Offer Related Documents**”) (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Offer Related Documents (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Public Offer Related Documents (including any supplement or amendment thereto); or
 - (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iv) any Material Adverse Change; or
 - (v) any breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the representations, warranties, agreements and undertakings of our Company, Great World Glory and GXG Trading set out in the Hong Kong Underwriting Agreement; or
 - (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) our Company withdraws any of this prospectus or Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
 - (viii) any person (other than each of the Joint Sponsors) has withdrawn or is subject to withdrawing its consent to being named in this prospectus or to the issue of any of this prospectus and the Application Forms.

UNDERWRITING

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertaking by Us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within such period), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertaking by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange that except pursuant to the Global Offering and the Over-allotment Option, it shall not and shall procure that the relevant registered holder(s) shall not:

- in the period commencing from the Latest Practicable Date and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he or it is shown by this prospectus to be the beneficial owner; or
- in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be the Controlling Shareholders.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have further undertaken to the Stock Exchange and our Company that, within a period commencing on the Latest Practicable Date and ending on a date which is 12 months from the Listing Date, it will:

- (a) when he or it pledges or charges any Shares or securities of our Company beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (b) when he or it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform us of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

UNDERWRITING

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT, THE INTERNATIONAL UNDERWRITING AGREEMENT AND THE L CAPITAL ASIA 2 LOCK-UP DEED

Undertaking by Us

Pursuant to the International Underwriting Agreement and Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and the Joint Sponsors not to, and to procure each other member of our Group not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, except for the offer, allotment and issue of Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option and the Capitalization Issue) and otherwise pursuant to the Listing Rules, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on and including the date that is six months after the Listing Date (the “**First Six-Month Period**”):

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company, or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities or deposit any Shares or other equity securities with a depositary in connection with the issue of depositary receipts); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other equity securities of our Company, or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or equity securities, or deposit any Shares or other equity securities with a depositary in connection with the issue of depositary receipts); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to, or agree to or announce any intention to effect any transaction specified in (a),(b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other equity securities of our Company, or in cash or otherwise (whether or not the issue of such Shares or other equity securities of the Company will be completed within the First Six-Month Period). In the event that during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company in a manner that violates the Securities and Futures Ordinance.

UNDERWRITING

Undertaking by our Controlling Shareholders

Great World Glory has undertaken, pursuant to the Hong Kong Underwriting Agreement, and L Capital Asia 2 has undertaken, pursuant to the L Capital Asia 2 Lock-Up Deed, to each of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and the Joint Sponsors that except as pursuant to the exercise of the Over-allotment Option and the Stock Borrowing Agreements without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other equity securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (a)(i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertaking by Crescent Glory

Crescent Glory has agreed to undertake in the International Underwriting Agreement, to each of our Company, the Joint Global Coordinators, the International Underwriters and the Joint Sponsors that except pursuant to the exercise of the Over-allotment Option and the Stock Borrowing Agreements without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the International Underwriters) and unless in compliance with the requirements of the Listing Rules: it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other equity securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other

UNDERWRITING

arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period).

Undertaking by GXG Trading pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, GXG Trading has undertaken to each of the Underwriters not to, without the prior written consent of the Joint Global Coordinators (on behalf of the Underwriters), and unless in compliance with the requirements of the Listing Rules, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on and including the date that is 12 months after the Listing Date:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares);
- (c) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (a), (b) or (c) above, whether, in each case, any of the transactions specified in sub-paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other equity securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other equity securities will be completed within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is 12 months after the Listing Date).

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Over-allotment Grantors will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or to purchase, their respective proportions of the International Offering Shares being offered under the International Offering.

UNDERWRITING

Under the International Underwriting Agreement, it is expected that the Over-allotment Grantors will grant to the International Underwriters the Over-allotment Option, exercisable by the Representatives of the International Underwriters on behalf of the International Underwriters, in whole or in part, for one time or more, at any time within 30 days from the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Grantors to sell up to an aggregate of 30,000,000 additional Shares, representing in aggregate not more than approximately 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations, if any, in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We have agreed to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

UNDERWRITING COMMISSIONS AND LISTING EXPENSES

The Underwriters will receive an underwriting commission per Offer Share of 2.5% of the Offer Price from our Company (including Offer Shares sold pursuant to the Over-allotment Option). For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate underwriting commission and incentive fee, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$83.0 million in aggregate (based on an Offer Price of HK\$5.28 per Share, being the mid-point of the Offer Price range stated in this prospectus and the assumption that the Over-allotment Option is not exercised) and are to be borne by us.

UNDERWRITERS' INTEREST IN OUR GROUP

Except as disclosed in this prospectus and the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreements, none of the Underwriters has any shareholding interest in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

JOINT SPONSORS' INDEPENDENCE

The Joint Sponsors collectively satisfy the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of 20,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— the Hong Kong Public Offering”; and
- the International Offering of 180,000,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S, and in the United States solely to QIBs as defined in Rule 144A pursuant to an exemption from the registration requirements of the U.S. Securities Act, as described below in “— the International Offering”.

In connection with the Global Offering, it is expected that the Over-allotment Grantors will grant the Over-allotment Option to the International Underwriters, exercisable by the Representatives of the International Underwriters on behalf of the International Underwriters, at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Grantors to sell up to an aggregate of 30,000,000 additional Shares, representing 15.0% of the initial number of Offer Shares under the Global Offering, at the Offer Price to cover over-allocations, if any, in the International Offering. Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for the International Offering Shares under the International Offering, but may not do both.

The 200,000,000 Offer Shares in the Global Offering will represent approximately 21.05% of our enlarged share capital immediately after the completion of the Global Offering.

References to applications, Application Forms, application or subscription monies, or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

We are initially offering 20,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in “— Conditions of the Global Offering”.

ALLOCATION

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: the Offer Shares will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee); and
- Pool B: the Offer Shares will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 10,000,000 Hong Kong Offer Shares will be rejected.

REALLOCATION

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 60,000,000 Offer Shares (in the case of (i)), 80,000,000 Offer Shares (in the case of (ii)) and 100,000,000 Offer Shares (in the case of (iii)), representing 30.0%, 40.0% and 50.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), respectively.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition to the reallocation above, the Joint Global Coordinators reserve their rights to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering. However, according to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange if (a) the International Offering is under-subscribed and the Hong Kong Public Offering are fully subscribed or oversubscribed irrespective of the number of times or (b) when the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is oversubscribed by less than 15 times the total number of Offer Shares initially available under the Hong Kong Public Offering, then in any of these circumstances, the Joint Global Coordinators may only reallocate Offer Shares from the

STRUCTURE OF THE GLOBAL OFFERING

International Offering to the Hong Kong Public Offering other than pursuant to Practice Note 18 of the Listing Rules on the following conditions (the “**Allocation Cap**”):

- (i) the total number of Offer Shares that may be reallocated from the International Offering to the Hong Kong Public Offering shall be not more than the number of Offer Shares initially allocated to the Hong Kong Public Offering i.e. 20,000,000 Offer Shares, representing 10% of the number of the Offer Shares being offered under the Global Offering, so that the total number of Offer Shares for subscription under the Hong Kong Public Offering will increase up to 40,000,000 Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20% of the number of Offer Shares initially available under the Global Offering; and
- (ii) the final Offer Price must be fixed at the bottom end of the indicative Offer Price range stated in this prospectus (i.e. HK\$4.68 per Offer Share).

In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 40,000,000 Shares) and the final Offer Price shall be fixed at the bottom end of the indicative Offer Price range (i.e. HK\$4.68 per Offer Share).

If the Hong Kong Public Offering is not fully subscribed and the International Offering is not undersubscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. The Allocation Cap will not be triggered.

Subject to the Allocation Cap, the Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

APPLICATIONS

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Shares under the International Offering, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offering Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$5.88 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “— Pricing and Allocation”, is less than the maximum price of HK\$5.88 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For more details, see “How to Apply for the Hong Kong Offer Shares”.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 180,000,000 Offer Shares, representing 90.0% of the Offer Shares under the Global Offering and approximately 18.95% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

STRUCTURE OF THE GLOBAL OFFERING

ALLOCATION

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares under the International Offering on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Offer Shares under the Hong Kong Public Offering.

REALLOCATION

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that the Over-allotment Grantors will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Representatives of the International Underwriters on behalf of the International Underwriters in whole or in part, for one time or more, at any time during the 30-day period from the last date for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Grantors to sell up to 15.0% of the total number of the Offer Shares initially available under the Global Offering at the Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above. Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Wednesday, June 19, 2019, being the 30th day after the last day for lodging applications under the Hong Kong Public Offer. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

STRUCTURE OF THE GLOBAL OFFERING

STOCK BORROWING ARRANGEMENTS

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 21,900,000 and 8,100,000 Shares, respectively, collectively representing 15% of the Offer Shares, from Great World Glory and Crescent Glory, respectively, allocated between the two on a pro rata basis, pursuant to the Stock Borrowing Agreements which are expected to be entered into between the Stabilizing Manager or its affiliate and Great World Glory and Crescent Glory, respectively. Such stock borrowing arrangement under the Stock Borrowing Agreements, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with.

Such stock borrowing arrangements are fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Great World Glory and Crescent Glory or their respective nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and all relevant Offer Shares have been issued and allotted by the Company; or (c) such earlier time as the parties may from time to time agree in writing. No payment will be made to Great World Glory or Crescent Glory by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Joint Global Coordinators (on behalf of the Underwriters), on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Monday, May 20, 2019 (Hong Kong time), and in any event, not later than Thursday, May 23, 2019 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus (subject to a Downward Offer Price Adjustment).

The Offer Price will not be more than HK\$5.88 and is expected to be not less than HK\$4.68, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offer as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offer, you must pay the maximum Offer Price of HK\$5.88 per Offer Share, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. This means that for one board lot of 500 Shares, you should pay HK\$2,969.63 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$5.88, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see “How to Apply for the Hong Kong Offer Shares”.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a

STRUCTURE OF THE GLOBAL OFFERING

case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in South China Morning Post (in English), Hong Kong Economic Journal (in Chinese) of the reduction and posted on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.gxggroup.cn) (the contents of the website do not form a part of this prospectus).

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in the section “Summary”, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The Offer Price, an indication of the level of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section “How to Apply for the Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies”.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section “Underwriting”.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on, among others:

- the Listing Committee granting approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering;
- the Offer Price being duly determined;
- the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Thursday, May 23, 2019.

STRUCTURE OF THE GLOBAL OFFERING

IF, FOR ANY REASON, THE OFFER PRICE IS NOT AGREED BETWEEN OUR COMPANY AND THE JOINT GLOBAL COORDINATORS (ON BEHALF OF THE UNDERWRITERS) ON OR BEFORE THURSDAY, MAY 23, 2019, THE GLOBAL OFFERING WILL NOT PROCEED.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English), Hong Kong Economic Journal (in Chinese) and on the website of the Stock Exchange (www.hkexnews.hk) and on our website (www.gxggroup.cn) on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the section “How to Apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, May 27, 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, May 27, 2019.

The Shares will be traded in board lots of 500 Shares each and the stock code of the Shares will be 1817.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website (www.eipo.com.hk) of the **White Form eIPO** Service Provider, referred herein as the “**White Form eIPO**”; or
- give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

None of you or your joint applicant(s) may make more than one application (whether individually or jointly), except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of China (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

We, the Joint Global Coordinators or the designated **White Form eIPO** Service Provider (where applicable), or our or their respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, May 15, 2019 until 12:00 noon on Monday, May 20, 2019 from:

- any of the following offices of the Hong Kong Underwriters:

**Credit Suisse
(Hong Kong) Limited**
Level 88, International
Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

**CMB International
Capital Limited**
45/F, Champion Tower
3 Garden Road, Central
Hong Kong

- any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

<u>District</u>	<u>Branch name</u>	<u>Branch address</u>
Hong Kong Island	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong
Kowloon	Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon
New Territories	Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Wednesday, May 15, 2019 until 12:00 noon on Monday, May 20, 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – MULSANNE GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Wednesday, May 15, 2019 — 9:00 a.m. to 5:00 p.m.
- Thursday, May 16, 2019 — 9:00 a.m. to 5:00 p.m.
- Friday, May 17, 2019 — 9:00 a.m. to 5:00 p.m.
- Saturday, May 18, 2019 — 9:00 a.m. to 1:00 p.m.
- Monday, May 20, 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, May 20, 2019 the last application day or such later time as described in "— Effect of Bad Weather on the Opening of the Application Lists" in this section.

TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form(s) and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and, prior to the expiration of the period of 40 days after the commencement of the International Offering, may not be offered, resold, pledged or transferred within the United States except in certain transactions in reliance on Rule 144A; (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and (c) the purchaser is not an “affiliate” (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of our Company;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company’s register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to deposit any share certificate(s) into CCASS and to send any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria as described in “— Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** Service Provider at www.eipo.com.hk from 9:00 a.m. on Wednesday, May 15, 2019 until 11:30 a.m. on Monday, May 20, 2019 (24 hours daily, except on the last application day) and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, May 20, 2019 or such later time specified under “— Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-served and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “Mulsanne Group Holding Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, May 15, 2019 — 9:00 a.m. to 8:30 p.m.
- Thursday, May 16, 2019 — 8:00 a.m. to 8:30 p.m.
- Friday, May 17, 2019 — 8:00 a.m. to 8:30 p.m.
- Monday, May 20, 2019 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, May 15, 2019 until 12:00 noon on Monday, May 20, 2019 (24 hours daily, except on May 20, 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, May 20, 2019, the last application day or such later time as described in “— Effect of Bad Weather on the Opening of the Application Lists” in this section.

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance as (applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, May 20, 2019.

HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, May 20, 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 am and 12:00 noon.

If the application lists do not open and close on Monday, May 20, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, May 24, 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Company’s website at www.gxggroup.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.gxggroup.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., Friday, May 24, 2019;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m., Friday, May 24, 2019 to 12:00, midnight, Thursday, May 30, 2019;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, May 24, 2019 to Monday, May 27, 2019;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- in the special allocation results booklets which will be available for inspection during opening hours from Friday, May 24, 2019 to Saturday, May 25, 2019, and Monday, May 27, 2019 at all the designated branches of the receiving bank.

If our Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details, see “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$5.88 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, May 24, 2019.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangements for dispatch/collection of share certificates and refund cheque(s) as mentioned below, any refund cheques and share certificates are expected to be posted on or before Friday, May 24, 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, May 27, 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, May 24, 2019 or such other date as is notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant who is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Friday, May 24, 2019, by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Friday, May 24, 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, May 24, 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offering Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, May 24, 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, May 24, 2019, or such other date as is notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, May 24, 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, May 24, 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— Publication of Results" above on Friday, May 24, 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, May 24, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, May 24, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, May 24, 2019.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence from 9:00 a.m. on Monday, May 27, 2019.

The Shares will be traded in board lots of 500 each. The stock code of the Shares is 1817.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from Listing Date or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors

Mulsanne Group Holding Limited
Credit Suisse (Hong Kong) Limited
Citigroup Global Markets Asia Limited
CMB International Capital Limited

Dear Sirs,

We report on the historical financial information of Mulsanne Group Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-68, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of the financial position of the Company as at 31 December 2016, 2017 and 2018 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-68 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 May 2019 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Report on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2016, 2017 and 2018 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

15 May 2019

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
REVENUE	5	3,017,838	3,510,301	3,787,042
Cost of sales		(1,400,228)	(1,610,822)	(1,754,835)
Gross profit		1,617,610	1,899,479	2,032,207
Other income and gains	5	25,680	30,625	64,359
Selling and distribution expenses		(832,667)	(1,096,830)	(1,221,526)
Administrative expenses		(204,293)	(211,768)	(268,364)
Other expenses		(32,880)	(5,351)	(3,929)
Finance costs	7	(141)	(28,752)	(94,513)
Share of losses of associates		—	—	(550)
PROFIT BEFORE TAX	6	573,309	587,403	507,684
Income tax expense	10	(173,629)	(165,612)	(133,182)
PROFIT FOR THE YEAR		<u>399,680</u>	<u>421,791</u>	<u>374,502</u>
Attributable to:				
Owners of the parent		274,902	381,404	380,093
Non-controlling interests		124,778	40,387	(5,591)
		<u>399,680</u>	<u>421,791</u>	<u>374,502</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted	13	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR	399,680	421,791	374,502
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	1,425	(6,333)	14,640
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into presentation currency	(6)	48,207	(64,884)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	1,419	41,874	(50,244)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>401,099</u>	<u>463,665</u>	<u>324,258</u>
Attributable to:			
Owners of the parent	276,321	423,278	329,849
Non-controlling interests	124,778	40,387	(5,591)
	<u>401,099</u>	<u>463,665</u>	<u>324,258</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	185,826	166,866	171,525
Advance payments for property, plant and equipment		585	1,137	5,512
Prepaid land lease payments	15	63,359	22,976	22,315
Other intangible assets	16	5,725	6,233	10,339
Investments in associates	17	—	—	50
Derivative financial instruments	26	—	12,456	—
Deferred tax assets	28	103,454	106,755	94,955
Total non-current assets		358,949	316,423	304,696
CURRENT ASSETS				
Available-for-sale investments	22	—	50,000	—
Inventories	18	833,009	969,646	966,162
Right of return assets	5	83,933	137,214	109,731
Trade and notes receivables	20	494,629	616,019	830,823
Prepayments, deposits and other receivables	21	164,778	210,055	259,469
Derivative financial instruments	26	—	1,145	18,514
Due from directors	36(c)(ii)	263	8,733	—
Due from related parties	36(c)(i)	—	47,055	84
Pledged short-term deposits	23	—	12,767	33,995
Cash and cash equivalents	23	511,170	593,910	653,502
Total current assets		2,087,782	2,646,544	2,872,280
CURRENT LIABILITIES				
Trade and notes payables	24	396,104	635,649	782,980
Other payables and accruals	25	339,258	422,054	359,881
Refund liabilities	5	239,201	337,494	264,197
Contract liabilities	5	80,196	48,118	40,735
Interest-bearing bank and other borrowings	27	136,305	224,636	290,933
Tax payable		137,536	146,691	103,679
Due to a director	36(c)(iv)	—	15	—
Due to related parties	36(c)(iii)	61,021	30,059	31,633
Total current liabilities		1,389,621	1,844,716	1,874,038
NET CURRENT ASSETS		698,161	801,828	998,242
TOTAL ASSETS LESS CURRENT LIABILITIES				
		1,057,110	1,118,251	1,302,938
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	27	—	1,320,748	1,204,627
Deferred tax liabilities	28	49,630	28,000	—
Total non-current liabilities		49,630	1,348,748	1,204,627
Net assets/(liabilities)		1,007,480	(230,497)	98,311
EQUITY				
Equity attributable to owners of the parent				
Share capital	29	—	—	—
Reserves	30	708,098	(230,300)	99,592
		708,098	(230,300)	99,592
Non-controlling interests		299,382	(197)	(1,281)
Total equity/(net deficiency in assets)		1,007,480	(230,497)	98,311

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Share capital	Merger reserves	Capital reserves	Statutory surplus reserves	Exchange fluctuation reserves	Retained profits/ losses (accumulated)	Total	Non-controlling interests	Total equity
	RMB'000 (note 29)	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000 (note 30)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	98,167	—	113,879	—	8,063	220,109	343,442	563,551
Profit for the year	—	—	—	—	—	274,902	274,902	124,778	399,680
Other comprehensive income for the year:									
Exchange differences	—	—	—	—	1,419	—	1,419	—	1,419
Total comprehensive income for the year	—	—	—	—	1,419	274,902	276,321	124,778	401,099
Acquisition of non-controlling interests	—	(279,925)	—	—	—	—	(279,925)	(168,838)	(448,763)
Acquisition of a subsidiary under common control	—	(10,000)	—	—	—	—	(10,000)	—	(10,000)
Contribution from a shareholder	—	—	501,593	—	—	—	501,593	—	501,593
At 31 December 2016	—	(191,758)*	501,593*	113,879*	1,419*	282,965*	708,098	299,382	1,007,480
At 1 January 2017	—	(191,758)	501,593	113,879	1,419	282,965	708,098	299,382	1,007,480
Profit for the year	—	—	—	—	—	381,404	381,404	40,387	421,791
Other comprehensive income for the year:									
Exchange differences	—	—	—	—	41,874	—	41,874	—	41,874
Total comprehensive income for the year	—	—	—	—	41,874	381,404	423,278	40,387	463,665
Capital injection from the immediate holding company	—	—	263,724	—	—	—	263,724	—	263,724
Acquisition of non-controlling interests	—	(13,784)	—	—	—	—	(13,784)	(251,266)	(265,050)
Capital injection from non-controlling interests	—	—	—	—	—	—	—	4,000	4,000
Dividends declared (note 12)	—	—	—	—	—	(1,611,616)	(1,611,616)	—	(1,611,616)
Dividends paid by a subsidiary to the non-controlling shareholders	—	—	—	—	—	—	—	(92,700)	(92,700)
At 31 December 2017	—	(205,542)*	765,317*	113,879*	43,293*	(947,247)*	(230,300)	(197)	(230,497)
At 1 January 2018	—	(205,542)	765,317	113,879	43,293	(947,247)	(230,300)	(197)	(230,497)
Profit for the year	—	—	—	—	—	380,093	380,093	(5,591)	374,502
Other comprehensive income for the year:									
Exchange differences	—	—	—	—	(50,244)	—	(50,244)	—	(50,244)
Total comprehensive income for the year	—	—	—	—	(50,244)	380,093	329,849	(5,591)	324,258
Capital injection from non-controlling interests	—	—	43	—	—	—	43	4,519	4,562
Disposal of a subsidiary (note 33)	—	—	—	—	—	—	—	(12)	(12)
At 31 December 2018	—	(205,542)*	765,360*	113,879*	(6,951)*	(567,154)*	99,592	(1,281)	98,311

* These reserve accounts comprise the consolidated reserves of RMB708,098,000, RMB(230,300,000) and RMB99,592,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		573,309	587,403	507,684
Adjustments for:				
Impairment/(reversal of impairment) of trade and other receivables	6	(4,482)	(7,393)	18,228
Write-down/(reversal of write-down) of inventories to net realisable value	6	10,046	24,985	(21,315)
Depreciation of items of property, plant and equipment	14	53,374	91,635	113,333
Amortisation of other intangible assets	16	2,346	2,253	2,366
Recognition of prepaid land lease payments	15	1,600	1,522	661
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net	6	2,552	(458)	11
Foreign exchange differences, net	6	(8,915)	(1,888)	3,533
Finance costs	7	141	28,752	94,513
Share of losses of associates		—	—	550
Gain on disposal of a subsidiary	5	—	—	(3,205)
Investment income from financial assets at fair value through profit or loss	5	—	—	(763)
Fair value loss/(gain) on derivative financial instruments — transactions not qualifying as hedges	6	—	4,537	(9,070)
		629,971	731,348	706,526
Increase in trade and notes receivables		(235,104)	(250,329)	(312,116)
Increase in prepayments, deposits and other receivables		(42,577)	(44,310)	(50,553)
Increase in amounts due from related parties		—	(66)	(18)
Decrease/(increase) in inventories		(152,941)	(161,622)	15,294
Decrease/(increase) in right of return assets		29,936	(53,281)	27,483
Decrease/(increase) in amounts due from directors		(137)	173	90
Increase in trade and notes payables		1,660	239,545	151,292
Increase/(decrease) in other payables and accruals		74,002	82,795	(40,375)
Increase/(decrease) in refund liabilities		(18,207)	98,293	(73,297)
Decrease in contract liabilities		(83,142)	(32,078)	(7,383)
Increase/(decrease) in an amount due to a director		—	15	(15)
Increase in amounts due to related parties		21	26	194
Increase in pledged short-term deposits		—	(12,767)	(21,228)
Cash generated from operations		203,482	597,742	395,894
Income tax paid		(112,110)	(181,388)	(192,394)
Net cash flows from operating activities		91,372	416,354	203,500

	Notes	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(95,018)	(128,049)	(129,132)
Purchases of other intangible assets		(2,111)	(2,758)	(9,821)
Payments for available-for-sale investments		—	(100,000)	—
Payments for financial assets at fair value through profit or loss		—	—	(70,000)
Proceeds from disposal of available-for-sale investments		34,000	50,000	—
Proceeds from disposal of financial assets at fair value through profit or loss		—	—	120,000
Purchase of derivatives financial instruments		—	(2,067)	—
Proceeds from disposal of derivative financial instruments		—	720	3,414
Disposal of a subsidiary	33	—	—	16
Investment income from financial assets at fair value through profit or loss		—	—	763
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		463	48,091	48,766
Purchase of shareholdings in associates		—	—	(600)
Net cash flows used in investing activities		(62,666)	(134,063)	(36,594)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from bank and other borrowings	32(b)	170,525	900,174	457,321
Capital injection from the immediate holding company		—	263,724	—
Acquisition of business pursuant to group reorganisation		(439,848)	—	—
Acquisition of non-controlling interests		—	(265,050)	—
Capital injection from non-controlling interests		—	4,000	4,562
Contribution from a shareholder		501,593	—	—
Repayment of bank and other borrowings	32(b)	—	(150,000)	(493,148)
Payment for deferred listing expenses		—	(3,799)	(3,815)
Dividends paid to the controlling shareholders		—	(767,316)	—
Dividends paid to the non-controlling shareholders		—	(92,700)	—
Decrease/(increase) in amounts due from directors	32(b)	—	(8,643)	8,643
Increase/(decrease) in amounts due to related parties	32(b)	4,000	(47,779)	(772)
Interest paid		(141)	(26,848)	(89,824)
Net cash flows from/(used in) financing activities		236,129	(194,237)	(117,033)
NET INCREASE IN CASH AND CASH EQUIVALENTS				
Effect of foreign exchange rate changes, net		264,835	88,054	49,873
Cash and cash equivalents at beginning of year	23	1,419	(5,314)	9,719
		244,916	511,170	593,910
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	<u>511,170</u>	<u>593,910</u>	<u>653,502</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Investments in subsidiaries	19	2,854,000	4,125,000	4,889,000
Derivative financial instruments	26	—	12,456	—
Total non-current assets		2,854,000	4,137,456	4,889,000
CURRENT ASSETS				
Derivative financial instruments	26	—	1,145	18,514
Prepayments, deposits and other receivables	21	—	2,194	8,652
Due from subsidiaries	36(c)(v)	—	410	3,891
Due from a related party	36(c)(i)	—	66	70
Cash and cash equivalents	23	—	45,701	55,244
Total current assets		—	49,516	86,371
CURRENT LIABILITIES				
Other payables and accruals	25	—	8,367	7,536
Interest-bearing bank and other borrowings	27	—	144,786	183,612
Due to a subsidiary	36(c)(vi)	90	84	—
Due to a related party	36(c)(iii)	8	48	251
Total current liabilities		98	153,285	191,399
NET CURRENT LIABILITIES		(98)	(103,769)	(105,028)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,853,902	4,033,687	4,783,972
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	27	—	1,320,748	1,204,627
Net assets		2,853,902	2,712,939	3,579,345
EQUITY				
Share capital	29	—	—	—
Reserves	30	2,853,902	2,712,939	3,579,345
Total equity		2,853,902	2,712,939	3,579,345

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. During the Relevant Periods, the Company has changed its name from "Alpha Smart Limited" to "Mulsanne Group Holding Limited" effective from 7 November 2018.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the design, marketing and sale of apparel products.

The Company and its subsidiaries now comprising the Group underwent a series of equity transfers ("Reorganisation") as set out in the paragraph headed "Our History" in the section headed "Our History and Development" in the Prospectus.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary shares/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Joy Sonic Limited ("Joy Sonic") (note (a))	Hong Kong 19 November 2015	US\$39,612,903	100	—	Investment holding, sale of apparel products and consultation services
Alpha Sonic Ltd. ("Alpha Sonic") (note (b))	Cayman Islands 1 August 2017	US\$1	100	—	Investment holding
Ningbo Chisage Mulsanne Holding Co., Ltd.* ("Chisage Mulsanne") (note (c))	People's Republic of China /Mainland China 4 August 2011	RMB200,000,000	—	100	Design, marketing and sale of apparel products
Ningbo Chisage Mulsanne E-commerce Co., Ltd.* ("Chisage Mulsanne E-commerce") (note (c))	People's Republic of China /Mainland China 26 August 2010	RMB10,000,000	—	100	Marketing and sale of apparel products online
Ningbo Mulsanne E-commerce Co., Ltd.* ("Mulsanne E-commerce") (note (b))	People's Republic of China /Mainland China 5 December 2012	RMB5,000,000	—	100	Marketing and sale of apparel products online
Ningbo Yuexing Brand Management Co., Ltd.* ("Ningbo Yuexing") (note (b))	People's Republic of China /Mainland China 27 March 2012	RMB5,000,000	—	100	Marketing and sale of apparel products
Shanghai Yuexing Brand Management Co., Ltd.* ("Shanghai Yuexing") (note (b))	People's Republic of China /Mainland China 14 September 2012	RMB5,000,000	—	100	Marketing and sale of apparel products
Beijing Yuexing Brand Management Co., Ltd.* ("Beijing Yuexing") (note (b))	People's Republic of China /Mainland China 29 June 2015	RMB1,000,000	—	100	Marketing and sale of apparel products
Shenzhen Yuexing Brand Management Co., Ltd.* ("Shenzhen Yuexing") (note (b))	People's Republic of China /Mainland China 20 April 2016	RMB1,000,000	—	100	Marketing and sale of apparel products

Name	Place and date of incorporation/ registration and place of business	Issued ordinary shares/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yatlas (Shanghai) Brand Management Co., Ltd.* ("Yatlas Shanghai") (note (b))	People's Republic of China /Mainland China 5 May 2014	RMB10,000,000	—	100	Design, marketing and sale of apparel products
Ningbo Mulsanne Maisi Brand Management Co., Ltd.* ("Mulsanne Maisi") (note (b))	People's Republic of China /Mainland China 14 February 2017	RMB10,000,000	—	80	Design, marketing and sale of apparel products
TwoXu Sports (Ningbo) Co., Ltd.* ("TwoXu Sports") (note (d))	People's Republic of China /Mainland China 21 June 2017	RMB15,000,000	—	70	Design, marketing and sale of apparel products
GXG Macau Limited ("GXG Macau") (note (b))	People's Republic of China /Macau 29 June 2017	MOP100,000	—	100	Marketing and sale of apparel products
Ningbo Muxin-buer E-commerce Co., Ltd.* ("Muxin-buer E-commerce") (note (b))	People's Republic of China /Mainland China 19 July 2017	RMB5,000,000	—	100	Design, marketing and sale of apparel products
Ningbo Mulsanne Yue Garment Co., Ltd.* ("Mulsanne Yue Garment") (note (e))	People's Republic of China /Mainland China 6 May 2019	RMB45,000,000	—	100	Design, marketing and sale of apparel products

* The English names of the subsidiaries registered in the People's Republic of China ("PRC") represent the best efforts made by management of the Company to translate their Chinese names as these subsidiaries do not have official English names.

Notes:

- The statutory financial statements of Joy Sonic since the date of incorporation prepared under Hong Kong Financial Reporting Standards ("HKFRSs") were audited by Ernst & Young, Hong Kong.
- No audited financial statements have been prepared for these entities for the years ended 31 December 2016, 2017 and 2018, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- The statutory financial statements of these entities for the years ended 31 December 2016 and 2017 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Ernst & Young Hua Ming LLP.
- The statutory financial statements of the entity for the year ended 31 December 2017 prepared under PRC GAAP were audited by Ernst & Young Hua Ming LLP.
- No audited financial statements have been prepared for Mulsanne Yue Garment for the years ended 31 December 2016, 2017 and 2018, as it was incorporated in 2019. Mulsanne Yue Garment is a limited liability enterprise established under the PRC law.

2.1 Basis of Presentation

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Our History" in the section headed "Our History and Development" in the Prospectus, the Company became the holding company of the companies now comprising the Group on 3 January 2016.

The companies now comprising the Group were under the common control of YANG Herong and XU Hongxia (collectively, "the Controlling Shareholders") before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 Basis of Preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"). Except for IFRS 9 *Financial Instruments*, all IFRSs effective for the accounting period commencing from 1 January 2018 including IFRS 15 *Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been consistently applied by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for periods beginning on or after 1 January 2018. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated financial information from 1 January 2016 to 31 December 2017 for financial instruments in the scope of IFRS 9, which continues to be reported under IAS 39 and is not comparable to the information presented for 2018.

The principal effects of adopting IFRS 9 on 1 January 2018 are as follows:

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss ("FVPL"), available for sale ("AFS"), held-to-maturity and loans and receivables) have been replaced by:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through other comprehensive income ("OCI") with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated as FVPL. Such movement are presented in other comprehensive income with no subsequent reclassification to profit or loss.

Details of the Group's classification of its financial assets and liabilities are disclosed in note 2.4 to the Historical Financial Information.

The changes for the classification of the Group's financial assets on 1 January 2018, the Group's date of initial application of IFRS 9, are summarised as follows:

	Originally stated			IFRS 9	
	Financial assets at fair value through profit or loss	Available for-sale financial assets	Loans and receivables	Amortised cost	Financial assets at fair value through profit or loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Derivative financial instruments . . .	13,601	—	—	—	13,601
Available-for-sale investment	—	50,000	—	—	50,000
Trade and notes receivables	—	—	616,019	616,019	—
Financial assets included in deposits and other receivables . . .	—	—	153,725	153,725	—
Due from directors	—	—	8,733	8,733	—
Due from related parties	—	—	47,055	47,055	—
Pledged short-term deposits	—	—	12,767	12,767	—
Cash and cash equivalents	—	—	593,910	593,910	—
	<u>13,601</u>	<u>50,000</u>	<u>1,432,209</u>	<u>1,432,209</u>	<u>63,601</u>

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changes the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate ("EIR").

Details of the Group's impairment method are disclosed in note 2.4 to the Historical Financial Information.

There was no change to the Group's retained profits as at 1 January 2018 as the changes to the impairment calculation and measurement of financial instruments had minimal impact to the financial information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, available-for-sale investments and derivative financial instruments which have been measured at fair value.

2.3 Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in this Historical Financial Information.

Amendments to IFRS 3	<i>Definition of a Business</i> ²
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 16	<i>Leases</i> ¹
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ²
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ¹
Amendments to IFRS 3 included in Annual Improvements 2015-2017 Cycle	<i>Business Combinations</i> ¹
Amendments to IFRS 11 included in Annual Improvements 2015-2017 Cycle	<i>Joint Arrangements</i> ¹
Amendments to IAS 12 included in Annual Improvements 2015-2017 Cycle	<i>Income Taxes</i> ¹
Amendments to IAS 23 included in Annual Improvements 2015-2017 Cycle	<i>Borrowing Costs</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's financial performance and financial position, except as described below.

IFRS 16 Leases

IFRS 16, issued in May 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees that they can elect as practical expedients — leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40 *Investment Property*. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB252,695,000 and lease liabilities of RMB252,695,000 will be recognised at 1 January 2019. Other than that, the Group does not expect the adoption of IFRS 16 as compared with the current accounting policy would result in any significant impact on the financial position and performance of the Group.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are combined from the beginning of the Relevant Periods or the date on which a subsidiary first came under the common control of the Controlling Shareholders, whichever is later, and continue to be consolidated until the date that the Company's control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group has directly disposed of the related assets or liabilities.

Investments in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as financial assets at fair value through profit or loss, which are included in the accounts at fair value. Changes in the fair value of the investments in subsidiaries are recognised directly in investment income in the statement of profit or loss and other comprehensive income.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in associates are accounted for using the equity method.

Under the equity method, the investment in associates are initially recognised at cost. The carrying amounts of the investments are adjusted to recognise changes in the Group's share of net assets of the associates since the acquisition date. Goodwill relating to the associates are included in the carrying amounts of the investments and are not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The aggregate of the Group's share of profit or loss of associates is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amounts of the associates and their carrying values, and then recognises the loss within 'Share of profit or loss of associates' in the statement of profit or loss.

Upon loss of significant influence over the associates, the Group measures and recognises any retained investments at their fair values. Any difference between the carrying amounts of the associates upon loss of significant influence and the fair values of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Leasehold improvements	2-3 years
Machinery and equipment	3-10 years
Motor vehicles	4 years
Computer and office equipment	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Trademarks

Purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial instruments — initial recognition*Date of recognition*

Financial assets and liabilities are initially recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial measurement of financial instruments

Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on valuation technique using only inputs observable in market transaction, the Group recognises the difference between the transaction price and fair value in profit or loss. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group has classified all of its financial assets based on the business model for managing the assets and the asset's contractual terms, as explained in the policy "Financial assets and liabilities".

Financial liabilities are measured at amortised cost, as explained in the accounting policy "Financial assets and liabilities".

Financial assets and liabilities*(i) Financial assets*

Initial recognition and measurement

Before 1 January 2018, financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and derivatives, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

From 1 January 2018, financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15, as explained in the accounting policies "Revenue recognition".

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI with recycling, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Before 1 January 2018, the subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in administrative expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss and other comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss and other comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss and other comprehensive income.

Starting from 1 January 2018, for purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method ("EIR method") and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and notes receivables, deposits and other receivables, due from directors and due from related parties.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

This category includes certain notes receivable (note 20).

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has no equity investments under this category in the Relevant Periods.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative financial instruments and structured financial products.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (applicable to periods beginning on or after 1 January 2018)

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk when contractual payments are more than 30 days past due since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (applicable to periods prior to 1 January 2018)

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(ii) Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, other payables and accruals, interest-bearing bank and other borrowings, amounts due to a director and related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments***Initial recognition and subsequent measurement***

The Group uses derivative financial instruments, such as foreign exchange options contracts and interest rate options contracts, to minimise its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises cost of purchase. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand, at internet payment platforms and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when 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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

The Group is mainly in the business of providing apparel products. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 3 to the Historical Financial Information.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Sale of goods — distributors and partnership

A significant part of the Group's products are sold to distributors and partnership, who have discretion over both price and distribution methods for products to be sold in their designated geographical areas.

Revenues are recognised upon delivery, which occurs when distributors pick up goods at the Group's premises or when goods are handed over to a third-party forwarder as designated by the distributor or when goods are accepted by the end customers in partnership stores, the risks of obsolescence and loss have been transferred to the distributors and partnership, and acceptance by distributors and partnership occurs. Acceptance refers to either of the situations that distributors and partnership accept the goods in accordance with the sales contract or the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the distributors' and partnership's acceptance of the products.

Sale of products — retail

The Group sells its products to end customers via a chain of retail stores of the Group or over third-party online retail platforms such as Tmall.com. Revenue is recognised when the Group can reasonably estimate the acceptance by end customers. For offline retail sales, acceptance by end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third-party payment platforms.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer loyalty points). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

(ii) Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less.

Loyalty points programme

The Group has a loyalty points programme, which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed or expired.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

*Contract balances**Contract assets*

A contract asset is the right to consideration in exchange for goods transferred to the customer. If the Group performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional (other than the passage of time).

Trade receivables

A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

*Assets and liabilities arising from rights of return**Right of return assets*

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

Rental Income

Rental income is recognised on a time proportion basis over the lease terms.

Retirement benefits

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, i.e., an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the presentation currency of the Group. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the United States dollar ("US\$") and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. The Company's presentation currency is RMB, which is in line with the currency used for the Group's key operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determining method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of goods with volume rebates, the Group determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained until the associated uncertainties are subsequently resolved based on its historical experience, business forecast and the current economic conditions.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain PRC subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. Such judgement is made with reference to the Group's business plan and future cash requirements outside Mainland China.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the carrying amounts of property, plant and equipment, prepaid land lease payments and other intangible assets are set out in notes 14, 15 and 16 to the Historical Financial Information.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets carried in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 were RMB103,454,000, RMB106,755,000 and RMB94,235,000, respectively, details of which are set out in note 28 to the Historical Financial Information.

Impairment of trade and other receivables (applicable to periods prior to 1 January 2018)

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates based on the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables at 31 December 2016 and 2017 amounted to RMB10,818,000 and RMB3,425,000, respectively, details of which are set out in notes 20 and 21 to the Historical Financial Information.

Provision for expected credit losses of trade and other receivables (applicable to periods beginning on or after 1 January 2018)

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for expected credit losses of trade and other receivables as at 31 December 2018 amounted to RMB21,653,000, details of which are set out in notes 20 and 21 to the Historical Financial Information.

Write-down of inventories to net realisable value

When necessary, allowance is provided for obsolete and slow-moving inventories to adjust the carrying value of inventories to the lower of cost and net realisable value. Management has estimated the allowance for obsolete and slow-moving inventories based on review of an aging analysis of inventories at the end of the reporting period. The assessment of the provision requires management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. At 31 December 2016, 2017 and 2018, the Group's inventories amounted to RMB833,009,000, RMB969,646,000 and RMB966,162,000, respectively.

Estimating variable consideration for returns and volume rebates

The Group estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and volume rebates.

The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each type of product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Group applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2016, 2017 and 2018, the amounts recognised as refund liabilities for the expected returns and volume rebates were RMB239,201,000, RMB337,494,000 and RMB264,197,000, respectively.

	Year ended 31 December 2018			
	Apparel products			Total
	Offline channels	Online channels	Other products	
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue				
External customers	2,423,925	1,350,314	12,803	3,787,042
Total revenue	<u>2,423,925</u>	<u>1,350,314</u>	<u>12,803</u>	<u>3,787,042</u>
Segment results	<u>1,428,217</u>	<u>603,108</u>	<u>882</u>	<u>2,032,207</u>
Other income and gains				64,359
Selling and distribution expenses				(1,221,526)
Administrative expenses				(268,364)
Other expenses				(3,929)
Finance costs				(94,513)
Share of losses of associates				(550)
Profit before tax				<u>507,684</u>

Geographic information*(a) Revenue from external customers*

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Mainland China	3,017,838	3,508,721	3,779,209
Macau China	—	1,580	7,833
Total	<u>3,017,838</u>	<u>3,510,301</u>	<u>3,787,042</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Mainland China	255,495	193,988	206,938
Macau China	—	3,224	2,753
Total	<u>255,495</u>	<u>197,212</u>	<u>209,691</u>

The non-current asset information above is based on the locations of the assets and excludes derivative financial instruments, investments in associates and deferred tax assets.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue for the Relevant Periods.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and all of the Group's revenue was recognised at point in time during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
<u>Revenue from contracts</u>			
with customers			
Sale of apparel products			
Online channels	715,439	1,209,569	1,350,314
Offline channels			
Self-owned stores	957,602	1,133,146	1,193,064
Partnership stores	296,961	377,796	397,277
Distributor stores	1,004,942	775,918	833,584
Sale of other products	42,894	13,872	12,803
Total	<u>3,017,838</u>	<u>3,510,301</u>	<u>3,787,042</u>
<u>Other income and gains</u>			
Bank interest income	1,431	2,147	1,966
Penalty charges received from distributors	4,072	3,778	1,194
Foreign exchange gains, net	8,915	1,888	—
Rental income	—	2,410	2,410
Government grants (note (c))	11,142	19,537	40,399
Compensation from a fire accident	—	—	3,814
Gain on disposal of a subsidiary (note 33)	—	—	3,205
Investment income from financial assets at fair value through profit or loss	—	—	763
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	—	458	—
Fair value gain on derivative financial instruments — transactions not qualifying as hedges	—	—	9,070
Others	120	407	1,538
	<u>25,680</u>	<u>30,625</u>	<u>64,359</u>

Notes:

(a) Right of return assets and refund liabilities

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Right of return assets	<u>83,933</u>	<u>137,214</u>	<u>109,731</u>
Refund liabilities			
Arising from sales rebates	58,075	50,274	42,297
Arising from rights of return	181,126	287,220	221,900
	<u>239,201</u>	<u>337,494</u>	<u>264,197</u>

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Current	<u>80,196</u>	<u>48,118</u>	<u>40,735</u>

(i) Significant changes in contract liabilities

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The changes in the contract liabilities are mainly attributable to short-term advances received to transfer goods to customers and the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the year.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Relevant Periods related to carried-forward contract liabilities.

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>163,338</u>	<u>80,196</u>	<u>48,118</u>

(iii) Unsatisfied performance obligations

The following table shows the unsatisfied performance obligations as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Current	<u>193,891</u>	<u>131,254</u>	<u>197,159</u>

(c) The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Cost of inventories sold		1,381,713	1,585,837	1,776,150
Depreciation of items of property, plant and equipment	14	53,374	91,635	113,333
Amortisation of other intangible assets*	16	2,346	2,253	2,366
Recognition of prepaid land lease payments**	15	1,600	1,522	661
Impairment of trade receivables	20	—	149	16,827
— Provision for the year		—	149	16,827
— Reversal of provision for the year		(6,761)	(7,515)	—
Impairment of other receivables	21	—	—	—
— Provision for the year		2,279	359	1,401
— Reversal of provision for the year		—	(386)	—
Write-down/(reversal of write-down) of inventories to net realisable value***		10,046	24,985	(21,315)
Minimum lease payments under operating leases of buildings		109,607	139,666	187,701
Auditor's remuneration		890	890	960
Listing expenses		—	5,796	19,537
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net		2,552	(458)	11
Loss due to a fire accident		27,365	—	—
Compensation from a fire accident		—	—	(3,814)
Fair value loss/(gain) on derivative financial instruments — transactions not qualifying as hedges	26	—	4,537	(9,070)
Foreign exchange difference, net		(8,915)	(1,888)	3,533
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8))		—	—	—
— Wages and salaries		236,711	268,807	142,376
— Pension scheme contributions		16,625	15,216	10,484
		<u>253,336</u>	<u>284,023</u>	<u>152,860</u>

* The amortisation of other intangible assets is included in "Administrative expenses" on the face of the consolidated statements of profit or loss and other comprehensive income.

** The recognition of prepaid land lease payments is included in "Administrative expenses" on the face of the consolidated statements of profit or loss and other comprehensive income.

*** The write-downs of inventories to net realisable value of RMB18,515,000 and RMB24,985,000 for the years ended 31 December 2016 and 2017, respectively, and the reversal of write-downs of inventories to net realisable value of RMB21,315,000 for the year ended 31 December 2018 are included in "Cost of sales" on the face of the consolidated statements of profit or loss and other comprehensive income.

The reversal of write-downs of inventories due to a fire accident of RMB8,469,000 for the year ended 31 December 2016 is included in "Other expenses" on the face of the consolidated statements of profit or loss and other comprehensive income.

7. FINANCE COSTS

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest on bank loans	141	28,752	93,321
Interest on loans from a related party	—	—	1,192
	<u>141</u>	<u>28,752</u>	<u>94,513</u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company was incorporated in the Cayman Islands on 20 November 2015. YANG Herong was appointed as a director of the Company from 20 November 2015 to 21 October 2016, and was appointed as a non-executive director of the Company on 27 August 2018. HUANG Hanji was appointed as a non-executive director and chairman of the Company on 21 October 2016. YU Yong was appointed as an executive director and the chief executive officer of the Company on 27 August 2018. LIN Lin, ONG Yew Thiong, Gilbert and Ravinder Singh Thakran were appointed as non-executive directors of the Company on 27 August 2018.

GU Jiong, YUAN Tao and Paolo Bodo were appointed as independent non-executive directors on 26 April 2019.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, bonuses, allowances and benefits in kind	5,036	5,037	5,073
Pension scheme contributions	24	26	26
	5,060	5,063	5,099
	5,060	5,063	5,099

Independent non-executive directors

There were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods.

Executive director

Year ended 31 December 2016	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
YU Yong	5,036	24	5,060

Year ended 31 December 2017	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
YU Yong	5,037	26	5,063

Year ended 31 December 2018	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
YU Yong	5,073	26	5,099

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director for the years ended 31 December 2016, 2017 and 2018, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods are as follows:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	3,473	3,349	3,558
Pension scheme contributions	97	103	104
	<u>3,570</u>	<u>3,452</u>	<u>3,662</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		
	2016	2017	2018
Nil to HK\$1,000,000	2	—	1
HK\$1,000,001 to HK\$1,500,000	2	4	3
	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in this jurisdiction.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2016 and 2017 and at the rate of 8.25% and 16.5% on the estimated assessable profits up to an amount of HK\$2,000,000 and any part of estimated assessable profits over HK\$2,000,000, respectively, arising in Hong Kong during the year ended 31 December 2018.

Pursuant to the relevant tax law of the Administrative Especial de Macau, Macau profits tax has been provided at the rate of 12% on the estimated assessable profits arising in Macau.

The provision for Mainland China corporate income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Current tax:			
Charge for the year	160,742	190,543	149,382
Deferred tax (<i>note 28</i>)	12,887	(24,931)	(16,200)
Total tax charge for the year	<u>173,629</u>	<u>165,612</u>	<u>133,182</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Profit before tax	573,309	587,403	507,684
At the PRC's statutory income tax rate of 25%	143,327	146,851	126,921
Effect of tax rate differences in other jurisdictions	(673)	8,848	25,533
Effect of non-deductible expenses	4,075	4,808	7,292
Adjustments in respect of current tax of previous years	348	2,227	(3,761)
Tax losses utilised from previous years	(1,723)	—	(246)
Income not subject to tax	(1,276)	(191)	(1,933)
Temporary differences and tax losses not recognised	3,206	3,069	4,191
Temporary difference recognised from previous years	(1,655)	—	—
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries (note 28)	28,000	—	(24,815)
Tax charge at the Group's effective rate	173,629	165,612	133,182

The effective tax rates of the Group for the years ended 31 December 2016, 2017 and 2018 were 30.29%, 28.19% and 26.23%, respectively.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profits attributable to owners of the parent includes losses of RMB8,000, RMB37,744,000, and RMB97,224,000, which have been dealt with in the financial statements of the Company, for the years ended 31 December 2016, 2017 and 2018, respectively.

12. DIVIDENDS

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Dividends	—	1,611,616	—

The dividends during the year ended 31 December 2017 represented dividends declared by the Company on 19 April 2017, 13 June 2017, 21 July 2017 and 22 September 2017. The dividends were paid on 19 April 2017, 13 June 2017, 21 July 2017 and 22 September 2017, respectively.

For the years ended 31 December 2017 and 2018, a subsidiary of the Group, Chisage Mulsanne, paid dividends of RMB309,000,000 and RMB280,000,000 to its shareholders, respectively, among which, RMB92,700,000 and nil were paid to the non-controlling shareholders.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016							
At 1 January 2016:							
Cost	83,569	133,803	3,701	6,200	30,617	—	257,890
Accumulated depreciation and impairment	(23,878)	(73,451)	(740)	(2,771)	(11,818)	—	(112,658)
Net carrying amount	<u>59,691</u>	<u>60,352</u>	<u>2,961</u>	<u>3,429</u>	<u>18,799</u>	<u>—</u>	<u>145,232</u>
At 1 January 2016, net of accumulated depreciation and impairment							
	59,691	60,352	2,961	3,429	18,799	—	145,232
Additions	—	90,400	1,976	2,693	1,914	—	96,983
Depreciation provided during the year (note 6)	(3,192)	(41,817)	(299)	(1,718)	(6,348)	—	(53,374)
Disposals	—	—	(2,621)	(385)	(9)	—	(3,015)
At 31 December 2016, net of accumulated depreciation and impairment							
	<u>56,499</u>	<u>108,935</u>	<u>2,017</u>	<u>4,019</u>	<u>14,356</u>	<u>—</u>	<u>185,826</u>
At 31 December 2016:							
Cost	83,569	203,778	2,681	7,804	32,520	—	330,352
Accumulated depreciation and impairment	(27,070)	(94,843)	(664)	(3,785)	(18,164)	—	(144,526)
Net carrying amount	<u>56,499</u>	<u>108,935</u>	<u>2,017</u>	<u>4,019</u>	<u>14,356</u>	<u>—</u>	<u>185,826</u>
31 December 2017							
At 1 January 2017:							
Cost	83,569	203,778	2,681	7,804	32,520	—	330,352
Accumulated depreciation and impairment	(27,070)	(94,843)	(664)	(3,785)	(18,164)	—	(144,526)
Net carrying amount	<u>56,499</u>	<u>108,935</u>	<u>2,017</u>	<u>4,019</u>	<u>14,356</u>	<u>—</u>	<u>185,826</u>
At 1 January 2017, net of accumulated depreciation and impairment							
	56,499	108,935	2,017	4,019	14,356	—	185,826
Additions	—	118,718	2,443	2,818	3,655	—	127,634
Depreciation provided during the year (note 6)	(3,242)	(79,920)	(788)	(1,487)	(6,198)	—	(91,635)
Disposals	(53,257)	(184)	—	(1,381)	—	—	(54,822)
Exchange realignment	—	(137)	—	—	—	—	(137)
At 31 December 2017, net of accumulated depreciation and impairment							
	<u>—</u>	<u>147,412</u>	<u>3,672</u>	<u>3,969</u>	<u>11,813</u>	<u>—</u>	<u>166,866</u>
At 31 December 2017:							
Cost	15,387	286,479	5,124	6,666	36,175	—	349,831
Accumulated depreciation and impairment	(15,387)	(139,067)	(1,452)	(2,697)	(24,362)	—	(182,965)
Net carrying amount	<u>—</u>	<u>147,412</u>	<u>3,672</u>	<u>3,969</u>	<u>11,813</u>	<u>—</u>	<u>166,866</u>

	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018							
At 1 January 2018:							
Cost	15,387	286,479	5,124	6,666	36,175	—	349,831
Accumulated depreciation and impairment	(15,387)	(139,067)	(1,452)	(2,697)	(24,362)	—	(182,965)
Net carrying amount	<u>—</u>	<u>147,412</u>	<u>3,672</u>	<u>3,969</u>	<u>11,813</u>	<u>—</u>	<u>166,866</u>
At 1 January 2018, net of accumulated depreciation and impairment							
	—	147,412	3,672	3,969	11,813	—	166,866
Additions	—	104,682	428	4,841	3,830	6,273	120,054
Depreciation provided during the year (note 6)	—	(104,265)	(1,057)	(2,084)	(5,927)	—	(113,333)
Disposals	—	(936)	(29)	(814)	(9)	—	(1,788)
Disposal of a subsidiary (note 33)	—	(251)	—	(36)	(96)	—	(383)
Exchange realignment	—	107	—	—	2	—	109
At 31 December 2018, net of accumulated depreciation and impairment							
	<u>—</u>	<u>146,749</u>	<u>3,014</u>	<u>5,876</u>	<u>9,613</u>	<u>6,273</u>	<u>171,525</u>
At 31 December 2018:							
Cost	15,387	355,940	5,503	10,058	39,871	6,273	433,032
Accumulated depreciation and impairment	(15,387)	(209,191)	(2,489)	(4,182)	(30,258)	—	(261,507)
Net carrying amount	<u>—</u>	<u>146,749</u>	<u>3,014</u>	<u>5,876</u>	<u>9,613</u>	<u>6,273</u>	<u>171,525</u>

The buildings of the Group are situated in Mainland China.

15. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of year	66,559	64,959	23,637
Disposals	—	(39,800)	—
Recognised during the year (note 6)	(1,600)	(1,522)	(661)
Carrying amount at end of the year	64,959	23,637	22,976
Current portion included in prepayments, deposits and other receivables (note 21)	(1,600)	(661)	(661)
Non-current portion	<u>63,359</u>	<u>22,976</u>	<u>22,315</u>

The leasehold lands are situated in Mainland China and are held under long-term leases with terms ranging from 40 years to 47 years.

16. OTHER INTANGIBLE ASSETS

	Software	Trademark	Total
	RMB'000	RMB'000	RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation ..	5,960	—	5,960
Additions	2,111	—	2,111
Amortisation provided during the year	(2,346)	—	(2,346)
At 31 December 2016	<u>5,725</u>	<u>—</u>	<u>5,725</u>
At 31 December 2016 and at 1 January 2017:			
Cost	10,429	—	10,429
Accumulated amortisation	(4,704)	—	(4,704)
Net carrying amount	<u>5,725</u>	<u>—</u>	<u>5,725</u>
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation ..	5,725	—	5,725
Additions	1,311	1,447	2,758
Exchange realignment	—	3	3
Amortisation provided during the year	(2,153)	(100)	(2,253)
At 31 December 2017	<u>4,883</u>	<u>1,350</u>	<u>6,233</u>
At 31 December 2017 and at 1 January 2018:			
Cost	11,740	1,447	13,187
Accumulated amortisation	(6,857)	(97)	(6,954)
Net carrying amount	<u>4,883</u>	<u>1,350</u>	<u>6,233</u>
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation ..	4,883	1,350	6,233
Additions	1,906	4,374	6,280
Exchange realignment	—	192	192
Amortisation provided during the year	(2,229)	(137)	(2,366)
At 31 December 2018	<u>4,560</u>	<u>5,779</u>	<u>10,339</u>
At 31 December 2018:			
Cost	13,646	6,020	19,666
Accumulated amortisation	(9,086)	(241)	(9,327)
Net carrying amount	<u>4,560</u>	<u>5,779</u>	<u>10,339</u>

17. INVESTMENT IN ASSOCIATES

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Investment in associates	<u>—</u>	<u>—</u>	<u>50</u>

On 25 May 2018, the Group entered into agreements to invest 20% of interests in Ningbo Naizuo Clothing Co., Ltd (“Naizuo”), Ningbo Moka Clothing Co., Ltd (“Moka”) and Ningbo Songwaxiaxia Electronic Commerce Co., Ltd (“Songwaxiaxia”), at a consideration of RMB200,000 for each, respectively.

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Naizuo	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products
Moka	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products
Songwaxiaxia	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products

The Group's shareholdings in these associates comprised equity shares held through Mulsanne E-commerce, a subsidiary of the Company. These associates were set up in June 2018.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018
	RMB'000
Share of the associates' losses for the year	(550)
Aggregate carrying amount of the Group's investments in associates	50

18. INVENTORIES

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Raw materials	7,346	3,138	9,085
Decorations	18,274	21,514	24,793
Finished goods	807,389	944,994	932,284
	<u>833,009</u>	<u>969,646</u>	<u>966,162</u>

19. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Unlisted investment, at fair value:			
At beginning of year	82	2,854,000	4,125,000
Additions during the year	501,593	263,724	—
Fair value adjustments	2,238,545	1,218,184	536,381
Exchange realignment	113,780	(210,908)	227,619
	<u>2,854,000</u>	<u>4,125,000</u>	<u>4,889,000</u>

The investments in subsidiaries are recognised in the statement of financial position at fair value in accordance with the Company's accounting policies. The Company's investments in subsidiaries are categorised as Level 3 financial assets within the fair value hierarchy. Fair value of the Company's subsidiaries are calculated by discounting the expected future cash flows using an appropriate discount rate as at the end of each of the Relevant Periods.

The directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position at the fair values ascribed to them.

20. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade receivables	366,863	534,742	740,022
Notes receivable	136,305	82,450	108,801
	503,168	617,192	848,823
Less: Impairment of trade receivables	(8,539)	(1,173)	(18,000)
	<u>494,629</u>	<u>616,019</u>	<u>830,823</u>

The Group's trading terms with its customers (other than retail customers) are mainly on credit as well as advances. The credit period is generally one month to three months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 31 December 2018, notes receivable of RMB1,480,000 whose fair values approximate to their carrying values were classified as financial assets at fair value through OCI under IFRS 9 and the remaining notes receivable were measured at amortised cost. The fair value changes of these notes receivable at fair value through OCI were insignificant in 2018.

Movements in the provision for impairment of trade receivables were as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	15,300	8,539	1,173
Impairment losses recognised	—	149	16,827
Impairment losses reversed	(6,761)	(7,515)	—
At end of year	<u>8,539</u>	<u>1,173</u>	<u>18,000</u>

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Less than 3 months	314,081	491,467	595,125
Between 3 and 6 months	27,818	33,018	70,656
Between 7 and 12 months	21,521	8,106	28,849
Between 1 and 2 years	2,849	1,666	44,372
Over 2 years	594	485	1,020
	<u>366,863</u>	<u>534,742</u>	<u>740,022</u>

The ageing analysis of the trade receivables as at 31 December 2016 and 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
Neither past due nor impaired	314,081	500,612
Less than 3 months past due	27,818	23,873
	<u>341,899</u>	<u>524,485</u>

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade receivables were amounts due from the Group's related parties of nil, RMB1,247,000 and RMB13,153,000 as at 31 December 2016, 2017 and 2018, respectively, which were repayable on credit terms similar to those offered to the major customers of the Group.

The Group's notes receivable were all aged within six months and were neither past due nor impaired.

Since 1 January 2018, the Group has applied the simplified approach to provide for expected credit losses under IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each type of trade receivables to measure the expected credit losses. For certain trade receivables for which the counterparty failed to make demanded repayment, the Group has made a 100% provision ("defaulted receivables"). For certain trade receivables from online channels and self-owned stores, the balances were settled within three months and had no historical default. Except for the above balances, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the expected losses were determined according to the provision matrix as follows:

	As at 31 December 2018		
	Amount	Expected loss rate	Impairment
	RMB'000		RMB'000
Defaulted receivables	11,556	100.00%	11,556
Trade receivables from online channels and self-owned stores	131,254	0.04%	55
Other trade receivables aged:			
Less than 6 months	538,259	0.22%	1,169
Between 7 and 12 months	18,839	1.11%	210
Between 1 and 2 years	40,114	12.49%	5,010
	<u>740,022</u>	<u>2.43%</u>	<u>18,000</u>

At the end of each of the Relevant Periods, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with carrying amounts in aggregate of RMB45,000,000, RMB19,700,000 and nil, respectively (the "Endorsement"). In addition, the Group discounted certain notes receivable (the "Discounted Notes") with carrying amounts in aggregate of RMB140,805,000, RMB95,350,000 and RMB107,321,000 as at 31 December 2016, 2017 and 2018, respectively (the "Discount"). The above Discounted Notes included bank acceptance bills of RMB4,500,000, RMB15,500,000 and nil, and commercial bills of RMB136,305,000, RMB79,850,000 and RMB107,321,000, as at 31 December 2016, 2017 and 2018, respectively. The Endorsed Notes and the Discounted Notes have a maturity from one to five months as at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks or the counterparties default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amounts of RMB45,000,000, RMB19,700,000 and nil as at 31 December 2016, 2017 and 2018, respectively, and the Discounted Notes accepted by large and reputable banks with amounts of RMB4,500,000 and RMB15,500,000 and nil as at 31 December 2016, 2017 and 2018, respectively (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group recognised the proceeds received from the discount of the remaining Discounted Notes with amounts of RMB136,305,000, RMB79,850,000 and RMB107,321,000 as short-term loans as at 31 December 2016, 2017 and 2018, respectively (note 27), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Discounted Notes.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other receivables	116,840	154,527	191,578
Prepaid expenses	22,790	33,491	44,828
Prepayments	24,137	15,231	15,011
Prepaid land lease payments (note 15)	1,600	661	661
Tax recoverable	138	3,986	2,056
Prepaid listing expenses	—	1,879	7,614
Others	1,552	2,532	1,374
	167,057	212,307	263,122
Less: Impairment of other receivables	(2,279)	(2,252)	(3,653)
	164,778	210,055	259,469

Movements in the provision for impairment of other receivables were as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	—	2,279	2,252
Impairment losses recognised	2,279	359	1,401
Impairment losses reversed	—	(386)	—
At end of year	2,279	2,252	3,653

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other receivables	—	—	186
Prepaid expenses	—	2,194	8,466
	—	2,194	8,652

Except for those impaired other receivables, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Since 1 January 2018, the Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. For certain receivables for which the counterparty failed to make demanded repayment, the Group has made a 100% provision ("defaulted receivables"). For rental deposits to shopping malls included in other receivables, the balances were settled within 12 months and had no historical default. Except for the above balances, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the expected losses were determined according to the provision matrix as follows:

	As at 31 December 2018		
	Amount	Expected loss rate	Impairment
	RMB'000		RMB'000
Defaulted other receivables	3,357	100.00%	3,357
Amounts due from the third parties	91,069	0.27%	248
Deposits, staff advance and others	97,152	0.05%	48
	191,578	1.91%	3,653

Included in the prepayments, deposits and other receivables were other receivables of RMB7,570,000, RMB4,393,000 and nil as at 31 December 2016, 2017 and 2018, respectively, due from the Group's related parties.

22. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	50,000	—

As at 31 December 2017, available-for-sale investments of RMB50,000,000 represented investments in certain financial assets issued by licensed financial institutions in the PRC whose fair values were derived from quoted price in an active market.

23. CASH AND CASH EQUIVALENTS AND PLEDGED SHORT-TERM DEPOSITS

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Cash and bank balances	511,170	593,910	653,502
Pledged short-term deposits	—	12,767	33,995
	511,170	606,677	687,497
Less: Pledged short-term deposits	—	(12,767)	(33,995)
Cash and cash equivalents	511,170	593,910	653,502
Denominated in RMB	510,193	531,335	567,727
Denominated in US\$	616	61,502	83,190
Denominated in HK\$	361	558	594
Denominated in MOP	—	515	1,991
Cash and cash equivalents	511,170	593,910	653,502

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Cash and bank balances	—	45,701	55,244
Denominated in US\$	—	45,701	55,244
Cash and cash equivalents	—	45,701	55,244

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits of nil, RMB12,767,000 and RMB33,995,000 as at 31 December 2016, 2017 and 2018, respectively, were pledged for notes payable with a maturity from two to four months. The bank balances and pledged short-term deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND NOTES PAYABLES

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade payables	396,104	512,979	533,730
Notes payable	—	122,670	249,250
	<u>396,104</u>	<u>635,649</u>	<u>782,980</u>

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 3 months	358,079	506,600	509,643
3 to 6 months	28,310	1,952	19,403
6 to 12 months	4,840	1,189	3,310
1 to 2 years	4,075	2,442	463
Over 2 years	800	796	911
	<u>396,104</u>	<u>512,979</u>	<u>533,730</u>

Included in the trade and notes payables were trade payables of RMB1,909,000, RMB11,493,000 and RMB5,078,000 as at 31 December 2016, 2017 and 2018, respectively, due to the Group's related parties which were repayable within 120 days, which represented credit terms similar to those offered by the related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

25. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Accrued payroll	161,082	142,660	76,949
Other payables	125,503	135,876	126,525
Taxes payable other than corporate income tax	31,816	106,730	100,381
Accrued expenses	20,857	34,867	54,367
Interest payables	—	1,921	1,659
	<u>339,258</u>	<u>422,054</u>	<u>359,881</u>

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other payables	—	180	522
Accrued expenses	—	6,266	5,355
Interest payables	—	1,921	1,659
	<u>—</u>	<u>8,367</u>	<u>7,536</u>

Other payables are non-interest-bearing and repayable on demand.

Included in the other payables and accruals were other payables of RMB7,708,000, RMB7,715,000 and RMB6,479,000 as at 31 December 2016, 2017 and 2018, respectively, due to the Group's related parties.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Foreign exchange option contracts	—	11,196	13,465
Interest rate option contracts	—	2,405	5,049
	—	13,601	18,514
Portion classified as non-current:			
Foreign exchange option contracts	—	(10,372)	—
Interest rate option contracts	—	(2,084)	—
Current portion	—	1,145	18,514

The Company has entered into various foreign exchange option contracts and interest rate option contracts to manage its exchange rate exposures and interest rate exposures. These derivatives are not designated for hedge purposes and are measured at FVPL. Changes in the fair value of non-hedging derivatives amounting to a loss of RMB4,537,000 and a gain of RMB9,070,000 were included in the consolidated statements of profit or loss and other comprehensive income during the years ended 31 December 2017 and 2018, respectively.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2016			As at 31 December 2017			As at 31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Group									
Current									
Current portion of long-term bank loans – secured				3-month LIBOR	Within 2018		1-month LIBOR	Within 2019	
US\$226,000,000	—	—	—	plus 3.9%		144,786	plus 3.25%		183,612
Discounted notes receivable (note 20)		Within 2017	136,305		Within 2018	79,850		Within 2019	107,321
			136,305			224,636			290,933
Non-current									
Bank loans – secured				3-month LIBOR	2019-2022		1-month LIBOR	2020-2022	
US\$226,000,000 bank loans	—	—	—	plus 3.9%		1,320,748	plus 3.25%		1,204,627
			136,305			1,545,384			1,495,560
Company									
Current									
Current portion of long-term bank loans – secured				3-month LIBOR	Within 2018		1-month LIBOR	Within 2019	
US\$226,000,000	—	—	—	plus 3.9%		144,786	plus 3.25%		183,612
Non-current									
Bank loans – secured				3-month LIBOR	2019-2022		1-month LIBOR	2020-2022	
US\$226,000,000 bank loans	—	—	—	plus 3.9%		1,320,748	plus 3.25%		1,204,627
			—			1,465,534			1,388,239

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	136,305	224,636	290,933
In the second year	—	174,912	217,152
In the third to fifth years, inclusive	—	1,145,836	987,475
	<u>136,305</u>	<u>1,545,384</u>	<u>1,495,560</u>

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	—	144,786	183,612
In the second year	—	174,912	217,152
In the third to fifth years, inclusive	—	1,145,836	987,475
	<u>—</u>	<u>1,465,534</u>	<u>1,388,239</u>

Notes:

- (a) The US\$226,000,000 bank loans are secured by:
- i. mortgages and fixed charges over the equity interests in the Company held by the immediate holding company, Glory Cayman Holding Limited (“Glory Cayman”);
 - ii. mortgages and fixed charges over the equity interest in Glory Cayman held by the intermediate holding company, Glorious Cayman Ltd. (“Glorious Cayman”);
 - iii. mortgages and fixed charges over the Company’s equity interests in Joy Sonic and Alpha Sonic; and
 - iv. mortgages and fixed charges over Joy Sonic’s equity interests in Chisage Mulsanne and YAtlas Shanghai.
- (b) Except for the US\$226,000,000 bank loans which are denominated in United States dollars, all borrowings are in RMB.

28. DEFERRED TAX

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deferred tax assets	103,454	106,755	94,955
Deferred tax liabilities	(49,630)	(28,000)	—
	<u>53,824</u>	<u>78,755</u>	<u>94,955</u>

The movements in deferred tax assets and liabilities during the Relevant Periods were as follows:

Deferred tax assets

	Impairment of trade and other receivables	Impairment of inventories	Provision of sales return	Accrued employee benefits	Accrued sales rebate	Accrued expenses	Decelerated depreciation for tax purposes	Impairment of property, plant and equipment	Losses available for offsetting against future taxable income	Unrealised profit from inter-company transactions	Total deferred tax assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	3,502	12,127	27,576	17,500	8,308	9,743	6,065	3,500	—	20	88,341
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(797)	2,512	(3,278)	3,116	6,211	9,766	(3,898)	—	1,209	272	15,113
At 31 December 2016 and 1 January 2017	2,705	14,639	24,298	20,616	14,519	19,509	2,167	3,500	1,209	292	103,454
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(1,848)	6,246	13,203	(2,540)	(1,951)	(9,940)	854	—	(1,209)	486	3,301
At 31 December 2017 and 1 January 2018	857	20,885	37,501	18,076	12,568	9,569	3,021	3,500	—	778	106,755
Deferred tax credited/(charged) to profit or loss during the year (note 10)	4,554	(5,478)	(9,459)	(6,211)	(1,994)	4,593	1,100	—	—	1,095	(11,800)
At 31 December 2018	<u>5,411</u>	<u>15,407</u>	<u>28,042</u>	<u>11,865</u>	<u>10,574</u>	<u>14,162</u>	<u>4,121</u>	<u>3,500</u>	<u>—</u>	<u>1,873</u>	<u>94,955</u>

Deferred tax liabilities — withholding tax

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	21,630	49,630	28,000
Deferred tax charged to profit or loss during the year (note 10)	28,000	—	(24,815)
Refund of overpaid withholding tax	—	—	24,815
Settlement during the year	—	(21,630)	(28,000)
At end of year	<u>49,630</u>	<u>28,000</u>	<u>—</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008. Deferred taxes of RMB28,000,000, nil and nil have been recognised for withholding taxes that would be payable on the unremitted earnings for the years ended 31 December 2016, 2017 and 2018, respectively. The Group applied withholding tax rate of 10% for the years ended 31 December 2016 and 2017. Pursuant to the approval of the tax bureau in 2018, the Group is entitled to apply 5% withholding tax rate retrospectively. Therefore, the overpaid deferred tax liabilities amounted to RMB24,815,000 for prior years were reversed and repaid to the Group in 2018.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately nil, RMB433,317,000 and RMB765,292,000 as at 31 December 2016, 2017 and 2018, respectively. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future due to the Group's business development in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deductible temporary differences	5,672	6,278	9,430
Tax losses	5,563	17,850	33,338
	<u>11,235</u>	<u>24,128</u>	<u>42,768</u>

The above tax losses arose from Mainland China will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Except for that, tax losses arose from Cayman Islands and Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

29. SHARE CAPITAL

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Authorised:			
50,000 ordinary shares of US\$1 each	319	319	–
10,000,000,000 ordinary shares of HK\$0.01 each	–	–	88,181
	<u>319</u>	<u>319</u>	<u>88,181</u>
Issued:			
2016: 1 ordinary share of US\$1 each	–	–	–
2017: 2 ordinary shares of US\$1 each	–	–	–
2018: 1,560 ordinary shares of HK\$0.01 each	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>

The movement in the Company's share capital during the Relevant Periods is as follows:

	Number of ordinary shares in issue	Share capital RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	1	–
New issue on 22 August 2017	1	–
At 31 December 2017 and 1 January 2018	2	–
Share sub-division on 27 August 2018	1,998	–
Shares repurchased and cancelled on 7 November 2018	(2,000)	–
New issues on 7 November 2018	1,560	–
At 31 December 2018	<u>1,560</u>	<u>–</u>

The Company was incorporated on 20 November 2015 with authorised share capital of US\$50,000 (equivalent to RMB319,000) divided into 50,000 shares of a par value of US\$1.

On 20 November 2015, one share was issued and allotted to an independent third party at par, and was transferred to Updragon International Ltd. ("Updragon") at par on the same date.

On 21 October 2016, Updragon disposed of its 100% shares of the Company to Glory Cayman.

On 22 August 2017, the issued share capital was increased by US\$1 by the issue of 1 ordinary share of US\$1 to Glory Cayman. As at 31 December 2017, the issued share capital of the Company was US\$2 (equivalent to RMB12) with 2 shares of US\$1 each.

On 27 August 2018, all the issued and unissued shares of the Company with par value of US\$1 each was subdivided into 1,000 shares of US\$0.001 each. Accordingly, following the completion of the subdivision, our authorised share capital was altered to US\$50,000, divided into 50,000,000 shares of US\$0.001 each with an issued share capital of US\$2 divided into 2,000 shares in issue.

On 27 August 2018, Glory Cayman transferred all the shares of the Company to GXG Trading Limited ("GXG Trading"), Great World Glory Pte. Ltd. ("Great World Glory") and Crescent Glory Singapore Pte. Ltd. ("Crescent Glory") pro rata to their shareholdings in Glorious Cayman, and in consideration, GXG Trading, Great World Glory and Crescent Glory transferred pro rata approximately 90% in aggregate of their shares in Glorious Cayman to Glory Cayman.

On 7 November 2018, the Company passed resolutions to the effect that (a) the authorised share capital of the Company was increased (from US\$50,000 divided into 50,000,000 shares of US\$0.001 each) by HK\$100,000,000 by the creation of 10,000,000,000 shares of a par value of HK\$0.01 each; (b) following such increase, 1,560 shares of HK\$0.01 each were allotted and issued fully paid to the existing shareholders, pro rata to their then interests in the issued share capital of the Company; (c) following such issue of shares, the Company repurchased the 2,000 existing issued shares of US\$0.001 each in the capital of the Company in issue immediately prior to the issue of shares mentioned above at a price of US\$0.001, following which such 2,000 shares of par value of US\$0.001 each were cancelled; and (d) following such repurchase, the authorised but unissued share capital of the Company was diminished by the cancellation of all the 50,000,000 unissued shares of US\$0.001 each in the authorised share capital of the Company. Accordingly, following the completion of the steps outlined above, the Company had an authorised share capital of HK\$100,000,000 divided into 10,000,000,000 shares, of which 1,560 were in issue, and held as to 797, 295 and 468 shares by Great World Glory, Crescent Glory and GXG Trading, respectively.

30. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page I-6 of the Historical Financial Information.

Statutory surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

Merger reserve

The merger reserve represents the paid-up capital and capital reserve of the subsidiaries acquired by the Company pursuant to the Reorganisation set out in note 2.1 to the Historical Financial Information. Additionally, it also includes the difference of the consideration and the changes in the carrying amount of non-controlling interests.

Capital reserve

The capital reserve of the Group represents the share premium contributed by the shareholders of the Company.

Company

	Capital reserves	Exchange fluctuation reserves	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	(1)	—	(1)
Total comprehensive income for the year	—	113,773	2,238,537	2,352,310
Contribution from a shareholder	501,593	—	—	501,593
At 31 December 2016 and 1 January 2017	501,593	113,772	2,238,537	2,853,902
Total comprehensive income for the year	—	(162,693)	1,369,622	1,206,929
Capital injection from the immediate holding company	263,724	—	—	263,724
Dividends declared (note 12)	—	—	(1,611,616)	(1,611,616)
At 31 December 2017 and 1 January 2018	765,317	(48,921)	1,996,543	2,712,939
Total comprehensive income for the year	—	162,736	703,670	866,406
At 31 December 2018	<u>765,317</u>	<u>113,815</u>	<u>2,700,213</u>	<u>3,579,345</u>

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Percentage of effective equity interest held by non-controlling interests: Chisage Mulsanne	30%	0%	0%

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Profit for the year allocated to non-controlling interests: Chisage Mulsanne	124,778	44,927	—
Accumulated balances of non-controlling interests at end of year: Chisage Mulsanne	299,382	—	—
Dividends paid to non-controlling interests: Chisage Mulsanne	—	92,700	—

The following tables illustrate the summarised financial information of the above subsidiary, which became a wholly-owned subsidiary of the Group on 30 June 2017. The amounts disclosed are before any inter-company eliminations:

	Year ended	Six months
	31 December	ended 30 June
	2016	2017
	RMB'000	RMB'000
Revenue	2,968,133	1,346,676
Cost of sales	(1,386,274)	(627,831)
Total expenses	(1,149,938)	(579,422)
Other income and gains	16,885	7,313
Other expenses	(32,880)	(107)
Profit for the year/period	415,926	146,629
Attributable to:		
Owners of the parent	415,926	147,351
Non-controlling interests	—	(722)
	415,926	146,629
Total comprehensive income for the year/period	415,926	146,629

	As at 31 December	
	2016	
	RMB'000	
Current assets	1,951,789	
Non-current assets	352,082	
Current liabilities	1,305,934	

	Year ended	Six months
	31 December	ended 30 June
	2016	2017
	RMB'000	RMB'000
Net cash flows from/(used in) operating activities	162,256	(75,835)
Net cash flows used in investing activities	(69,363)	(36,575)
Net cash flows from/(used in) financing activities	170,384	(155,000)
Net increase/(decrease) in cash and cash equivalents	263,277	(267,410)

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

At the end of each of the Relevant Periods, the Group endorsed certain notes receivable accepted by certain banks in the PRC to certain of its suppliers in order to settle the trade and other payables due to such suppliers with carrying amounts in aggregate of RMB45,000,000, RMB19,700,000 and nil, as at 31 December 2016, 2017 and 2018, respectively.

On 31 May 2016, Glory Cayman, the immediate holding company, entered into a facility agreement with a bank for a total bank facility of US\$126,000,000 which was withdrawn on 21 October 2016. On 13 September 2017, pursuant to an agreement among the Company, Glory Cayman and the bank, the Company obtained an incremental bank facility from the bank amounted to US\$103,612,000 and the outstanding loan amount held by Glory Cayman amounted to US\$122,388,000 as at the agreement date was transferred to the Company. The consideration for the loan transferred from Glory Cayman amounted to US\$122,388,000 (equivalent to approximately RMB806,057,000) was offset with the dividend payable of the Company as at 31 December 2017, as agreed by the Company and Glory Cayman.

Additionally, the derivative financial instruments held by Glory Cayman amounted to US\$2,552,000, including foreign exchange options contracts and interest rate options contracts which were used to manage interest cost of the loan, were also transferred to the Company. The consideration for the derivative financial instruments transferred from Glory Cayman amounted to US\$2,552,000 (equivalent to approximately RMB16,791,000) was offset with the amount due from Glory Cayman as at 31 December 2017, as agreed by the Company and Glory Cayman.

(b) Changes in liabilities arising from financing activities

Interest-bearing bank and other borrowings

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	197,290	136,305	1,545,384
Changes from financing cash flows:			
Proceeds from bank and other borrowings	170,525	900,174	457,321
Repayment of bank and other borrowings	—	(150,000)	(493,148)
Non-cash changes:			
Discounted notes receivable derecognised on maturity	(231,510)	(136,305)	(79,850)
Bank loans transferred from the immediate holding company	—	806,057	—
Deferred finance charges	—	788	3,880
Foreign exchange movement	—	(11,635)	61,973
At end of year	<u>136,305</u>	<u>1,545,384</u>	<u>1,495,560</u>

Due from directors

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	126	263	8,733
Changes from financing cash flows:			
Changes in amount due from directors	—	8,643	(8,643)
Changes from operating cash flows:			
Changes in amount due from directors	137	(173)	(90)
At end of year	<u>263</u>	<u>8,733</u>	<u>—</u>

Due to related parties

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At beginning of year	47,000	61,021	30,059
Changes form financing cash flow:			
Loans from related parties	6,000	60,012	—
Loans to a related party	—	(16,791)	—
Repayment to related parties	(2,000)	(91,000)	(772)
Changes form operating cash flow:			
Advances from a related party	21	26	194
Non-cash changes:			
Derivative financial instruments transferred from the immediate holding company	—	16,791	—
Amount due to a related party for acquisition of a subsidiary under common control	10,000	—	—
Accrued interest expenses	—	—	1,192
Foreign exchange movement	—	—	960
At end of year	<u>61,021</u>	<u>30,059</u>	<u>31,633</u>

33. DISPOSAL OF A SUBSIDIARY

	2018
	RMB'000
Net assets disposed of:	
Property, plant and equipment (<i>note 14</i>)	383
Cash and bank balances	3,236
Trade receivables	635
Other receivables	5,474
Inventories	9,505
Trade payables	(3,961)
Other payables	(15,213)
Non-controlling interests	(12)
	47
Gain on disposal of a subsidiary (<i>note 5</i>)	3,205
Satisfied by cash	<u>3,252</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2018
	RMB'000
Cash consideration	3,252
Cash and bank balances disposed of	(3,236)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>16</u>

34. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its buildings under operating lease arrangements, with leases negotiated for terms of six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At 31 December 2016, 2017 and 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within one year	—	2,531	2,531
In the second to fifth years, inclusive	—	2,531	—
	<u>—</u>	<u>5,062</u>	<u>2,531</u>

(b) As lessee

The Group leases certain of its office properties and retail stores under operating lease arrangements. Leases for properties are negotiated for terms of one to five years. As at 31 December 2016, 2017 and 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within one year	92,225	142,764	168,011
In the second to fifth years, inclusive	79,682	109,927	151,269
	<u>171,907</u>	<u>252,691</u>	<u>319,280</u>

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Land and buildings	—	—	5,750
	<u>—</u>	<u>—</u>	<u>5,750</u>

36. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Glory Cayman	Immediate holding company
Ningbo Chisage Wenmo Branding Management Co., Ltd. ("Chisage Wenmo")	An entity controlled by a director
Ningbo Chisage Wenmo E-Commerce Co., Ltd. ("Wenmo E-Commerce")	An entity controlled by a director
Zhejiang Chisage Holding Group Co., Ltd. ("Chisage Holding")	An entity controlled by a director
Ningbo Songhe Apparel Co., Ltd. ("Songhe Apparel")	An entity controlled by a director
Ningbo Chisage Apparel Co., Ltd. ("Ningbo Chisage Apparel")	An entity controlled by a director
Huaian Chisage Industrial Co., Ltd. ("Huaian Chisage Apparel")	An entity controlled by a director
Ningbo Zhenrong Branding Management Co., Ltd. ("Zhenrong Branding Management")	An entity controlled by ZHU Zhaoguo
Ningbo Zhenshang Branding Management Co., Ltd. ("Zhenshang Branding Management")	An entity controlled by ZHU Zhaoguo
Ningbo Zhensheng Branding Management Co., Ltd. ("Zhensheng Branding Management")	An entity controlled by ZHU Zhaoguo
Ningbo Hehe Jessica Clothing Co., Ltd. ("Jessica Clothing")	An entity controlled by a director
Ningbo Hehe Import and Export Co., Ltd. ("Hehe Import and Export")	An entity controlled by a director
Ningbo Zhong-Zhe GXG Co., Ltd. ("Zhong-Zhe GXG") ..	An entity controlled by a director
Joy Asia International Limited ("Joy Asia")	An entity controlled by a director
Interpid Champion Inc. ("Interpid Champion")	An entity controlled by a director
Boyin Investment Co., Ltd. ("Boyin Investment")	An entity controlled by a director
YU Yong	Director of the Company
YANG Herong	Director of the Company
TU Guangjun	Key management of a subsidiary
LI Shujun	Director of a subsidiary
ZHU Zhaoguo*	Ultimate shareholder of the Company

* ZHU Zhaoguo was appointed as a director of a subsidiary from 26 October 2015 to 14 September 2016. Additionally, he was a shareholder of a subsidiary before 8 June 2017 and became one of the ultimate shareholders of the Company since then.

- (a) In addition to the transactions detailed elsewhere in this Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Notes	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Sales of products to:				
Zhenrong Branding Management	(i)	89,499	63,880	58,887
Zhenshang Branding Management	(i)	33,024	—	—
Chisage Holding	(i)	—	4	—
Purchases of products from:				
Huaian Chisage Apparel	(ii)	25,813	24,365	22,553
Ningbo Chisage Apparel	(ii)	40,416	70,993	83,053
Zhenrong Branding Management	(ii)	—	37	—
Agency fee to:				
Hehe Import and Export	(iii)	—	113	209
Rental fees to:				
Songhe Apparel	(iv)	4,935	5,771	4,808
Zhong-Zhe GXG	(iv)	—	4,830	738
Chisage Holding	(iv)	—	—	6,599
Rental fees from:				
Chisage Wenmo	(v)	—	2,121	2,121
Wenmo E-Commerce	(v)	—	289	289
Management service fees to:				
Zhenrong Branding Management	(vi)	2,840	2,684	2,660
Huaian Chisage Apparel	(vi)	—	—	436
Zhensheng Branding Management	(vi)	—	—	81
Sales of leasehold land and property, plant and equipment to:				
Chisage Holding	(vii)	—	94,037	—
Loans from:				
Chisage Holding	(viii)	6,000	40,000	—
Joy Asia	(viii)	—	19,240	—
Interpid Champion	(viii)	—	772	—
Repayment of loans to:				
Chisage Holding	(viii)	2,000	91,000	—
Interpid Champion	(viii)	—	—	772
Interests to:				
Joy Asia	(viii)	—	—	1,192
Loans to:				
Glory Cayman	(ix)	—	16,791	—

Notes:

- (i) The sales to related parties were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases from related parties were made according to the published prices and conditions offered by the related parties to their major customers.
- (iii) Agency fee happened when Hehe Import and Export purchase goods from Chisage Mulsanne and sell to Joy Sonic.
- (iv) The rental fees were paid for the lease of the warehouses and office from related parties. The rental fees were charged pursuant to the terms of the agreements signed between the Company and the related parties.
- (v) The rental fees were received for the lease of the warehouses to related parties. The rental fees were charged pursuant to the terms of the agreements signed between the Company and the related parties.
- (vi) The management fees were paid for the management of self-owned stores provided by related parties. The management fees were charged pursuant to the terms as agreed between the Group and the related parties.
- (vii) The property, plant and equipment and leasehold land were disposed of to related parties based on mutual agreement.
- (viii) The Group obtained loans from Chisage Holding and Interpid Champion which were unsecured, interest-free and repayable on demand. The loans from Joy Asia were used as the temporary working capital. The loans were unsecured, with an interest rate of 5% per annum and were repaid in January 2019.
- (ix) The loans were unsecured, interest-free and settled by derivative financial instruments from Glory Cayman.

(b) Commitments with related parties

On 1 January 2017, a subsidiary of the Group entered into a six-year agreement ending 31 December 2022 with Zhong-Zhe GXG, a company controlled by YANG Herong, for the lease of the office. This agreement was terminated in March 2018. The amount of total rental fee to Zhong-Zhe GXG for the Relevant Periods is included in note 36(a) above.

On 1 January 2016, a subsidiary of the Group entered into an agreement with Songhe Apparel, a company controlled by YANG Herong, for the lease of the office. The amount of total rental fee to Songhe Apparel for the Relevant Periods is included in note 36(a) above. This lease agreement is renewed on an annual basis.

On 1 January 2017, a subsidiary of the Group entered into an agreement ending 31 December 2019 with Chisage Wenmo and Wenmo E-Commerce, companies controlled by a director, for the lease of the warehouses. The amount of total rental fees from Chisage Wenmo and Wenmo E-Commerce for the Relevant Periods is included in note 36(a) above. The Group expects the total rental fees from Chisage Wenmo and Wenmo E-Commerce in 2019 to be approximately RMB2,410,000.

On 1 January 2018, a subsidiary of the Group entered into an agreement ending 31 December 2020 with Chisage Holding, a company controlled by a director, for the lease of the warehouses. The amount of total rental fee to Chisage Holding for the Relevant Periods is included in note 36(a) above. The Group expects the total rental fee to Chisage Holding in 2019 to be approximately RMB6,599,000.

(c) **Outstanding balances with related parties:**

(i) *Due from related parties*

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Chisage Holding	—	46,989	—
Glory Cayman	—	—	14
Glorious Cayman	—	66	70
	<u>—</u>	<u>47,055</u>	<u>84</u>

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Glorious Cayman	—	66	70

(ii) *Due from directors*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
YU Yong	50	—	—
LI Shujun	213	90	—
ZHU Zhaoguo	—	4,915	—
YANG Herong	—	3,728	—
	<u>263</u>	<u>8,733</u>	<u>—</u>

(iii) *Due to related parties*

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Chisage Holding	51,000	—	—
Boyin Investment	10,000	10,000	10,000
Joy Asia	—	19,240	21,383
Interpid Champion	—	772	—
Glory Cayman	21	47	250
	<u>61,021</u>	<u>30,059</u>	<u>31,633</u>

Company

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Glory Cayman	8	48	251

(iv) Due to a director

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
LI Shujun	—	15	—

*(v) Due from subsidiaries**Company*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Joy Sonic	—	402	3,791
Alpha Sonic	—	8	100
	—	410	3,891

*(vi) Due to a subsidiary**Company*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Joy Sonic	90	84	—

*(vii) Trade receivables**Group*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Zhenrong Branding Management	—	—	12,605
Hehe Import and Export	—	1,247	548
	—	1,247	13,153

(viii) Trade payables

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Ningbo Chisage Apparel	1,811	10,252	4,533
Hehe Import and Export	—	1,163	540
Huaian Chisage Apparel	—	78	—
Zhenshang Branding Management	98	—	5
	<u>1,909</u>	<u>11,493</u>	<u>5,078</u>

(ix) Other payables and accruals

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Zhenrong Branding Management	4,826	2,626	1,677
Zhenshang Branding Management	2,456	723	120
Jessica Clothing	6	—	—
Chisage Wenmo	420	424	275
Huaian Chisage Apparel	—	—	222
Zhong-Zhe GXG	—	2,013	—
Songhe Apparel	—	1,909	1,545
Chisage Holding	—	—	2,640
Glory Cayman	—	20	—
	<u>7,708</u>	<u>7,715</u>	<u>6,479</u>

(x) Prepayments, deposits and other receivables

Group

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Huaian Chisage Apparel	7,015	4,128	—
Ningbo Chisage Apparel	555	—	—
Zhenrong Branding Management	—	265	—
	<u>7,570</u>	<u>4,393</u>	<u>—</u>

The balances with related parties are unsecured, interest-free and repayable on demand except for:

- transactions detailed elsewhere in notes 20, 21, 24 and 25;
- the amount due to Joy Asia as stated in note 36(c)(iii); and
- the amount due to Boyin Investment which is repayable on demand for the years ended 31 December 2016 and 2017 and will be repayable on or before 30 June 2019 pursuant to a supplemental agreement between Boyin Investment and Joy Sonic entered into on 28 August 2018.

The balances with related parties listed in (i) to (vi) above are non-trade in nature and those balances with related parties listed in (vii) to (x) above are trade in nature.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	7,843	7,219	7,803
Pension scheme contributions	97	103	104
Total compensation paid to key management personnel	<u>7,940</u>	<u>7,322</u>	<u>7,907</u>

Further details of directors' remuneration are included in note 8 to the Historical Financial Information.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group*Financial assets*

31 December 2016

	Available-for- sale financial assets	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Trade and notes receivables	—	494,629	494,629
Financial assets included in prepayments, deposits and other receivables	—	116,011	116,011
Due from directors	—	263	263
Cash and cash equivalents	—	511,170	511,170
	<u>—</u>	<u>1,122,073</u>	<u>1,122,073</u>

31 December 2017

	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investment	—	50,000	—	50,000
Derivative financial instruments	13,601	—	—	13,601
Trade and notes receivables	—	—	616,019	616,019
Financial assets included in prepayments, deposits and other receivables	—	—	153,725	153,725
Due from directors	—	—	8,733	8,733
Due from related parties	—	—	47,055	47,055
Pledged short-term deposits	—	—	12,767	12,767
Cash and cash equivalents	—	—	593,910	593,910
	<u>13,601</u>	<u>50,000</u>	<u>1,432,209</u>	<u>1,495,810</u>

31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	At amortised cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	18,514	—	—	18,514
Trade and notes receivables	—	1,480	829,343	830,823
Financial assets included in prepayments, deposits and other receivables	—	—	187,925	187,925
Due from related parties	—	—	84	84
Pledged short-term deposits	—	—	33,995	33,995
Cash and cash equivalents	—	—	653,502	653,502
	<u>18,514</u>	<u>1,480</u>	<u>1,704,849</u>	<u>1,724,843</u>

Company*Financial assets*

	Loans and receivables		At amortised cost
	As at 31 December		As at 31 December
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Due from subsidiaries	—	410	3,891
Due from a related party	—	66	70
Financial assets included in prepayments, deposits and other receivables	—	—	186
Cash and cash equivalents	—	45,701	55,244
	—	46,177	59,391

Financial assets – at fair value through profit or loss

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Derivative financial instruments	—	13,601	18,514
Investments in subsidiaries	2,854,000	4,125,000	4,889,000
	2,854,000	4,138,601	4,907,514

Group*Financial liabilities at amortised cost*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade and notes payables	396,104	635,649	782,980
Financial liabilities included in other payables and accruals	146,360	172,664	182,551
Interest-bearing bank and other borrowings	136,305	1,545,384	1,495,560
Due to a director	—	15	—
Due to related parties	61,021	30,059	31,633
	739,790	2,383,771	2,492,724

Company*Financial liabilities at amortised cost*

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	—	8,367	7,536
Interest-bearing bank and other borrowings	—	1,465,534	1,388,239
Due to a subsidiary	90	84	—
Due to a related party	8	48	251
	98	1,474,033	1,396,026

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2016, 2017 and 2018, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has determined that the carrying amounts of cash and cash equivalents, pledged short-term deposits, trade and notes receivables, deposits and other receivables, trade and notes payables, other payables and accruals, amounts due from/to related parties, amounts due from/to directors, amounts due from/to subsidiaries, the current portion of interest-bearing bank and other borrowings, reasonably approximate to their fair values because these financial instruments are mostly short-term in nature.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group enters into derivative financial instruments with bank. Derivative financial instruments, including foreign exchange options contracts and interest rate options contracts are measured using valuation techniques, such as the Black-Scholes option pricing model. The model incorporates various market observable inputs such as the risk-free interest rate, implied volatility of the exchange rate and spot prices. The carrying amounts of foreign exchange option contracts and interest rate option contracts are the same as their fair values as disclosed in note 26 to the Historical Financial Information.

The fair values of the marketable structured financial products held by the Group as at 31 December 2017 are obtained from quoted prices in active markets.

The fair values of the notes receivable classified as financial assets at fair value through OCI under IFRS 9 as at 31 December 2018 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within six months, thus their fair values approximate to their carrying values.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2016, 2017 and 2018 was assessed to be insignificant.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	—	13,601	—	13,601
Available-for-sale investments	50,000	—	—	50,000
	<u>50,000</u>	<u>13,601</u>	<u>—</u>	<u>63,601</u>

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	—	18,514	—	18,514
Notes receivable	—	1,480	—	1,480
	<u>—</u>	<u>19,994</u>	<u>—</u>	<u>19,994</u>

The Group did not have any financial assets measured at fair value as at 31 December 2016.

For the years ended 31 December 2017 and 2018, respectively, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Company

The Company invests in unlisted equity of its subsidiaries which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Company uses discounted cash flow ("DCF") method to measure the fair values of such investments at the reporting date.

Under DCF method, the directors are required to make estimates about the expected future cash flows through normal business of the investee companies, discount rate, terminal growth and discount for lack of marketability rate. The expected future cash flows are then discounted to derive the fair values of the investee companies.

The Company categorises the fair values of these investments as Level 3. The valuation of unlisted equity is performed on a half-year basis by the Company.

As at 31 December 2016

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
Investments in subsidiaries	—	—	2,854,000	2,854,000

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
Derivative financial instruments	—	13,601	—	13,601
Investments in subsidiaries	—	—	4,125,000	4,125,000
	—	13,601	4,125,000	4,138,601

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
Derivative financial instruments	—	18,514	—	18,514
Investments in subsidiaries	—	—	4,889,000	4,889,000
	—	18,514	4,889,000	4,907,514

Liabilities for which fair values are disclosed:

Group and Company

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
Interest-bearing bank loans	—	1,320,748	—	1,320,748

As at 31 December 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
Interest-bearing bank loans	—	1,204,627	—	1,204,627

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2016, 2017 and 2018 are shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to the fair value
Investments in subsidiaries	DCF method	Long-term growth rate for cash flows for subsequent years	2016:3%	2% increase/(decrease) in the growth rate would result in an increase/(decrease) in fair value by RMB429,000,000/ (RMB309,000,000)
			2017:3%	2% increase/(decrease) in the growth rate would result in an increase/(decrease) in fair value by RMB378,000,000/ (RMB279,000,000)
			2018:3%	2% increase/(decrease) in the growth rate would result in an increase/(decrease) in fair value by RMB659,000,000/ (RMB465,000,000)
		Long-term gross profit margin	2016:52%	2% increase/(decrease) in the gross profit margin would result in an increase/(decrease) in fair value by RMB319,000,000/ (RMB320,000,000)
			2017:52%	2% increase/(decrease) in the gross profit margin would result in an increase/(decrease) in fair value by RMB503,000,000/ (RMB504,000,000)
			2018:52%	2% increase/(decrease) in the gross profit margin would result in an increase/(decrease) in fair value by RMB633,000,000/ (RMB633,000,000)
	WACC		2016:15.27%	2% increase/(decrease) in the WACC would result in a (decrease)/increase in fair value by RMB557,000,000/ (RMB778,000,000)

<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range (weighted average)</u>	<u>Sensitivity of the input to the fair value</u>
		2017:16.20%	2% increase/(decrease) in the WACC would result in a (decrease)/increase in fair value by (RMB534,000,000)/RMB725,000,000
		2018:14.53%	2% increase/(decrease) in the WACC would result in a (decrease)/increase in fair value by (RMB732,000,000)/RMB1,045,000,000
DCF method	Long-term operating profit margin	2016:19.88%	2% increase/(decrease) in the operating profit margin would result in an increase/(decrease) in fair value by RMB243,000,000/(RMB244,000,000)
		2017:18.07%	2% increase/(decrease) in the operating profit margin would result in an increase/(decrease) in fair value by RMB383,000,000/(RMB384,000,000)
		2018:15.12%	2% increase/(decrease) in the operating profit margin would result in an increase/(decrease) in fair value by RMB605,000,000/(RMB604,000,000)
	Discount for lack of marketability ("DLOM")	2016:25%	2% increase/(decrease) in the DLOM would result in a (decrease)/increase in fair value by (RMB76,000,000)/RMB76,000,000
		2017:10%	2% increase/(decrease) in the DLOM would result in a (decrease)/increase in fair value by (RMB92,000,000)/RMB91,000,000
		2018:10%	2% increase/(decrease) in the DLOM would result in a (decrease)/increase in fair value by (RMB109,000,000)/RMB108,000,000

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts and also interest rate options.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax</u>	<u>Increase/ (decrease) in equity</u>
		<u>RMB'000</u>	<u>RMB'000</u>
31 December 2017			
US\$	50	(7,428)	(7,428)
US\$	(50)	7,428	7,428
31 December 2018			
US\$	50	(7,048)	(7,048)
US\$	(50)	7,048	7,048

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position and by using foreign exchange options.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to translation of monetary assets and liabilities), and the Group's equity.

	<u>Increase/ (decrease) in rate of foreign currency</u>	<u>Increase/ (decrease) in profit before tax</u>	<u>Increase/ (decrease) in equity</u>
	<u>%</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2016			
If RMB weakens against US\$	5	3,086	3,015
If RMB strengthens against US\$	(5)	(3,086)	(3,015)
If RMB weakens against HK\$	5	(9)	(9)
If RMB strengthens against HK\$	(5)	9	9
If RMB weakens against MOP	5	—	—
If RMB strengthens against MOP	(5)	—	—
31 December 2017			
If RMB weakens against US\$	5	(67,520)	(69,685)
If RMB strengthens against US\$	(5)	67,520	69,685
If RMB weakens against HK\$	5	167	167
If RMB strengthens against HK\$	(5)	(167)	(167)
If RMB weakens against MOP	5	26	20
If RMB strengthens against MOP	(5)	(26)	(20)
31 December 2018			
If RMB weakens against US\$	5	(65,553)	(65,216)
If RMB strengthens against US\$	(5)	65,553	65,216
If RMB weakens against HK\$	5	161	161
If RMB strengthens against HK\$	(5)	(161)	(161)
If RMB weakens against MOP	5	100	111
If RMB strengthens against MOP	(5)	(100)	(111)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and amounts due from directors and related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 20 and 21 to the Historical Financial Information.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

As at 31 December 2016					
On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	62,625	73,680	—	136,305
Trade and notes payables	—	175,663	220,441	—	396,104
Financial liabilities included in other payables and accruals	146,360	—	—	—	146,360
Due to related parties	61,021	—	—	—	61,021
	<u>207,381</u>	<u>238,288</u>	<u>294,121</u>	<u>—</u>	<u>739,790</u>

As at 31 December 2017					
On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	—	35,491	262,927	1,526,141	1,824,559
Trade and notes payables	—	253,271	382,378	—	635,649
Financial liabilities included in other payables and accruals	172,664	—	—	—	172,664
Due to a director	15	—	—	—	15
Due to related parties	10,819	—	20,240	—	31,059
	<u>183,498</u>	<u>288,762</u>	<u>665,545</u>	<u>1,526,141</u>	<u>2,663,946</u>

As at 31 December 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	67,796	291,095	1,337,810	1,696,701
Trade and notes payables	—	266,038	516,942	—	782,980
Financial liabilities included in other payables and accruals	182,551	—	—	—	182,551
Due to related parties	31,633	—	—	—	31,633
	<u>214,184</u>	<u>333,834</u>	<u>808,037</u>	<u>1,337,810</u>	<u>2,693,865</u>

The maturity profile of the Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Company

As at 31 December 2016

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Due to a subsidiary	90	—	—	—	90
Due to a related party	8	—	—	—	8
	<u>98</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>98</u>

As at 31 December 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	19,941	198,627	1,526,141	1,744,709
Financial liabilities included in other payables and accruals	8,367	—	—	—	8,367
Due to a subsidiary	84	—	—	—	84
Due to a related party	48	—	—	—	48
	<u>8,499</u>	<u>19,941</u>	<u>198,627</u>	<u>1,526,141</u>	<u>1,753,208</u>

As at 31 December 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	17,575	233,995	1,337,810	1,589,380
Financial liabilities included in other payables and accruals	7,536	—	—	—	7,536
Due to a related party	251	—	—	—	251
	<u>7,787</u>	<u>17,575</u>	<u>233,995</u>	<u>1,337,810</u>	<u>1,597,167</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and notes payables, other payables and accruals and amounts due to related parties and a director, less cash and cash equivalents and pledged short-term deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the ends of each of the Relevant Periods were as follows:

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	136,305	1,545,384	1,495,560
Trade and notes payables	396,104	635,649	782,980
Other payables and accruals	339,258	422,054	359,881
Due to a director	—	15	—
Due to related parties	61,021	30,059	31,633
Less: Cash and cash equivalents	(511,170)	(593,910)	(653,502)
Pledged short-term deposits	—	(12,767)	(33,995)
Net debt	421,518	2,026,484	1,982,557
Equity attributable to owners of the parent	708,098	(230,300)	99,592
Total capital and net debt	1,129,616	1,796,184	2,082,149
Gearing ratio	37%	113%	95%

40. EVENTS AFTER THE RELEVANT PERIODS

On 26 April 2019, an amount of HK\$2,000 standing to the credit of the Company's share premium account was capitalised by the issue of fully paid of 198,440 shares at par value of HK\$0.01 each to the shareholders in proportion to their then existing holding of shares, such that following such issue, the Company had 200,000 shares in issue and held as to 102,200, 37,800 and 60,000 shares by Great World Glory, Crescent Glory and GXG Trading, respectively.

On 26 April 2019, following the completion of the issue of shares set out above, Great World Glory, Crescent Glory and GXG Trading transferred 5,110, 1,890 and 3,000 shares to participants under a restricted share unit scheme ("RSU Nominee") (representing approximately 5% of the issued share capital at the time of transfer). Following such transfers, the Company had 200,000 shares in issue and held as to 97,090, 35,910, 57,000 and 10,000 shares by Great World Glory, Crescent Glory, GXG Trading and the RSU Nominee, respectively.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this document, and is included herein for information purpose only.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2018 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the net tangible assets attributable to equity shareholders of the Company had the Global Offering been completed as at 31 December 2018 or at any future date.

Consolidated net tangible assets attributable to owners of the parent as at 31 December 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent as at 31 December 2018	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as at 31 December 2018	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as at 31 December 2018
RMB'000 <i>(Note 1)</i>	RMB'000 <i>(Note 2)</i>	RMB'000	RMB <i>(Note 3)</i>	(HK\$ equivalent) <i>(Note 4)</i>
Based on an Offer Price of HK\$4.22 per Share, after a Downward Offer Price Adjustment of 10%	89,253	659,602	748,855	0.79
Based on an Offer Price of HK\$4.68 per Share . .	89,253	735,800	825,053	0.87
Based on an Offer Price of HK\$5.88 per Share . .	89,253	934,576	1,023,829	1.08

Notes:

1. The consolidated net tangible assets attributable to owners of the parent as at 31 December 2018 is arrived at after deducting other intangible assets of RMB10,339,000 from consolidated equity attributable to owners of the parent of RMB99,592,000 as of 31 December 2018, as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.
2. The estimated net proceeds from the Global Offering are based on estimated offer prices of HK\$4.68 or HK\$5.88 per Share and also based on an Offer Price of HK\$4.22 per Share after making a Downward Offer Price Adjustment of 10%, after deduction of the underwriting fees and commissions, incentive fees and estimated expenses payable by our Company and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 950,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 December 2018.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.1650.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Mulsanne Group Holding Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Mulsanne Group Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2018, and related notes as set out on page II-1 of the prospectus dated 15 May 2019 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in notes 1 to 4 on pages II-1 of the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 December 2018 as if the transaction had taken place at 31 December 2018. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 31 December 2018, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants’ responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

15 May 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 20, 2015 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on April 26, 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so canceled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) *Directors*

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits

additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of

his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this

purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as canceled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from September 3, 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Document Delivered to the Registrar of Companies and Available for Inspection — 2. Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on November 20, 2015. We have established a principal place of business in Hong Kong at 31/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 18, 2018. Mr. Yu and Ms. Ng Sau Mei have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices in Hong Kong.

On November 7, 2018, our Company changed our name from Alpha Smart Limited to Mulsanne Group Holding Limited.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of the Constitution of Our Company and Cayman Companies Law” in Appendix III.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 50,000 shares of US\$1 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- On November 20, 2015, one share of the Company of par value of US\$1 was issued and allotted to NovaSage Incorporations (Cayman) Limited and transferred to Updragon International Ltd. (“**Updragon**”) for US\$1 at par value.
- On October 21, 2016, Updragon transferred one share of the Company of par value of US\$1 to Glory Cayman for cash consideration of RMB2,839.2 million.
- On August 22, 2017, the issued share capital was increased by US\$1 by the issue and allotment of one share of the Company of par value of US\$1 to Glory Cayman for cash consideration of US\$39.6 million.
- On August 27, 2018, all the issued and unissued shares of the Company with par value of US\$1 each were subdivided into 1,000 shares of US\$0.001 each. Accordingly, following the completion of the subdivision, our authorized share capital became US\$50,000, divided into 50,000,000 Shares of US\$0.001 each with an issued share capital of US\$2 divided into 2,000 Shares in issue.
- On August 27, 2018, Glory Cayman transferred all the shares of the Company to GXG Trading, Great World Glory and Crescent Glory pro rata to their shareholdings in Glorious Cayman, and in consideration, GXG Trading, Great World Glory and Crescent Glory transferred pro rata approximately 90% in aggregate of their shares in Glorious Cayman to Glory Cayman.
- On November 7, 2018, the Company passed resolutions to the effect that (a) the authorized share capital of the Company was increased (from US\$50,000 divided into 50,000,000 shares of US\$0.001 each) by HK\$100,000,000 by the creation of 10,000,000,000 Shares of HK\$0.01 each; (b) following such increase, 1,560 Shares were allotted and issued fully paid to the existing shareholders, pro rata to their then interests in the issued share capital of the Company; (c) following such issue of Shares, the Company repurchased the 2,000 existing issued shares of US\$0.001 in the capital of the Company in issue immediately prior to the issue of Shares at a price of US\$0.001, following which such 2,000 shares of par value US\$0.001 each were canceled; and (d) following such repurchase, the authorized but unissued share capital of the Company was diminished by the cancellation of all the 50,000,000

unissued shares of US\$0.001 each in the capital of the Company. Accordingly, following the completion of the steps outlined above, the Company had an authorized share capital of HK\$100,000,000 divided into 10,000,000,000 Shares, of which 1,560 were in issue, and held as to 797, 295 and 468 Shares by Great World Glory, Crescent Glory and GXG Trading, respectively.

- On April 26, 2019, following the completion of the redenomination exercise set out above, an amount of HK\$1,984.40 standing to the credit of the Company's share premium account was capitalized by the issue fully paid of 198,440 shares of par value HK\$0.01 each to the shareholders in proportion to their then existing holding of shares, such that following such issue, the Company had 200,000 Shares in issue and held as to 102,200, 37,800 and 60,000 Shares by Great World Glory, Crescent Glory and GXG Trading, respectively.
- On April 26, 2019, following the completion of the issue of shares set out above, Great World Glory, Crescent Glory and GXG Trading transferred 5,110, 1,890 and 3,000 Shares to RSU Nominee for the RSU Scheme (representing approximately 5% of the issued share capital at the time of transfer). Following such transfers, our Company had 200,000 Shares in issue and held as to 97,090, 35,910, 57,000 and 10,000 Shares by Great World Glory, Crescent Glory, GXG Trading and the RSU Nominee, respectively.

Immediately following the completion of the Capitalization Issue and Global Offering, the issued share capital of our Company will be HK\$9,500,000, divided into 950,000,000 Shares of HK\$0.01 each, all fully paid or credited as fully paid and 9,050,000,000 Shares of HK\$0.01 each will remain unissued.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Shareholders of Our Company Passed on April 26, 2019

Pursuant to the written resolutions passed by the Shareholders on April 26, 2019:

- (a) our Company approved and conditionally adopted the Articles of Association with effect from the Listing Date;
- (b) conditional on (1) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and such grant and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and the Directors were authorized to allot and issue the New Shares pursuant to the Global Offering;
 - (ii) the proposed Listing was approved and the Directors were authorized to implement the Listing;
 - (iii) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 749,800,000 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becoming unconditional (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of HK\$7,498,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

- (iv) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of the Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (c) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (d) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue and the Global Offering and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (v) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting and the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”);
- (v) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering, such mandate to remain in effect during the Applicable Period; and
- (vi) the general unconditional mandate mentioned in paragraph (v) above be extended by the addition to the nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the total nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the Company’s share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering.

4. Our Pre-Listing Reorganization

The companies comprising the Group underwent various reorganization steps in preparation for the Listing. Please see the section headed “Our History and Development” for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I. Save for the subsidiaries mentioned in the Accountant’s Report, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

- On August 21, 2017, the share capital of Joy Sonic was redenominated from HK\$100,000 to US\$12,800.
- On August 22, 2017, the total amount of paid up capital of Joy Sonic was increased from US\$12,800 to US\$39,612,800 due to the issue and allotment of one share to the Company.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on April 26, 2019, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering, such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by the Company may be made out of the profits of the Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, subject to the Cayman Companies Law, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

(v) *Suspension of Repurchase*

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the listed company.

(b) *Reasons for Repurchases*

The Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(c) *Funding of Repurchases*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, or out of a fresh issue of Shares made for the purpose of the repurchase or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company, or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of 950,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering could accordingly result in up to approximately 95,000,000 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No connected person of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the total number of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-competition;
- (d) a cornerstone investment agreement dated May 9, 2019 entered into among our Company, Sasseur Cayman Holding Limited and the Joint Global Coordinators, details of which are included in the section headed "Cornerstone Investors" of this prospectus;
- (e) a cornerstone investment agreement dated May 6, 2019 entered into among our Company, Wanda Investment (Hong Kong) Limited and the Joint Global Coordinators, details of which are included in the section headed "Cornerstone Investors" of this prospectus;

- (f) the amendment and novation agreement dated September 13, 2017 between the Company (previously known as Alpha Smart Limited), Glory Cayman, Glorious Cayman, Citigroup Global Markets Asia Limited, CTBC Bank Co., Ltd., E.Sun Commercial Bank, Ltd., Offshore Banking Unit, Hana Bank (China) Co., Ltd, Taishin International Bank, Yuanta Commercial Bank Co., Ltd., Bank Sinopac Co. Ltd., Cathay United Bank, Co., Ltd., Shinhan Asia Limited, KGI Bank, CMB International Finance Limited, Entie Commercial Bank, Ltd., Citicorp International Limited, Citicorp International Limited and others relating to a facility agreement dated May 31, 2016; and
- (g) the equity transfer agreement dated June 7, 2017 entered into among Zhejiang Chisage Holding Group Co., Ltd. (浙江中哲控股集團有限公司), Ningbo Yuexing Investment Co., Ltd. (寧波悅行投資有限公司), Mr. Zhu Zhaoguo, Ms. Tu Guangjun, Mr. Yang and Mr. Yu (as vendors) and Joy Sonic (as purchaser), pursuant to which the vendors agreed to sell and the purchaser agreed to acquire 30% of the equity interest in Chisage Mulsanne at a cash consideration of RMB265,050,000.

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

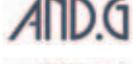
(a) Trademarks

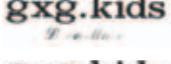
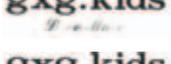
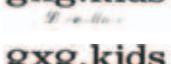
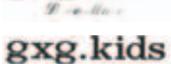
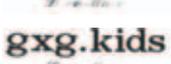
As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

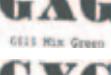
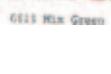
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
1		1	Joy Sonic	PRC	9089729	February 7, 2012	February 6, 2022
2		2	Joy Sonic	PRC	9089726	February 7, 2012	February 6, 2022
3		3	Joy Sonic	PRC	6005261	March 28, 2010	March 27, 2020
4		5	Joy Sonic	PRC	9084097	April 21, 2012	April 20, 2022
5		6	Joy Sonic	PRC	9084206	February 7, 2012	February 6, 2022
6		7	Joy Sonic	PRC	9084158	February 7, 2012	February 6, 2022
7		9	Joy Sonic	PRC	6005260	January 14, 2010	January 13, 2020
8		10	Joy Sonic	PRC	9084073	February 7, 2012	February 6, 2022
9		11	Joy Sonic	PRC	9078183	April 21, 2012	April 20, 2022

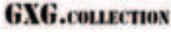
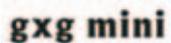
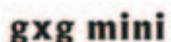
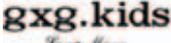
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
10		12	Joy Sonic	PRC	9078100	January 28, 2012	January 27, 2022
11		13	Joy Sonic	PRC	9078149	February 21, 2012	February 20, 2022
12		15	Joy Sonic	PRC	9078128	January 28, 2012	January 27, 2022
13		16	Joy Sonic	PRC	9083893	July 14, 2012	July 13, 2022
14		17	Joy Sonic	PRC	9083913	July 7, 2012	July 6, 2022
15		19	Joy Sonic	PRC	9083950	July 7, 2012	July 6, 2022
16		21	Joy Sonic	PRC	6593364	March 28, 2010	March 27, 2020
17		27	Joy Sonic	PRC	9078498	January 28, 2012	January 27, 2022
18		28	Joy Sonic	PRC	6593366	July 14, 2010	July 13, 2020
19		29	Joy Sonic	PRC	9078480	May 14, 2012	May 13, 2022
20		30	Joy Sonic	PRC	9078231	January 28, 2012	January 27, 2022
21		31	Joy Sonic	PRC	9084006	March 21, 2012	March 20, 2022
22		32	Joy Sonic	PRC	9078053	January 28, 2012	January 27, 2022
23		33	Joy Sonic	PRC	9084025	February 7, 2012	February 6, 2022
24		34	Joy Sonic	PRC	9078204	January 28, 2012	January 27, 2022

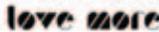
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
25		36	Joy Sonic	PRC	9074514	January 28, 2012	January 27, 2022
26		37	Joy Sonic	PRC	9074490	January 28, 2012	January 27, 2022
27		38	Joy Sonic	PRC	9074465	January 28, 2012	January 27, 2022
28		39	Joy Sonic	PRC	9074452	March 21, 2012	March 20, 2022
29		40	Joy Sonic	PRC	9074439	January 28, 2012	January 27, 2022
30		41	Joy Sonic	PRC	9074417	January 28, 2012	January 27, 2022
31		42	Joy Sonic	PRC	9074402	January 28, 2012	January 27, 2022
32		43	Joy Sonic	PRC	9074368	February 28, 2012	February 27, 2022
33		44	Joy Sonic	PRC	9074357	February 28, 2012	February 27, 2022
34		45	Joy Sonic	PRC	9074343	February 28, 2012	February 27, 2022
35		11	Joy Sonic	PRC	9097822	February 21, 2012	February 20, 2022
36		20	Joy Sonic	PRC	9097775	April 28, 2012	April 27, 2022
37		35	Joy Sonic	PRC	11965830	June 14, 2014	June 13, 2024
38		25	Joy Sonic	PRC	8081937	February 28, 2011	February 27, 2021
39		25	Joy Sonic	PRC	8081941	February 28, 2011	February 27, 2021
40		25	Joy Sonic	PRC	9539406	August 7, 2012	August 6, 2022
41		25	Joy Sonic	PRC	7764995	December 7, 2010	December 6, 2020
42		21	Joy Sonic	PRC	6593365	March 28, 2010	March 27, 2020
43		1	Joy Sonic	PRC	11219795	December 14, 2013	December 13, 2023

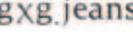
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
44		2	Joy Sonic	PRC	11219797	December 14, 2013	December 13, 2023
45		3	Joy Sonic	PRC	11228173	December 14, 2013	December 13, 2023
46		4	Joy Sonic	PRC	11219848	December 14, 2013	December 13, 2023
47		5	Joy Sonic	PRC	11219864	December 14, 2013	December 13, 2023
48		6	Joy Sonic	PRC	11219894	December 7, 2013	December 6, 2023
49		7	Joy Sonic	PRC	11219902	December 7, 2013	December 6, 2023
50		8	Joy Sonic	PRC	11219913	December 7, 2013	December 6, 2023
51		9	Joy Sonic	PRC	11219926	December 7, 2013	December 6, 2023
52		10	Joy Sonic	PRC	11219930	December 7, 2013	December 6, 2023
53		11	Joy Sonic	PRC	11219952	December 7, 2013	December 6, 2023
54		12	Joy Sonic	PRC	11222819	December 14, 2013	December 13, 2023
55		13	Joy Sonic	PRC	11222827	December 14, 2013	December 13, 2023
56		15	Joy Sonic	PRC	11222841	December 14, 2013	December 13, 2023
57		16	Joy Sonic	PRC	11222855	December 14, 2013	December 13, 2023
58		17	Joy Sonic	PRC	11222862	December 14, 2013	December 13, 2023
59		19	Joy Sonic	PRC	11222883	December 14, 2013	December 13, 2023
60		20	Joy Sonic	PRC	11224602	December 14, 2013	December 13, 2023
61		21	Joy Sonic	PRC	11224608	December 14, 2013	December 13, 2023
62		27	Joy Sonic	PRC	11228272	December 14, 2013	December 13, 2023
63		28	Joy Sonic	PRC	11228278	December 14, 2013	December 13, 2023
64		29	Joy Sonic	PRC	11228292	December 14, 2013	December 13, 2023
65		30	Joy Sonic	PRC	11228302	December 14, 2013	December 13, 2023
66		31	Joy Sonic	PRC	11234603	December 14, 2013	December 13, 2023

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
67		32	Joy Sonic	PRC	11234620	December 14, 2013	December 13, 2023
68		33	Joy Sonic	PRC	11234634	December 14, 2013	December 13, 2023
69		34	Joy Sonic	PRC	11234652	December 14, 2013	December 13, 2023
70		35	Joy Sonic	PRC	11095934	November 7, 2013	November 6, 2023
71		36	Joy Sonic	PRC	11234661	December 14, 2013	December 13, 2023
72		37	Joy Sonic	PRC	11234681	December 14, 2013	December 13, 2023
73		38	Joy Sonic	PRC	11234778	December 14, 2013	December 13, 2023
74		39	Joy Sonic	PRC	11234796	December 14, 2013	December 13, 2023
75		40	Joy Sonic	PRC	11241866	December 21, 2013	December 20, 2023
76		41	Joy Sonic	PRC	11241916	December 14, 2013	December 13, 2023
77		42	Joy Sonic	PRC	11241964	April 28, 2014	April 27, 2024
78		43	Joy Sonic	PRC	11276239	December 28, 2013	December 27, 2023
79		44	Joy Sonic	PRC	11276271	December 28, 2013	December 27, 2023
80		45	Joy Sonic	PRC	11276305	December 28, 2013	December 27, 2023
81		5	Joy Sonic	PRC	18087953	January 21, 2017	January 20, 2027
82		8	Joy Sonic	PRC	18088083	November 28, 2016	November 27, 2026
83		9	Joy Sonic	PRC	18088239	January 28, 2017	January 27, 2027
84		12	Joy Sonic	PRC	18088280	January 28, 2017	January 27, 2027
85		16	Joy Sonic	PRC	18088399	January 28, 2017	January 27, 2027
86		20	Joy Sonic	PRC	18088605	January 21, 2017	January 20, 2027
87		24	Joy Sonic	PRC	18089111	January 21, 2017	January 20, 2027
88		26	Joy Sonic	PRC	18089249	November 21, 2016	November 20, 2026
89		28	Joy Sonic	PRC	18089414	January 21, 2017	January 20, 2027
90		41	Joy Sonic	PRC	18089723	January 21, 2017	January 20, 2027

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
91		24	Joy Sonic	Taiwan	01534116	September 1, 2012	August 31, 2022
92		26	Joy Sonic	Taiwan	01534256	September 1, 2012	August 31, 2022
93		25	Joy Sonic	France	073490162	March 23, 2017	March 22, 2027
94		25	Joy Sonic	France	113798152	January 18, 2011	January 17, 2021
95		18, 25	Joy Sonic	Hong Kong	302969704	April 22, 2014	April 21, 2024
96		18	Chisage Mulsanne	PRC	13954486	March 14, 2015	March 13, 2025
97		25	Chisage Mulsanne	PRC	13954464	October 14, 2015	October 13, 2025
98		25	Chisage Mulsanne	PRC	10312535	February 21, 2013	February 20, 2023
99		25	Chisage Mulsanne	PRC	3083564	May 21, 2013	May 20, 2023
100		4	Chisage Mulsanne	PRC	11752607	April 28, 2014	April 27, 2024
101		14	Chisage Mulsanne	PRC	6593382	March 28, 2010	March 27, 2020
102		18	Chisage Mulsanne	PRC	6005259	February 28, 2010	February 27, 2020
103		18	Chisage Mulsanne	PRC	10312515	February 21, 2013	February 20, 2023
104		22	Chisage Mulsanne	PRC	9083979	February 7, 2012	February 6, 2022
105		24	Chisage Mulsanne	PRC	6005258	March 7, 2010	March 6, 2020
106		25	Chisage Mulsanne	PRC	9078516	June 28, 2012	June 27, 2022
107		25	Chisage Mulsanne	PRC	10923162	September 14, 2013	September 13, 2023
108		25	Chisage Mulsanne	PRC	14011736	June 21, 2015	June 20, 2025

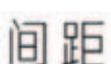
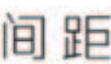
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
109		25	Chisage Mulsanne	PRC	11516607	July 14, 2014	July 13, 2024
110		26	Chisage Mulsanne	PRC	6005257	February 28, 2010	February 27, 2020
111		25	Chisage Mulsanne	PRC	9097743	February 7, 2012	February 6, 2022
112		25	Chisage Mulsanne	PRC	7106717	September 7, 2010	September 6, 2020
113		25	Chisage Mulsanne	PRC	7106718	April 28, 2013	April 27, 2023
114		25	Chisage Mulsanne	PRC	9401945	May 14, 2012	May 13, 2022
115		25	Chisage Mulsanne	PRC	7106614	September 7, 2010	September 6, 2020
116		25	Chisage Mulsanne	PRC	7649561	May 21, 2011	May 20, 2021
117		18	Chisage Mulsanne	PRC	10312494	February 21, 2013	February 20, 2023
118		25	Chisage Mulsanne	PRC	9687644	August 14, 2012	August 13, 2022
119		18	Chisage Mulsanne	PRC	10116565	March 14, 2013	March 13, 2023
120		25	Chisage Mulsanne	PRC	10111760	December 21, 2012	December 20, 2022
121		18	Chisage Mulsanne	PRC	10116597	March 7, 2013	March 6, 2023
122		25	Chisage Mulsanne	PRC	10116516	March 7, 2013	March 6, 2023
123		18	Chisage Mulsanne	PRC	10116648	December 21, 2012	December 20, 2022
124		25	Chisage Mulsanne	PRC	10116526	March 7, 2013	March 6, 2023
125		18	Chisage Mulsanne	PRC	13772411	March 14, 2015	March 13, 2025
126		25	Chisage Mulsanne	PRC	13772355	March 14, 2015	March 13, 2025
127		25	Chisage Mulsanne	PRC	13772305	July 14, 2015	July 13, 2025
128		18, 25	Chisage Mulsanne	PRC	15289531	October 21, 2015	October 20, 2025
129		18	Chisage Mulsanne	PRC	12238844	September 7, 2015	September 6, 2025

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
130		25	Chisage Mulsanne	PRC	12238835	April 7, 2015	April 6, 2025
131		18	Chisage Mulsanne	PRC	10312503	April 21, 2013	April 20, 2023
132		18	Chisage Mulsanne	PRC	10116759	March 7, 2013	March 6, 2023
133		18	Chisage Mulsanne	PRC	10876738	August 14, 2013	August 13, 2023
134		25	Chisage Mulsanne	PRC	10876760	August 28, 2014	August 27, 2024
135		25	Chisage Mulsanne	PRC	24223656	May 14, 2018	May 13, 2028
136		25	Chisage Mulsanne	PRC	10121780	July 7, 2014	July 6, 2024
137		25	Chisage Mulsanne	PRC	10312525	April 21, 2013	April 20, 2023
138		14	Chisage Mulsanne	PRC	11222835	December 14, 2013	December 13, 2023
139		25	Chisage Mulsanne	PRC	23777096	April 14, 2018	April 13, 2028
140		25	Chisage Mulsanne	PRC	23771300	April 14, 2018	April 13, 2028
141		25	Chisage Mulsanne	PRC	23772278	April 14, 2018	April 13, 2028
142		18	Chisage Mulsanne	PRC	24324446	June 14, 2018	June 13, 2028
143		25	Chisage Mulsanne	PRC	23771293	April 14, 2018	April 13, 2028
144		18	Chisage Mulsanne	PRC	24326321	May 21, 2018	May 20, 2028
145		25	Chisage Mulsanne	PRC	24328191	May 28, 2018	May 27, 2028
146		18	Chisage Mulsanne	PRC	11222871	December 14, 2013	December 13, 2023
147		22	Chisage Mulsanne	PRC	11228202	December 14, 2013	December 13, 2023
148		23	Chisage Mulsanne	PRC	11228215	December 14, 2013	December 13, 2023
149		24	Chisage Mulsanne	PRC	11228234	December 14, 2013	December 13, 2023
150		25	Chisage Mulsanne	PRC	8418622	July 7, 2011	July 6, 2021

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
151		25	Chisage Mulsanne	PRC	14904037	July 14, 2015	July 13, 2025
152		25	Chisage Mulsanne	PRC	11228245	April 14, 2015	April 13, 2025
153		26	Chisage Mulsanne	PRC	11228259	December 14, 2013	December 13, 2023
154		18, 25	Chisage Mulsanne	PRC	16681976	May 28, 2016	May 27, 2026
155		18, 25, 28	Chisage Mulsanne	PRC	16675887	May 14, 2017	May 13, 2027
156		18	Chisage Mulsanne	PRC	12238828	August 14, 2014	August 13, 2024
157		25	Chisage Mulsanne	PRC	12238814	August 14, 2014	August 13, 2024
158		25	Chisage Mulsanne	PRC	11955820	June 14, 2014	June 13, 2024
159		25	Chisage Mulsanne	PRC	13398080	January 21, 2015	January 20, 2025
160		25	Chisage Mulsanne	PRC	1801674	July 7, 2012	July 6, 2022
161		18	Chisage Mulsanne	PRC	23350561	March 21, 2018	March 20, 2028
162		25	Chisage Mulsanne	PRC	22996370	February 28, 2018	February 27, 2028
163		25	Chisage Mulsanne	PRC	23348635	March 21, 2018	March 20, 2028
164		25	Chisage Mulsanne	PRC	23346922	March 21, 2018	March 20, 2028
165		25	Chisage Mulsanne	PRC	23348729	March 21, 2018	March 20, 2028
166		18	Chisage Mulsanne	PRC	25328892	July 28, 2018	July 27, 2028
167		25	Chisage Mulsanne	PRC	25753353	July 28, 2018	July 27, 2028
168		18	Chisage Mulsanne	PRC	25751111	July 28, 2018	July 27, 2028

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
169		25	Chisage Mulsanne	PRC	25706426	July 28, 2018	July 27, 2028
170		25	Chisage Mulsanne	PRC	25895718	August 14, 2018	August 13, 2028
171		18	Chisage Mulsanne	PRC	25891421	August 14, 2018	August 13, 2028
172		18	Chisage Mulsanne	PRC	25703091	August 21, 2018	August 20, 2028
173		18, 25	Chisage Mulsanne	Hong Kong	303332808	March 17, 2015	March 16, 2025
174		18, 25	Chisage Mulsanne	Hong Kong	303332826	March 17, 2015	March 16, 2025
175		18, 25	Chisage Mulsanne	Hong Kong	303332817	March 17, 2015	March 16, 2025
176		18, 25	Chisage Mulsanne	Hong Kong	303332790	March 17, 2015	March 16, 2025
177		18	Chisage Mulsanne	Hong Kong	302102714	December 2, 2011	December 1, 2021
178		25	Chisage Mulsanne	Hong Kong	301061243	February 28, 2018	February 27, 2028
179		18, 25	Chisage Mulsanne	Hong Kong	302102723	December 2, 2011	December 1, 2021
180		18, 25	Chisage Mulsanne	Hong Kong	302102732	December 2, 2011	December 1, 2021
181		18	Chisage Mulsanne	Taiwan	01527398	July 16, 2012	July 15, 2022
182		25	Chisage Mulsanne	Taiwan	01527657	July 16, 2012	July 15, 2022
183		18	Chisage Mulsanne	Taiwan	01522322	June 16, 2012	June 15, 2022
184		25	Chisage Mulsanne	Taiwan	01522570	June 16, 2012	June 15, 2022
185		18	Chisage Mulsanne	Taiwan	01788263	September 1, 2016	August 31, 2026
186		25	Chisage Mulsanne	Taiwan	01788446	September 1, 2016	August 31, 2026
187		25	Chisage Mulsanne	Taiwan	01788447	September 1, 2016	August 31, 2026
188		18	Chisage Mulsanne	Taiwan	01788264	September 1, 2016	August 31, 2026

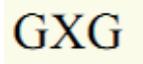
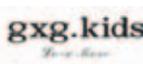
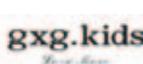
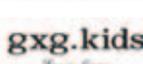
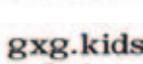
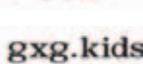
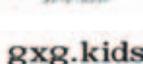
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
189	GXG	18	Chisage Mulsanne	United Arab Emirates	279264	September 7, 2017	September 7, 2027
190	gxcg.kids <i>Love life</i>	18	Chisage Mulsanne	United Arab Emirates	279265	September 7, 2017	September 7, 2027
191	gxcg.kids <i>Love life</i>	25	Chisage Mulsanne	United Arab Emirates	279267	September 7, 2017	September 7, 2027
192	Yatlas	18	Yatlas Shanghai	United Arab Emirates	279246	September 7, 2017	September 7, 2027
193	GXG	25	Chisage Mulsanne	Republic of Korea	0661972	May 12, 2016	May 12, 2026
194	GXG	25	Chisage Mulsanne	Spain	1079848	March 18, 2011	March 18, 2021
195	GXG JEANS 8	18, 25	Chisage Mulsanne	Spain	1149816	January 7, 2013	January 7, 2023
196	吉尔兄弟 BirdGill	16	Chisage Mulsanne E-commerce	PRC	10647831	June 7, 2013	June 6, 2023
197	吉尔兄弟 BirdGill	28	Chisage Mulsanne E-commerce	PRC	10647791	June 7, 2013	June 6, 2023
198	m.v.b	25	Chisage Mulsanne E-commerce	PRC	21726727	December 14, 2017	December 13, 2027
199	Yatlas	18	Yatlas Shanghai	PRC	14076062	April 28, 2015	April 27, 2025
200	Yatlas	25	Yatlas Shanghai	PRC	14069876	April 21, 2015	April 20, 2025
201	yatlas	18	Yatlas Shanghai	PRC	14076076	April 28, 2015	April 27, 2025
202	yatlas	25	Yatlas Shanghai	PRC	14069879	April 21, 2015	April 20, 2025
203	Yatlas	3	Yatlas Shanghai	PRC	17595481	September 28, 2016	September 27, 2026
204	Yatlas	9	Yatlas Shanghai	PRC	17595555	November 28, 2016	November 27, 2026
205	Yatlas	35	Yatlas Shanghai	PRC	17595714	September 28, 2016	September 27, 2026
206	Yatlas	40	Yatlas Shanghai	PRC	17595740	September 28, 2016	September 27, 2026
207	Yatlas Junior	18	Yatlas Shanghai	PRC	23221907	March 14, 2018	March 13, 2028
208	Yatlas Junior	25	Yatlas Shanghai	PRC	23221952	March 7, 2018	March 6, 2028
209	Yatlas	18	Yatlas Shanghai	PRC	25330130	July 14, 2018	July 13, 2028
210	Yatlas	25	Yatlas Shanghai	PRC	25325487	July 14, 2018	July 13, 2028
211	Yatlas	18, 25	Yatlas Shanghai	Spain	1309877	December 10, 2015	December 10, 2025
212	Yatlas	18, 25	Yatlas Shanghai	United States	5135174	February 7, 2017	February 6, 2027

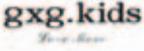
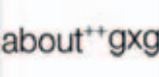
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
213		18	Yatlas Shanghai	Taiwan	01892486	January 16, 2018	January 15, 2028
214		25	Yatlas Shanghai	Taiwan	01892649	January 16, 2018	January 15, 2028
215		25	Chisage Mulsanne	PRC	27263949	November 14, 2018	November 13, 2028
216		18	Chisage Mulsanne	PRC	27273898	December 7, 2018	December 6, 2028
217		25	Chisage Mulsanne	PRC	28469877	December 21, 2018	December 20, 2028
218		25	Chisage Mulsanne	PRC	27271199	December 7, 2018	December 6, 2028
219		25	Chisage Mulsanne	PRC	27270031	December 7, 2018	December 6, 2028
220		18	Chisage Mulsanne	PRC	27265523	December 7, 2018	December 6, 2028
221		18, 25	Chisage Mulsanne	Hong Kong	304680586	September 26, 2018	September 25, 2028
222		25	Chisage Mulsanne	PRC	21601259	December 7, 2017	December 6, 2027
223		25	Chisage Mulsanne E-commerce	PRC	27960100	November 14, 2018	November 13, 2028
224		35	Chisage Mulsanne E-commerce	PRC	27957029	November 14, 2018	November 13, 2028
225		18	Chisage Mulsanne E-commerce	PRC	27953155	November 14, 2018	November 13, 2028
226		35	Chisage Mulsanne E-commerce	PRC	27941402	November 14, 2018	November 13, 2028
227		18	Chisage Mulsanne E-commerce	PRC	27953712	February 21, 2019	February 20, 2029
228		18	Yatlas Shanghai	PRC	27230187	October 14, 2018	October 13, 2028
229		25	Yatlas Shanghai	PRC	27216512	October 14, 2018	October 13, 2028

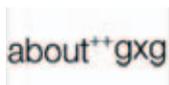
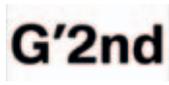
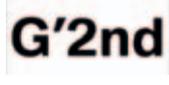
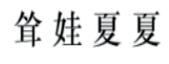
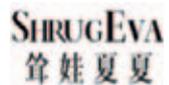
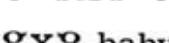
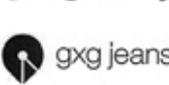
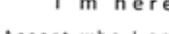
No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
230.		25	Chisage Mulsanne	PRC	32482149	April 7, 2019	April 6, 2029
231.		18	Chisage Mulsanne	PRC	32477124	April 7, 2019	April 6, 2029
232.		25	Chisage Mulsanne	PRC	32475556	April 7, 2019	April 6, 2029
233.		18	Chisage Mulsanne	PRC	32475543	April 21, 2019	April 20, 2029
234.		35	Chisage Mulsanne	PRC	32473299	April 21, 2019	April 20, 2029
235.		18	Chisage Mulsanne	PRC	32465742	April 7, 2019	April 6, 2029
236.		18	Chisage Mulsanne	PRC	31766373	March 21, 2019	March 20, 2029
237.		25	Chisage Mulsanne	PRC	31760700	March 21, 2019	March 20, 2029
238.		18	Chisage Mulsanne	PRC	23352019	March 28, 2019	March 27, 2029
239.		18	Chisage Mulsanne	PRC	23346301	March 28, 2019	March 27, 2029
240.		25	Chisage Mulsanne	PRC	21789778	February 7, 2018	February 6, 2028
241.		25	Chisage Mulsanne	PRC	21466295	November 21, 2017	November 20, 2027

As of the Latest Practicable Date, we have applied for the registration of the following trademarks:

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
1.		21	Joy Sonic	PRC	16334706	February 6, 2015
2.		18, 25	Joy Sonic	Hong Kong	304668562	September 13, 2018
3.		25	Chisage Mulsanne	PRC	22996317	March 2, 2017
4.		25	Chisage Mulsanne	PRC	32477148	July 25, 2018
5.		18	Chisage Mulsanne	PRC	32484743	July 25, 2018

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
6.		25	Chisage Mulsanne	PRC	32465757	July 25, 2018
7.		18	Chisage Mulsanne	PRC	32478641	July 25, 2018
8.		25	Chisage Mulsanne	PRC	32468718	July 25, 2018
9.		18	Chisage Mulsanne	PRC	28477086	January 2, 2018
10.		25	Chisage Mulsanne	PRC	32482517	July 25, 2018
11.		25	Chisage Mulsanne	Macau	N/126762(248)	August 8, 2017
12.		18	Chisage Mulsanne	Macau	N/126761(252)	August 8, 2017
13.		18	Chisage Mulsanne	Indonesia	DID2017042088	September 4, 2017
14.		25	Chisage Mulsanne	Indonesia	DID2017042089	September 4, 2017
15.		18	Chisage Mulsanne	Malaysia	2017068612	September 26, 2017
16.		25	Chisage Mulsanne	Malaysia	2017068621	September 26, 2017
17.		18, 25	Chisage Mulsanne	Thailand	170132822	September 15, 2017
18.		18, 25	Chisage Mulsanne	Canada	1855059	August 30, 2017
19.		25	Chisage Mulsanne	United States	87587384	August 29, 2017
20.		18	Chisage Mulsanne	Macau	N/127609(175)	September 6, 2017
21.		25	Chisage Mulsanne	Macau	N/127610(724)	September 6, 2017
22.		18	Chisage Mulsanne	Indonesia	DID2017042072	September 4, 2017
23.		25	Chisage Mulsanne	Indonesia	DID2017042087	September 4, 2017
24.		18	Chisage Mulsanne	Malaysia	2017068625	September 26, 2017
25.		25	Chisage Mulsanne	Malaysia	2017068633	September 26, 2017
26.		18, 25	Chisage Mulsanne	Thailand	170132823	September 15, 2017

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
27.		18	Chisage Mulsanne	Canada	1855060	August 30, 2017
28.	gxg.kids love more	18	Chisage Mulsanne	United States	87587403	August 29, 2017
29.	gxg.kids	25	Chisage Mulsanne	United States	87587388	August 29, 2017
30.		18	Yatlas Shanghai	Macau	N/126759(320)	August 8, 2017
31.		25	Yatlas Shanghai	Macau	N/126758(548)	August 8, 2017
32.		18	Yatlas Shanghai	Indonesia	DID2017042073	September 4, 2017
33.		25	Yatlas Shanghai	Indonesia	DID2017042074	September 4, 2017
34.		18	Yatlas Shanghai	Malaysia	2017068640	September 26, 2017
35.		25	Yatlas Shanghai	Malaysia	2017068643	September 26, 2017
36.		18, 25	Yatlas Shanghai	Thailand	170132821	September 15, 2017
37.		18, 25	Yatlas Shanghai	Canada	1855057	August 30, 2017
38.	MODOU®	18	Chisage Mulsanne	PRC	36020990	January 18, 2019
39.		18	Chisage Mulsanne	PRC	36454685	February 22, 2019
40.	AND.Y SPACE	18	Chisage Mulsanne	PRC	36459678	February 22, 2019
41.		18	Chisage Mulsanne	PRC	36459671	February 22, 2019
42.		25	Chisage Mulsanne	PRC	36454701	February 22, 2019
43.		25	Chisage Mulsanne	PRC	36454716	February 22, 2019
44.		18	Chisage Mulsanne	PRC	36459675	February 22, 2019
45.		25	Chisage Mulsanne	PRC	36440227	February 22, 2019
46.	AND.Y SPACE	25	Chisage Mulsanne	PRC	36440222	February 22, 2019
47.		18	Chisage Mulsanne	PRC	35580578	December 26, 2018

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
48.		25	Chisage Mulsanne	PRC	35579500	December 26, 2018
49.		18	Chisage Mulsanne	PRC	35567976	December 26, 2018
50.		25	Chisage Mulsanne	PRC	35556765	December 26, 2018
51.		18	Chisage Mulsanne	PRC	34272239	October 25, 2018
52.		18	Chisage Mulsanne	PRC	34269502	October 25, 2018
53.		25	Chisage Mulsanne	PRC	34265954	October 25, 2018
54.		18	Chisage Mulsanne	PRC	34196963	October 22, 2018
55.		25	Chisage Mulsanne E-commerce	PRC	35329551	December 14, 2018
56.		18	Chisage Mulsanne	PRC	37174665	March 29, 2019
57.		35	Chisage Mulsanne	PRC	37174701	March 29, 2019
58.		25	Chisage Mulsanne	PRC	37194704	March 29, 2019
59.		35	Chisage Mulsanne	PRC	37197161	March 29, 2019
60.		25	Chisage Mulsanne	PRC	37299287	April 3, 2019
61.		25	Chisage Mulsanne	PRC	37434897	April 11, 2019
62.		18	Chisage Mulsanne	PRC	37446920	April 11, 2019
63.		25	Chisage Mulsanne	PRC	37453257	April 11, 2019
64.		25	Chisage Mulsanne	PRC	37606372	April 18, 2019
65.		25	Chisage Mulsanne	PRC	37641341	April 19, 2019
66.		25	Chisage Mulsanne	PRC	37655876	April 19, 2019
67.		25	Chisage Mulsanne	PRC	37656963	April 19, 2019
68.		25	Chisage Mulsanne	PRC	37663049	April 19, 2019

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
69.		18	Yatlas Shanghai	PRC	37464618	April 12, 2019
70.		25	Yatlas Shanghai	PRC	37469584	April 12, 2019
71.		25	Yatlas Shanghai	PRC	37485891	April 12, 2019
72.		25	Yatlas Shanghai	PRC	37605962	April 18, 2019
73.		18	Yatlas Shanghai	PRC	37617234	April 18, 2019

(b) Domain Names

As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain name	Registrant	Registration date	Expiry date
1.	gxggroup.cn	Chisage Mulsanne	August 24, 2018	August 24, 2019
2.	gxggroup.com	Chisage Mulsanne	July 24, 2016	July 24, 2020
3.	gxg1978.com.cn	Chisage Mulsanne	April 3, 2007	April 3, 2020
4.	yatlas.cc	Chisage Mulsanne	August 11, 2014	August 11, 2020
5.	gxgwx.com	Chisage Mulsanne	September 25, 2014	September 25, 2020
6.	gxg1978.net	Chisage Mulsanne	April 3, 2007	April 3, 2021
7.	gxg1978.com	Chisage Mulsanne	April 3, 2007	April 3, 2022
8.	gxglife.com	Chisage Mulsanne E-commerce	May 11, 2012	May 11, 2023
9.	gxgemail.com	Chisage Mulsanne E-commerce	September 23, 2015	September 23, 2020
10.	gxg.so	Chisage Mulsanne E-commerce	December 30, 2014	December 30, 2019
11.	oagxg.com	Chisage Mulsanne E-commerce	December 17, 2014	December 17, 2020

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

(i) *Interest in our Company*

Name of Director	Nature of interest	Immediately following the completion of the Capitalization Issue and the Global Offering	
		Number of Shares held	Approximate percentage of shareholding interest ⁽¹⁾
Mr. Yu ⁽³⁾	Interest in controlled corporation	213,750,000	22.50%
Mr. Yang ⁽³⁾	Interest in controlled corporation	213,750,000	22.50%

Notes:

- (1) The calculation is based on the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering.
- (2) All interests stated are long positions.
- (3) Each of Mr. Yu (our executive Director) and Mr. Yang (our non-executive Director) is entitled to exercise or control the exercise of one-third of the voting power at general meetings of Madison International (which holds the entire equity interest in GXG Trading), and is therefore deemed to be interested in the Shares in which GXG Trading is interested.

(b) *Interests of the Substantial Shareholders*

Save as disclosed in “Substantial Shareholders”, immediately following the completion of the Capitalization Issue and the Global Offering and assuming the Over-allotment Option is not exercised, our Directors or chief executive are not aware of any other person (other than a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company.

(c) Interests in Other Members of the Group

So far as our Directors are aware, as of the Latest Practicable Date, the following persons (excluding us) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name of subsidiary</u>	<u>Name of shareholder</u>	<u>Registered capital</u>	<u>Approximately % of interest</u>
Mulsanne Maisi	Ms. LI Shujun	RMB2,000,000	20%
TwoXu Sports	2XU HK Limited	RMB4,500,000	30%

2. Directors' Service Contracts

Our executive Director has entered into a service contract with our Company on April 26, 2019, and we have issued letters of appointment to each of our non-executive Directors and independent non-executive Directors. The service contract with our executive Director is for an initial fixed term of three years commencing from April 26, 2019. The letters of appointment with each of our non-executive Directors and independent non-executive Directors are for an initial fixed term of three years. The service contract and the letters of appointment are subject to termination in accordance with their respective terms. The service contract and the letters of appointment may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including salaries, bonuses, allowances, benefits in kind and pension scheme contributions) paid to the Directors for the year ended December 31, 2016, 2017 and 2018 were RMB5.1 million, RMB5.1 million and RMB5.1 million, respectively.

Our independent non-executive Directors have been appointed for a term of three years. The Company intends to pay a director's fee of RMB300,000 per annum to each of the independent non-executive Directors. Save for the director's fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Under the arrangement currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2019 is estimated to be approximately RMB5.7 million.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

Further details of the terms of the above service contracts are set forth in the paragraph headed "— C. Further Information About Our Directors and Substantial Shareholders — 2. Directors' Service Contracts".

4. Directors' Competing Interests

Save as disclosed in the section headed "Relationship with Controlling Shareholders", none of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of the Group as a whole;
- (e) save in connection with Underwriting Agreements, none of the persons listed in “— E. Other Information — 5. Qualification of Experts” below has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (f) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) save as contemplated under the Underwriting Agreements, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s five largest customers and five largest suppliers.

D. SHARE INCENTIVE SCHEME

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Board on April 26, 2019. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purposes of the RSU Scheme

The purpose of the RSU Scheme is to incentivize executives for their contribution to the Group, to motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

2. *RSU*

A restricted share unit under the RSU Scheme (the “**RSU**”) gives a participant in the RSU Scheme (the “**RSU Participant**”) a conditional right when the RSU vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of exercise of the restricted share units, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents one underlying Share.

3. *Participants in the RSU Scheme*

Persons eligible to receive RSUs under the RSU Scheme are existing or past employees, directors (whether executive or non-executive, but excluding independent non-executive directors), consultants or officers of our Company or any of our subsidiaries (“**RSU Eligible Persons**”). The basis of eligibility of any selected person for the grant of RSUs shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group or such other factors as our Board may deem appropriate.

4. *Term of the RSU Scheme*

The RSU Scheme will be valid and effective for a period of ten years, commencing from the Listing Date or until it is terminated pursuant to the RSU Scheme, whichever is earlier (the “**RSU Scheme Period**”).

5. *Grant and acceptance*

(a) *Making an offer*

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (“**RSU Selected Person**”) by a letter, in such form as our Board may determine (“**RSU Grant Letter**”). The RSU Grant Letter shall specify (i) the RSU Selected Person’s name, (ii) the manner of acceptance of the RSUs, (iii) the number of RSUs granted and the number of underlying Shares represented by the RSUs or the percentage of the issued share capital of our Company represented by such RSUs, (iv) the vesting criteria, conditions and vesting schedule (if any), (v) the exercise price of the RSUs (where applicable), and (vi) such other terms and conditions as our Board shall determine and are not inconsistent with the RSU Scheme. The RSU Grant Letter shall serve as evidence of the grant of the RSUs and no further certificate shall be issued to the RSU Selected Person.

(b) *Acceptance of an offer*

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (“**RSU Grant Date**”). Upon acceptance, the RSU Selected Person becomes a participant in the RSU Scheme.

(c) *Restrictions on grants*

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- (i) the securities laws or regulations require that a prospectus or other offering document be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise;
- (ii) where granting the RSUs would result in a breach by our Company, our subsidiaries or any of their directors of any applicable securities laws, rules or regulations; or
- (iii) where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph (d) below).

(d) *Maximum number of RSUs*

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the Trustee (as defined below) for the purpose of the RSU Scheme from time to time. As of the date of this prospectus, the total number of Shares held by the Trustee is 10,000 Shares. Immediately following the completion of the Capitalization Issue and the Global Offering, the total number of Shares held by the Trustee will be 37,500,000 Shares, representing 3.95% of the total issued share capital of our Company.

(e) Rights attached to RSUs

A RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their vesting. Further, a RSU Participant does not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs prior to their vesting. For the avoidance of doubt, a RSU Participant may exercise voting rights, and is entitled to dividends, in respect of the Shares underlying the RSUs upon vesting of relevant RSUs.

(f) Rights attached to Shares

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or on the date of exercise of the RSUs or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of the transfer or on the date of exercise of the RSUs or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

(g) Assignment of RSUs

Unless otherwise approved by the Board, the RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the Trustee (as defined below) on trust for the RSU Participants, the RSUs or any interest or benefits therein.

(h) Vesting of RSUs

Our Board may determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board shall send a vesting notice (“**Vesting Notice**”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

(i) Appointment of trustee

Our Company may appoint an independent professional trustee (the “**Trustee**”) to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme and to hold Shares underlying the RSUs as applicable. Our Company may (i) allot and issue Shares to the Trustee to be held by the Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the Trustee by whatever means as our Board may in its absolute discretion determine to enable the Trustee to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme were transferred, allotted and issued to the Trustee, which, as of the Latest Practicable Date, holds 10,000 Shares underlying the RSUs granted under the RSU Scheme, which will be 37,500,000 Shares following the Capitalization Issue and the Global Offering, for the benefit of RSU Eligible Persons pursuant to the RSU Scheme.

(j) Exercise of RSUs

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot). Upon receipt of an exercise notice, our Board may decide at its absolute discretion to:

- (i) direct and procure the Trustee to, within a reasonable time, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the Trustee as fully paid up Shares or which the Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder of our Company, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the Trustee or as the Trustee directs; or
- (ii) pay, or direct and procure the Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the Shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) less any exercise price (where applicable) and after deduction or withholding of any tax, levies, stamp duty and other charges applicable to the entitlement of the RSU Participant and the sale of any Shares to fund such payment and in relation thereto.

Any exercise price paid by the RSU Participant in accordance with paragraph (i) above, or deducted or withheld in accordance with paragraph (ii) above, shall be returned to Great World Glory, Crescent Glory and GXG Trading (being the persons that contributed the underlying Shares under the RSUs), within 10 business days after the end of each six-months period starting from the adoption date of the RSU Scheme by our Board, in proportion to the number of Shares they contributed under the RSU Scheme. RSU Participants shall be responsible for conducting all necessary filings, registration or other administrative proceedings as required by applicable laws, rules or regulations, including but not limited to foreign exchange registration, for their exercise of RSUs.

(k) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced, unless as otherwise determined by our Board.

(l) Rights on voluntary winding-up

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), the treatment of all outstanding RSUs shall be determined by the Board. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with the Company's Shareholders such sum as they would have received in respect of the RSUs.

(m) Lapse of RSUs

- (i) Any unvested RSUs will automatically lapse immediately where:
 - (a) the RSU Participant's employment or service terminates for any reason except (i) the employment or service is terminated by reason of death, retirement or disability, (ii) where the employment is terminated involuntarily without cause, (iii) where the company employing the RSU Participant ceases to be one of the Subsidiaries, or (iv) any other incident occurs as our Board may at its discretion specify;

- (b) the RSU Participant is involved in businesses that are competing with or similar to our Group during his employment period without prior approval from our Company;
 - (c) the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any unvested RSUs or any interests or benefits pursuant to the RSUs; or
 - (d) the RSU Participant violates relevant rules under his/her respective local labor laws, or breaches the employment agreement or non-disclosure agreement with our Group.
- (ii) A RSU Participant's award will lapse on a proportional basis based on the proportion that (i) the time between the RSU Grant Date and the occurrence of the following relevant event bears to (ii) the entire vesting period set out in the RSU Participant's RSU Grant Letter if:
- (a) the RSU Participant's employment or service is terminated because of the RSU Participant's death, retirement or disability;
 - (b) the RSU Participant's employment or service is terminated involuntarily without cause;
 - (c) the company with which the RSU Participant is employed ceases to be one of the Subsidiaries; or
 - (d) any other incident occurs as our Board may at its discretion specify,

provided that the performance criteria set out in the RSU Grant Letter have been fully satisfied and fulfilled, if capable of being satisfied or fulfilled, with reference to the date of occurrence of that event.

- (iii) If at any time, a RSU Participant:
- (a) ceases to be an employee as a result of termination of his employment with the Group for Cause. For the purpose of this Rule, "Cause" means the Participant is in breach of his contract of employment with or any other obligation to our Group;
 - (b) fails, during the course of his/her employment, to devote the whole of his/her time and attention to the business of our Group or to use his/her best endeavors to develop the business and interests of our Group;
 - (c) is concerned during the course of his/her employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or
 - (d) is in breach of his/her contract of employment with or any other obligation to our Group,

then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares, unless as otherwise determined by our Board.

- (iv) Prior to the completion of the Global Offering, if a RSU Participant ceases to be an employee as a result of termination of his/her employment with our Group, regardless of the reason for the termination, all vested and unvested RSUs shall lapse automatically and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

(n) Cancellation of RSUs

Our Board may at its discretion cancel any RSUs that has not vested or lapsed, provided that:

- (i) our Company or its Subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSUs at the date of the cancellation as determined by our Board, after consultation with the auditors or an independent financial adviser appointed by our Board;
- (ii) our Company or its relevant Subsidiary provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be canceled; or
- (iii) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

(o) Reorganization of capital structure

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, our Board may, but is not obliged to, make such equitable adjustments, designed to protect the RSU Participants' interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

(p) Amendment of the RSU Scheme

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants. Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. The determination of our Board as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

(q) Termination of the RSU Scheme

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the Trustee and all RSU Participants of such termination and of how any property held by the Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

Upon (i) the expiry of the RSU Scheme Period; or (ii) the RSU Scheme is terminated before the expiry of the RSU Scheme Period; or (iii) any other time as agreed by our Board, whichever is earlier, any Shares underlying the lapsed or outstanding RSUs held on trust by the RSU Nominee shall be returned to Great World Glory, Crescent Glory and GXG Trading (being the persons that contributed the underlying Shares under the RSUs) at par value in proportion to the number of Shares they contributed under the RSU Scheme. Great World Glory, Crescent Glory and GXG Trading shall bear the costs incurred as a result of such return of Shares.

(r) Administration of the RSU Scheme

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more employees or independent third-party contractors (including the Trustee) or designate any Director to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it.

If a Director is a RSU Participant he/she may, notwithstanding his/her own interest and subject to the Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his/her own participation in it), and may retain RSUs under it. Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

(s) Outstanding RSUs granted

As of the Latest Practicable Date, no RSU has been granted. The grant and vesting of any RSUs which may be granted pursuant to the RSU Scheme will be in compliance with Rule 10.08 of the Listing Rules.

Our Company will issue announcements according to applicable Listing Rules, disclosing particulars of any RSUs granted under the RSU Scheme, including the date of grant, number of Shares involved, the vesting period, the appointment and arrangement with the Trustee and comply with Chapter 14A of the Listing Rules. Details of the RSU Scheme, including particulars and movements of the RSUs granted during each fiscal year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to the section headed "Underwriting — Joint Sponsors' Independence" for details regarding the independence of the Joint Sponsors.

The fees payable to the Joint Sponsors are US\$1.50 million and are payable by our Company.

4. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since December 31, 2018 (being the date to which the latest audited consolidated financial statements of the Group were prepared).

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Credit Suisse (Hong Kong) Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO
Citigroup Global Markets Asia Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities under the SFO
CMB International Capital Limited	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng Attorneys at Law	Legal advisers as to PRC law
Conyers Dill & Pearman	Legal advisers as to Cayman Islands law
China Insights Consultancy	Industry Consultant
Ningbo Zheng Ping Assets Evaluation Co., Ltd.	Independent Property Valuer

6. Consents of Experts

Each of the Joint Sponsors, Ernst & Young, Jingtian & Gongcheng Attorneys at Law, Conyers Dill & Pearman, China Insights Consultancy and Ningbo Zheng Ping Assets Evaluation Co., Ltd. has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately US\$7,000 and were payable by us.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Taxation of Holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
 - (iv) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;

- (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
- (vi) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Save as disclosed in this prospectus, none of the persons named in the paragraph headed “— E. Other Information — 6. Consents of Experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group.
- (c) The branch register of members of the Company will be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company’s Hong Kong Share Registrar or the branch registrar of members of the Company maintained in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.
- (d) Our Directors confirm that:
 - (i) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (ii) our Company has no outstanding convertible debt securities or debentures.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) The English version of this prospectus shall prevail over the Chinese version.

13. Particulars of the Over-allotment Grantors as of the Latest Practicable Date

- (a) Name: Great World Glory Pte. Ltd.
Description: A company incorporated in Singapore
Registered office: 1 Kim Seng Promenade, #18-07/12 Great World City, Singapore 237994
Maximum number of Shares to sell pursuant to the Over-allotment Option: 21,900,000
- (b) Name: Crescent Glory Singapore Pte. Ltd.
Description: A company incorporated in Singapore
Registered office: 1 Temasek Avenue, #20-01 Millenia Tower, Singapore 039192
Maximum number of Shares to sell pursuant to the Over-allotment Option: 8,100,000

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus; and
- (d) the statement of particulars of the Over-allotment Grantors.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett, ICBC Tower, 35/F, 3 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the audited consolidated financial statements of our Group for the years ended December 31, 2016, 2017 and 2018;
- (c) the Accountant’s Report and the report on the unaudited pro forma financial information prepared by Ernst & Young, the texts of which are set out in Appendices I and II to this prospectus;
- (d) the legal opinions issued by Jingtian & Gongcheng Attorneys at Law, our PRC legal advisers, in respect of certain aspects of the Group and the property interests of the Group;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our Cayman legal advisers, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;
- (f) the industry report issued by CIC, our industry consultant;
- (g) the valuation report issued by Ningbo Zheng Ping Assets Evaluation Co., Ltd., our independent property valuer;
- (h) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus;
- (j) service contracts and letters of appointment referred to in the section headed “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts” in Appendix IV to this prospectus;
- (k) the rules of the RSU Scheme;
- (l) the Cayman Companies Law; and
- (m) the statement of particulars of the Over-allotment Grantors, details of which are set out in the section headed “Statutory and General Information — E. Other Information — 13. Particulars of the Over-allotment Grantors as of the Latest Practicable Date” in Appendix IV to this prospectus.

GXG

Mulsanne Group Holding Limited
慕尚集團控股有限公司