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Post Hearing Information Pack of

JNBY Design Limited

江南布衣有限公司

(Incorporated in the Cayman Islands with limited liability)

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JNBY Design Limited

江南布衣有限公司

(Incorporated in the Cayman Islands with limited liability)

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EXPECTED TIMETABLE

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EXPECTED TIMETABLE

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SUMMARY

This summary aims to give you an overview of the information contained in this document. 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 text of this document. You should read the whole document before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in “Risk Factors”. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are a leading designer brand fashion house based in China. According to CIC, we had the largest market share of 9.6% in the PRC designer brand fashion industry and had a market share of 0.2% in the PRC apparel industry, each as measured by total retail sales in 2015. We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers. According to CIC, the PRC designer brand fashion industry is a fast growing market segment in the apparel industry primarily due to consumers’ increasingly sophisticated taste in fashion and growing desire to pursue greater individuality and uniqueness in clothing. The total retail sales of the PRC designer brand fashion industry have grown by a CAGR of 26.2% from 2011 to 2015, and are expected to grow by a CAGR of 26.7% from 2016 to 2020, according to the same source.

Our Brands and Products

Our brand portfolio currently comprises five brands — (i) *JNBY*, (ii) *CROQUIS*, (iii) *jnby by JNBY*, (iv) *less* and (v) *Pomme de terre*, each targeting a distinct customer segment and having a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”, which seeks to convey our belief in embracing independent thinking, independent expression, distinctive trends and allowing consumers to derive greater joy from their attire. Our products target middle- and upper-income customers. The table below sets forth a breakdown of our revenue by brand, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB’000	(%)	RMB’000	(%)	RMB’000	(%)
Revenue						
Women	1,104,058	79.8	1,200,762	74.4	1,320,295	69.3
<i>JNBY</i>	1,029,632	74.4	1,110,500	68.8	1,197,610	62.9
<i>less</i>	74,426	5.4	90,262	5.6	122,685	6.4
Men	237,781	17.2	298,058	18.5	379,595	20.0
<i>CROQUIS</i>	237,781	17.2	298,058	18.5	379,595	20.0
Children	41,596	3.0	114,273	7.1	202,752	10.7
<i>jnby by JNBY</i>	41,596	3.0	114,273	7.1	202,752	10.7
<i>Pomme de terre</i> ⁽¹⁾	—	—	—	—	—	—
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Note:

⁽¹⁾ We introduced *Pomme de terre* in March 2016, opened the first *Pomme de terre* store in July 2016, and did not record any revenue under this brand during the Track Record Period.

SUMMARY

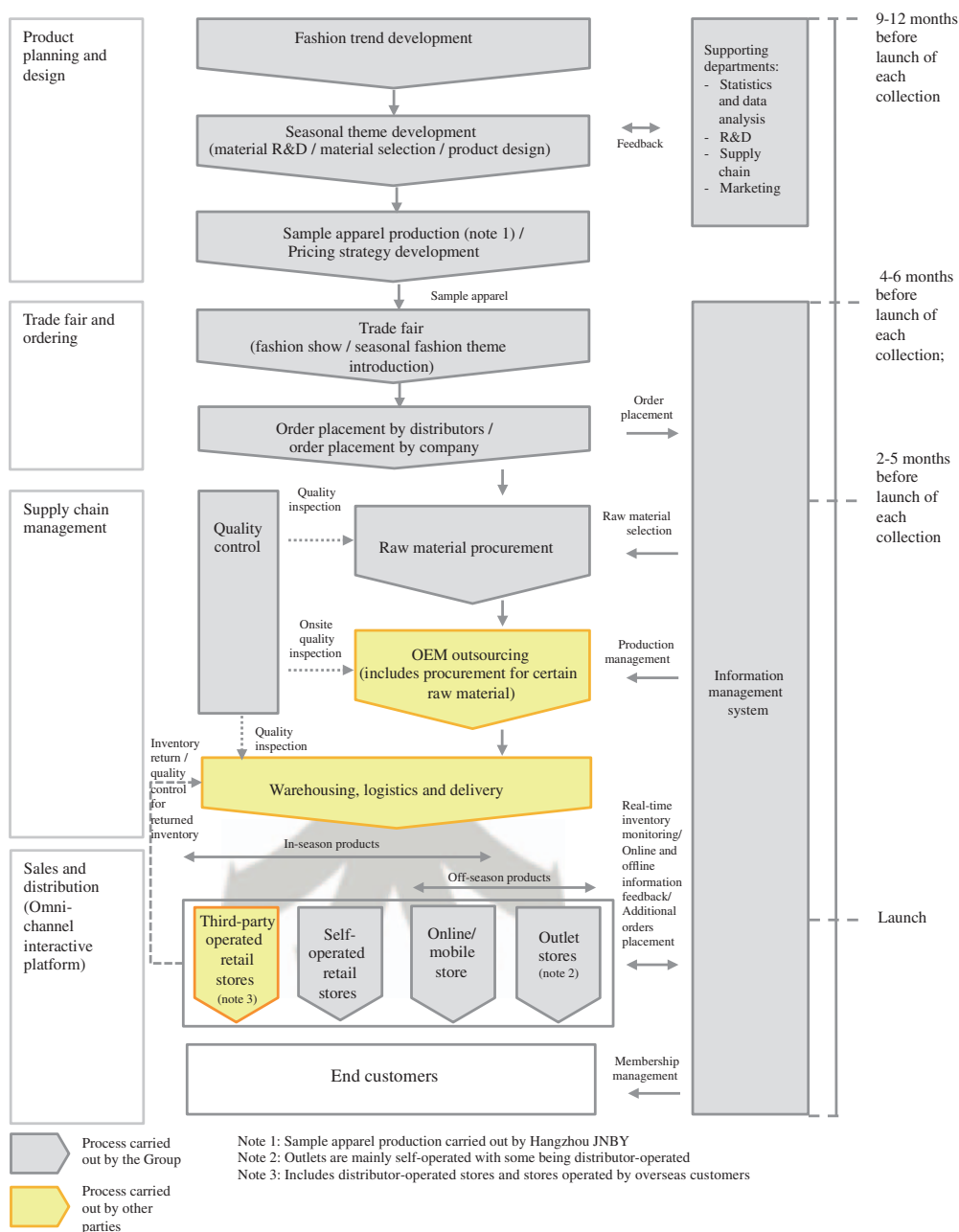
The following table sets forth a breakdown of the gross profit and gross profit margin of each of our five different brands for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
<i>JNBY</i>	579,373	56.3	665,309	59.9	727,430	60.7
<i>CROQUIS</i>	156,599	65.9	201,847	67.7	259,396	68.3
<i>jnby by JNBY</i>	22,814	54.8	68,697	60.1	124,647	61.5
<i>less</i>	44,190	59.4	54,698	60.6	78,986	64.4
<i>Pomme de terre</i>	—	—	—	—	—	—
Total	802,976	58.0	990,551	61.4	1,190,459	62.6

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Our Business Model

We operate a highly integrated business model, which enables us to seamlessly and efficiently connect each critical stage of our business operations. Our business model is illustrated in the following diagram.



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Product Planning and Design

We aim to offer apparel, footwear and accessories that have a distinctive design identity that leads fashion trends and improves our brand value and visibility to our target customers. Our design, research and development team is led by Ms. Li, our founder and chief creative officer. Ms. Li has more than 20 years of experience in this industry and was named among the “25 Influential Chinese in Global Fashion” by Forbes.com in 2010. Ms. Li is also a member of the council at the Museum of Contemporary Art Beijing and the Vancouver Art Gallery. We use our design-driven retailing model to give our talented and experienced team of designers considerable creative freedom to focus on originality in the design process. This empowers our designers to leverage their experiences and pursue their artistic vision, rather than following and simply reacting to the latest trends. Our core values are “Better Design, Better Life” and we are committed to building China’s best platform for design.

Sales and Distribution

We sell our products through a comprehensive and integrated omni-channel interactive platform comprising multiple offline and online sales networks. As of June 30, 2016, our omni-channel interactive platform consisted of (i) an offline network of 1,316 retail stores across China and 12 other countries or regions, including 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers and (ii) online channels, including major online platforms, such as Tmall, Jingdong/JD.com and VIP.com, as well as our social network platform on WeChat.

We have built an omni-channel interactive platform in order to nurture a “Fans Economy”, which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. Our omni-channel interactive platform takes into account our customers’ needs and enables us to transform them into loyal fans. The following are testaments to the growth of our fans community and the benefits of our “Fans Economy”:

- Since the launch of our social network platform on WeChat in 2015, we had accumulated over 720,000 subscribers on our WeChat platform as of June 30, 2016. We were attracting approximately 40,000 new subscribers to the platform each month on average since the launch of our WeChat platform.
- Our membership accounts increased from over 360,000 as of June 30, 2014 to over 1.2 million as of June 30, 2016, and the number of our Active Members rapidly increased from over 86,000 as of June 30, 2014 to over 190,000 as of June 30, 2016.
- Due in part to the effectiveness of our “Fans Economy” strategy and our omni-channel interactive platform, our retail stores achieved Same Store Sales Growth rates of 0.1%, 7.1% and 8.3%, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016.

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

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Revenue						
Offline channels	1,268,740	91.7	1,485,935	92.1	1,759,800	92.5
Self-operated stores ⁽¹⁾	617,717	44.7	732,803	45.4	940,759	49.4
Distributor-operated stores	619,851	44.8	730,577	45.3	806,531	42.4
Others ⁽²⁾	31,172	2.2	22,555	1.4	12,510	0.7
Online channels	114,695	8.3	127,158	7.9	142,842	7.5
Total revenue	1,383,435	100.0	1,613,093	100.0	1,902,642	100.0

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”.
- (2) Consists of stores operated by overseas customers.

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

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit		Gross Profit		Gross Profit	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Offline channels	761,672	60.0	951,401	64.0	1,135,261	64.5
Self-operated stores	427,750	69.2	530,841	72.4	679,833	72.3
Distributor-operated stores	317,251	51.2	405,906	55.6	448,658	55.6
Others	16,671	53.5	14,654	65.0	6,770	54.1
Online channels ⁽¹⁾	41,304	36.0	39,150	30.8	55,198	38.6
Total	802,976	58.0	990,551	61.4	1,190,459	62.6

Note:

- (1) During the Track Record Period, a significant portion of products sold through online channels comprised off-season products offered at discounts. As a result, the gross profit margin for online channels is significantly lower than the gross profit margin for offline channels during the Track Record Period.

SUMMARY

The table below sets forth our retail stores by store type as of the dates indicated.

Store types	As of June 30,		
	2014	2015	2016
Self-operated stores.....	282	332	432
Distributor-operated stores.....	639	742	855
Others ⁽¹⁾	34	38	29
Total	955	1,112	1,316

Note:

(1) Consists of stores operated by overseas customers.

Our self-operated stores can be divided into two types, concession stores and standalone stores. We enter into concession agreements with department stores for our rights to occupy and use the designated spaces in the department stores, and we enter into lease agreements with shopping malls and other lessors for our rights to open and operate our standalone stores on leased properties. The table below sets forth the term of these agreements and approximate gross floor area of all self-operated stores as of August 31, 2016.

Expiry Date of the Contracts	Number of Contracts	Approximate Gross Floor Area (square meters)
Within three months.....	123	11,040
Between three months and one year	189	17,947
Between one year and two years	77	10,620
Between two years and three years	49	6,161
More than three years	3	420
Total	441	46,188

As of August 31, 2016, 123 and 189 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 the stores, we do not anticipate any material difficulties in the relocation of such stores or identification of new store locations for continuous operation. Based on information currently available to us, if we were required to relocate our self-operated stores that are located on these properties, we estimate that the average relocation costs would be approximately RMB150,000 for each self-operated store. We believe that generally it would take us less than one month to relocate a self-operated store to a new location.

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Same Store Sales Growth

Same Store Sales Growth rates of our retail stores were 0.1%, 7.1% and 8.3%, respectively, for Fiscal 2014, Fiscal 2015 and Fiscal 2016. We believe the increase in Same Store Sales Growth rates during the Track Record Period was a result of (i) the launch of our inventory sharing and allocation system in early 2014, as such system enabled the effective and efficient replenishment of our inventories and has helped us better meet customers’ needs, even when desired sizes or colors are out of stock at particular locations; and (ii) the launch of our social network platform on WeChat in April 2015, which drove the growth of our “Fans Economy” and has facilitated interaction between our brands’ public accounts on WeChat and our subscribers. For more information, see “Financial Information — Factors Affecting Our Financial Condition and Results of Operation — Business growth of our existing stores and online channels”.

The table below sets forth the number of same stores and Same Store Sales Growth by brand of our self-operated stores during the Track Record Period.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>
<i>JNBY</i>	139	10.0%	150	4.5%	171	8.8%
<i>CROQUIS</i>	42	0.8%	39	14.7%	48	13.8%
<i>jnby by JNBY</i>	10	50.5%	23	34.4%	45	6.4%
<i>less</i> ⁽¹⁾	23	(8.3%)	22	14.5%	28	22.7%
Self-operated stores	214	6.8%	234	8.3%	292	10.6%

Note:

- (1) We acquired *less* in 2011. In Fiscal 2014, we re-positioned the brand to better align it with our design philosophy. The changes in style led to a temporary decrease in same store sales in Fiscal 2014, but the brand experienced robust Same Store Sales Growth in Fiscal 2015 and Fiscal 2016 partly due to the successful re-positioning.

Same Store Sales Growth rates of our distributor-operated stores were (2.9%), 6.4% and 7.0%, respectively, for Fiscal 2014, Fiscal 2015 and Fiscal 2016. The temporary decrease in same store sales of distributor-operated stores in Fiscal 2014 was primarily due to market conditions, particularly the competitive pressure from e-commerce platforms on physical stores. The increase in Same Store Sales Growth in Fiscal 2015 and Fiscal 2016 was a result of (i) the launch of our inventory sharing and allocation system and (ii) the launch of our social network platform on WeChat, as described above.

Supply Chain Management

We outsourced the production of substantially all of our products to OEM suppliers and produced a small portion of our products in Fiscal 2014 and Fiscal 2015. Since July 2015, in order to focus our resources on key stages of the product life cycle, such as product planning and design, brand

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promotion and management as well as supervision of retail and distribution network, we have outsourced the production of all of our products to selected domestic OEM suppliers. We maintained a broad network of OEM suppliers during the Track Record Period. Our OEM suppliers consist of two types: (i) finished product suppliers, which process raw materials and fabrics purchased by themselves and provide us with the finished products; and (ii) processing suppliers, which process raw materials and fabrics provided by us and provide us with the processed products. For Fiscal 2014, Fiscal 2015 and Fiscal 2016, we had 180, 208 and 231 OEM suppliers, respectively, all of which were located in the PRC.

Our Strengths

We believe we have achieved our success to date and are well-positioned to achieve future growth due to the following competitive strengths: (i) leadership in the rapidly growing designer brand fashion industry in China; (ii) a commitment to design, research and development with an internationally recognized team; (iii) multi-brand operations to achieve sustainable growth; (iv) an effective “Fans Economy” strategy nurtured by our omni-channel interactive platform; (v) an efficient inventory sharing and allocation system; and (vi) highly experienced management and design teams driven by entrepreneurialism, professionalism and experience.

Business Strategies

We intend to maintain and strengthen our position as a leading designer brand fashion house based in China. Specifically, we plan to pursue the following strategies to achieve our objectives: (i) continue to expand and diversify our product portfolio by further enhancing our design capabilities and brand awareness; (ii) further enhance our retail network and optimize our channel mix; (iii) improve customer experience to improve Same Store Sales Growth; and (iv) strengthen supply chain management and enhance warehousing and logistics infrastructure.

Competition

We operate in a highly competitive and relatively fragmented industry. We compete with a broad range of designer brand fashion companies. According to CIC, there were over 300 market players in the designer brand fashion industry in the PRC, with the top five players accounting for 29.3% of market share in terms of retail sales, including both online and offline sales, in 2015. We had the highest retail sales and a market share of 9.6% in 2015 among designer brand fashion companies in the PRC.

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), which enables our headquarters to timely analyze and record sales details and track inventory.

In March 2014, we launched the “inventory sharing and allocation system”, which is designed to enhance consumers’ shopping experiences by optimizing product replenishment, shipment coordination and inventory control. Through this system, we closely monitor real-time inventory

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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.

To effectively gauge market trends and customers’ preferences, members of our marketing team closely monitor our sales data and consumer feedback and communicate regularly with our design teams. Our design teams take consumer feedback into consideration when designing new products. In the meantime, we encourage our designers to leverage their experiences and pursue their artistic vision, rather than following and simply reacting to the latest trends.

Retention of Inventory by Huikang Industrial

In the course of discussions with VKC on its investment in the Exchangeable Notes, VKC and our Founders could not reach an agreement as to the valuation of off-season inventory, which was an estimate based on management’s historical experience of selling such inventory and it was difficult for VKC to verify the valuation by itself. To avoid a deadlock in the negotiation and facilitate VKC’s valuation of its investment in the Exchangeable Notes, our Founders and VKC agreed that the new holding company structure would be a streamlined structure and that therefore off-season inventory (in the amount of approximately RMB217.1 million) was agreed to be retained and assumed by Huikang Industrial pursuant to the VKC Note Purchase Agreement. Our Founders and VKC also agreed that Huikang Industrial would act as a product supplier for such off-season inventory. We sell these products through our online platforms and outlets based on our promotional discount policies and programs, and we purchased products from Huikang Industrial based on consumers’ orders for sales through our online channels and on a monthly basis for sales at our outlets. See “Our History and Development — Development of Out Group Structure — Our Onshore Reorganization” and “Financial Information — Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details.

These transactions are reflected in our results of operations and financial condition in several ways during the Track Record Period. Purchase of goods from Huikang Industrial amounted to RMB98.6 million, RMB51.5 million and RMB23.4 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. The gross profit/(loss) margin for the sale of such goods amounted to 41.2%, 18.3% and (9.9%), respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. The retention of inventory by Huikang Industrial reduced the opening balances of inventory and provision for inventory of Fiscal 2014, which in turn caused the inventory turnover days and provision to gross inventory ratio of Fiscal 2014 to be relatively lower when compared to such ratios of Fiscal 2015. Going forward, we do not expect further impact of these transactions on our results of operations, as we have ceased the purchases of Huikang Industrial’s inventories since June 2016. See “Financial Information” for further details.

SUMMARY

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Summary consolidated statements of comprehensive income

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Revenue	1,383,435	100.0	1,613,093	100.0	1,902,642	100.0
Gross profit	802,976	58.0	990,551	61.4	1,190,459	62.6
Operating profit	226,690	16.4	296,365	18.4	343,004	18.0
Profit before income tax	210,608	15.2	282,358	17.5	341,906	18.0
Profit for the year	149,916	10.8	196,952	12.2	239,336	12.6
Adjusted net profit (unaudited)⁽¹⁾	149,916	10.8	208,531	12.9	265,817	14.0

Note:

- (1) We derive adjusted net profit from profit for the year by (i) adding share-based compensation expenses and (ii) adding [REDACTED] expenses. Please refer to the section headed “Financial Information — Non-HKFRSs Measure”.

Summary consolidated balance sheets

	As of June 30,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Total assets	961,524	1,037,438	994,513
Total equity	306,545	499,454	287,942
Total liabilities	654,979	537,984	706,571
Net current assets	248,509	523,345	140,104

Summary consolidated statements of cash flows

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	88,112	282,003	297,186
Net cash (used in)/generated from investing activities	(155,314)	(19,544)	110,136
Net cash generated from/(used in) financing activities	940	(192,677)	(394,989)
Net (decrease)/increase in cash and cash equivalents	(66,262)	69,782	12,333
Cash and cash equivalents at end of the year	85,203	154,981	167,523

SUMMARY

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 June 30, 2014	As of/for the year ended June 30, 2015	As of/for the year ended June 30, 2016
Profitability ratios:				
1. Gross profit margin	Gross profit/revenue x 100%	58.0%	61.4%	62.6%
2. Net profit margin	Profit for the year/revenue x 100%	10.8%	12.2%	12.6%
3. Return on equity	Profit for the year/average total equity x 100%	64.8%	48.9%	60.8%
4. Return on total assets	Profit for the year/average total assets x 100%	17.6%	19.7%	23.6%
Liquidity ratios:				
1. Current ratio	Current assets/current liabilities	1.4	2.3	1.2
2. Quick ratio	(current assets — inventories)/ current liabilities	0.9	1.3	0.6
Capital adequacy ratios:				
1. Gearing ratio	(Total bank borrowings — cash and cash equivalents and restricted cash)/ total equity x 100%	59.9%	N/A ⁽¹⁾	N/A ⁽¹⁾
2. Interest coverage	Profit before interest and tax/finance cost	13.5x	18.2x	135.9x

Note:

(1) Represents net cash position as of the respective time.

OUR SHAREHOLDING STRUCTURE

Our Shareholders

Immediately upon the completion of the Capitalization Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised), Mr. Wu and Ms. Li will be entitled to control, through various trusts, the exercise of voting rights of approximately [REDACTED]% of the issued share capital of our Company. Accordingly, our Founders together with their close associates will continue to be our Controlling Shareholders. Ms. Li also established the Li Personal Trust, holding approximately [REDACTED]% of the issued share capital of our Company, for herself, her family members and other designated persons as beneficiaries. See “Our History and Development” and “Relationship with Our Controlling Shareholders” for further details.

SUMMARY

Exchangeable Noteholders

In June 2013, N&N Capital and Bright Sunshine entered into the VKC Note Purchase Agreement dated June 21, 2013, pursuant to which N&N Capital issued to Bright Sunshine two 8% senior secured exchangeable notes, namely the First Note and the Second Note, due 2018 in an aggregate principal amount of US\$30.0 million. According to the VKC Note Purchase Agreement, the proceeds from the sale of the First Note and Second Note shall be used by the Founders, Ninth Capital and Ninth Investment. None of the proceeds was received by us. On June 1, 2016, VNCR purchased 75% of the First Note from Bright Sunshine, including the principal amount of US\$15.0 million together with all rights, titles, interests, benefits and advantages attached or accruing thereto, at a purchase price of US\$20.5 million. Upon full exchange of the Exchangeable Notes, the number of Shares to be transferred to the Exchangeable Noteholders pursuant to the Exchangeable Notes in aggregate shall not exceed 10% of the total issued Shares (including Shares being issued in the [REDACTED]). Pursuant to the Investor Rights Agreement, the special rights granted to the Exchangeable Noteholders will terminate upon [REDACTED].

RSU Scheme

We have adopted the RSU Scheme in order to incentivize senior management, designers and key employees for their contribution to our Group and to attract and retain suitable personnel to enhance the development of our Group. Upon completion of the [REDACTED], the Core Trust will hold, on trust for the benefit of grantees and eligible participants pursuant to the RSU Scheme, [REDACTED] Shares for the RSU Scheme, representing approximately [REDACTED]% of the total issued share capital of our Company immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]). As of the Latest Practicable Date, RSUs in respect of an aggregate of [REDACTED] Shares, representing approximately [REDACTED]% of the total issued share capital of our Company immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), were granted to 87 employees of our Group pursuant to the RSU Scheme. The principal terms of the RSU Scheme are summarized in “Appendix IV — Statutory and General Information — D. Share Incentive Scheme — 1. RSU Scheme” on page IV-18.

Continuing Connected Transactions

We entered into a number of continuing connected transactions, including the Master Trademark Licensing Agreement on October 13, 2016. The duration of the Master Trademark Licensing Agreement is for a term of 20 years. Our Directors are of the view that it is normal business practice for trademark licensing agreements to be of a similar or longer duration to that of the Master Trademark Licensing Agreement. Given that the licensing of various trademarks underlying the Master Trademark Licensing Agreement is important to our Group’s business operation, it is in our interest for the Master Trademark Licensing Agreement to be of a duration longer than three years. See “Connected Transactions”.

SUMMARY

RECENT DEVELOPMENT

Set forth below are recent developments of our business, results of operations and financial condition after June 30, 2016, which is the end of the Track Record Period:

- In the two months ended August 31, 2016, our retail network continued to grow. During this period, we opened 18 self-operated stores and closed 11 self-operated stores and two distributor-operated stores have been taken over by us. During the same period, 60 distributor-operated stores were opened and 42 distributor-operated stores were closed. In addition, three stores operated by overseas customers were opened, and three stores operated by overseas customers were closed.
- We recorded steady revenue and profit growth in the two months ended August 31, 2016 as compared with the same period in 2015.
- In July 2016, JNBY Finery and Bank of Hangzhou entered into a loan agreement of up to RMB50.0 million under JNBY Finery’s banking facility. As of August 31, 2016, RMB50.0 million had been drawn down under this loan agreement. Prior to the date of this document, RMB14.0 million of such borrowing has been repaid. In July 2016, Liancheng Huazhuo and Bank of Hangzhou entered into a loan agreement of up to RMB34.0 million under Liancheng Huazhuo’s banking facility. As of August 31, 2016, RMB34.0 million had been drawn down under this loan agreement. In July 2016, Liancheng Huazhuo and Bank of Hangzhou entered into a loan agreement of up to RMB16.0 million under Liancheng Huazhuo’s banking facility. As of August 31, 2016, RMB16.0 million had been drawn down under this loan agreement, and all of such borrowing has been repaid prior to the date of this document. Proceeds from the borrowings described above have been used for working capital purposes, particularly to satisfy our payment obligations to suppliers.

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 June 30, 2016 and up to the date of this document.

[REDACTED] EXPENSES

In Fiscal 2016, we incurred [REDACTED] expenses of approximately RMB[REDACTED] million, of which RMB[REDACTED] million was recognized as administrative expenses in our consolidated income statement in Fiscal 2016, and RMB[REDACTED] million was capitalized as prepayment of [REDACTED] expenses in our consolidated balance sheet as of June 30, 2016 to be recognized as a deduction in equity. We expect to incur additional [REDACTED] expenses of approximately RMB[REDACTED] million after June 30, 2016 (assuming that the [REDACTED] is conducted at the mid-point of the [REDACTED] range), of which RMB[REDACTED] million is expected to be recognized as administrative expenses in Fiscal 2017 and RMB[REDACTED] 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 Fiscal 2017.

SUMMARY

[REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Our Company’s capitalization upon completion of the [REDACTED] ⁽¹⁾⁽²⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) All statistics in the table are based on the assumption that the [REDACTED] is not exercised.
- (2) The calculation of the market capitalization is based on [REDACTED] Shares expected to be in issue and outstanding immediately upon completion of the Capitalization Issue and the [REDACTED] (but before any exercise of the [REDACTED]).
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II “Unaudited Pro Forma Financial Information” in this document and on the basis of [REDACTED] Shares in issue and outstanding at the respective [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED], assuming that the Shares issued pursuant to the [REDACTED] were issued on June 30, 2016.

FUTURE PLANS AND [REDACTED]

We estimate the net proceeds of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED] and assuming the [REDACTED] is not exercised.

We intend to use the net proceeds of the [REDACTED] for the following purposes assuming the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range):

- (i) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to finance the capital expenditures required in connection with the establishment of a new logistics center in Xiaoshan, Hangzhou;
- (ii) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to strengthen our omni-channel interactive platform;
- (iii) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to expand our product offering and brand portfolio; and
- (iv) approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to provide funding for our working capital and other general corporate purposes.

SUMMARY

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

We estimate the net proceeds to be received by the [REDACTED] from the sale of [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and assuming the [REDACTED] is not exercised. We will not receive any of the proceeds from the [REDACTED].

For further information relating to our use of proceeds from the [REDACTED], see “Future Plans and [REDACTED]”.

DIVIDENDS AND DIVIDEND POLICY

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than [REDACTED]% of our total net profit attributable to the Group for any particular fiscal year. Assuming the [REDACTED] occurs, Fiscal 2017 will be the first fiscal year for which our total net profit attributable to the Group will be used for purposes of declaring and paying dividends as set forth in the foregoing sentence. A detailed discussion of our dividend policy is set forth in “Financial Information — Dividend Policy”.

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 did not declare dividends in Fiscal 2014. We declared and paid dividends of RMB10.3 million and RMB233.8 million, respectively, in Fiscal 2015 and Fiscal 2016. As of June 30, 2016, we had dividend payables in an amount of RMB230.0 million, which amount has been paid prior to the date of this document.

RISK FACTORS

There are certain risks involved in our operations and in connection with the [REDACTED], many of which are beyond our control. These risks can be categorized into (i) risks relating to our business and industries, (ii) risks relating to doing business in the PRC, and (iii) risks relating to the [REDACTED]. For example, we may not be able to compete effectively in our industry. In addition, our business depends significantly on market recognition of our brands. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide to invest in the [REDACTED].

SUMMARY

During the Track Record Period, we experienced a number of non-compliance incidents, including our failure to make full contributions to the social insurance fund and housing provident fund for our employees of certain subsidiaries of our Group. For more information, see “Business — Legal and Compliance — Non-compliance”.

BUSINESS ACTIVITIES IN A SANCTIONED COUNTRY

During the Track Record Period, we had product sales to one customer in Russia, a Sanctioned Country. The amount of total revenue generated from sales to this customer in Russia in Fiscal 2014, Fiscal 2015 and Fiscal 2016 represented approximately 0.5%, 0.4% and 0.1% of our total revenue for the same years, respectively. Our sole customer in Russia is not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the U.S., the United Nations or Australia and therefore is not a target of International Sanctions. As advised by DLA Piper UK LLP, our legal advisers as to International Sanctions laws, our historical sales in Russia during the Track Record Period do not implicate the applicability of International Sanctions on our Group, our Shareholders or any person or entity, including our Group’s investors, the Stock Exchange, the [REDACTED] and [REDACTED]. Please see “Business — Business Activities in a Sanctioned Country” for details of our business activities in Russia.

DEFINITIONS

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

“Ahead Global”	Ahead Global Holdings Limited, a company incorporated in the BVI on April 1, 2016, which is indirectly wholly owned by the Wu Family Trust
	[REDACTED]
“Articles” or “Articles of Association”	the Articles of Association of our Company (as amended from time to time), conditionally adopted on October 13, 2016, a summary of which is set out in Appendix III
“Board” or “Board of Directors”	the board of Directors of our Company
“Bright Sunshine”	Bright Sunshine Group Limited, an exempted company established under the laws of the BVI on October 30, 2012
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 398,050,000 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 “Statutory and General Information — A. Further Information About Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on October 13, 2016” in Appendix IV to this document
“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 clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, Macau and Taiwan
“CIC”	China Insights Consultancy Limited, the industry consultant
“CIC Report”	the report commissioned by us and compiled by CIC on China’s apparel market in general and China’s designer brand fashion market in particular
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	JNBY Design Limited (formerly known as Croquis Investment Limited), a company incorporated in the Cayman Islands with limited liability on November 26, 2012, 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
“Controlling Shareholders”	Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment and Li Personal Trust Nominee
“Core Trust”	The Core Trust Company Limited, an independent and professional trust company incorporated under the laws of Hong Kong
“Croquis Chongqing”	Chongqing Croquis Finery Sales Co., Ltd. (重慶速寫服飾銷售有限公司), a company incorporated in the PRC with limited liability on August 9, 2012 and an indirectly wholly-owned subsidiary of our Company
“Croquis Holdings”	Croquis Holdings Limited, a limited liability company incorporated in the BVI on December 14, 2012 and our directly wholly-owned subsidiary
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT Law”	the PRC Enterprise Income Tax Law

DEFINITIONS

“EU”	the European Union
“Exchangeable Notes” or “Exchangeable Note”	the exchangeable notes issued by N&N Capital, consisting of the First Note (which was subsequently cancelled), the Second Note, the Third Note and/or the Fourth Note
“Exchangeable Noteholders” or “Exchangeable Noteholder”	Bright Sunshine and/or VNCR
“First Parcel of Land”	a parcel of land with an area of 53,312 square meters in Hangzhou, acquired by Liancheng Huazhuo, our wholly-owned subsidiary, in 2014
“Fiscal 2014”	the fiscal year of our Company ended June 30, 2014
“Fiscal 2015”	the fiscal year of our Company ended June 30, 2015
“Fiscal 2016”	the fiscal year of our Company ended June 30, 2016
“Fiscal 2017”	the fiscal year of our Company ending June 30, 2017
“Fiscal 2018”	the fiscal year of our Company ending June 30, 2018
“Fiscal 2019”	the fiscal year of our Company ending June 30, 2019
“Founders”	Mr. Wu and Ms. Li [REDACTED]
“Grand Vantage”	Grand Vantage (China) Limited (廣益(中國)有限公司), a limited liability company incorporated in Hong Kong on March 24, 2011 and our indirectly wholly-owned subsidiary
“Grand Vantage Wuhan”	Wuhan Grand Vantage Croquis Finery Sales Co., Ltd. (武漢廣益速寫服飾銷售有限公司), a company incorporated in the PRC with limited liability on September 12, 2012 and an indirectly wholly-owned subsidiary of our Company [REDACTED]
“Group”, “our Group”, “JNBY”, “we”, “our” or “us”	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)

DEFINITIONS

“Hangzhou Jihui”	Hangzhou Jihui Finery Co., Ltd. (杭州集匯服飾有限公司), a limited liability company established under the laws of the PRC on December 13, 2011, which was a directly wholly-owned subsidiary of Hangzhou JNBY and deregistered on March 17, 2015
“Hangzhou JNBY”	Hangzhou JNBY Finery Co., Ltd. (杭州江南布衣服飾有限公司), a limited liability company established under the laws of the PRC on September 4, 1997, with Mr. Wu, Ms. Li and Mr. Wei Zhe, each holding 47.8%, 51.7% and 0.5% of its shares, respectively
“Hangzhou Woquan”	Hangzhou Woquan Finery Co., Ltd. (杭州沃泉服裝有限公司), a company incorporated in the PRC with limited liability on September 3, 2012 and a wholly-owned subsidiary of our Company

[REDACTED]

“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Hong Kong Underwriters”	the underwriters of the [REDACTED] listed in the section headed “Underwriting — Hong Kong Underwriters” in this document
“Hong Kong Underwriting Agreement”	the underwriting agreement dated [REDACTED], relating to the [REDACTED] and entered into by, among others, the [REDACTED], the Hong Kong Underwriters and our Company as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this document
“HR Company”	a third-party human resources management company that is the employer of substantially all of the sales staff in our self-operated stores
“Huikang Huazhuo”	Hangzhou Huikang Huazhuo Import and Export Trade Co., Ltd. (杭州慧康華卓進出口貿易有限公司), a company incorporated in the PRC with limited liability on May 23, 2008 and an wholly-owned subsidiary of our Company
“Huikang Industrial”	Hangzhou Huikang Industrial Co., Ltd. (杭州慧康實業有限公司), previously known as Hangzhou Huikang Finery Co., Ltd. (杭州慧康服飾有限公司), a wholly foreign owned enterprise established under the laws of the PRC on August 22, 2002, with Famewise Development Limited (慧康發展有限公司) and Sinomax Corporation Limited (華卓有限公司), both of which wholly owned company of our Founders (equity interest held through nominees) holding 70% and 30% of its shares, respectively
“independent third party(ies)”	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

[REDACTED]

DEFINITIONS

[REDACTED]

“International Sanctions”	sanctions-related laws and regulations issued, administered and enforced by the U.S., the European Union, the United Nations or Australia
“International Underwriters”	the group of underwriters, led by the [REDACTED], that is expected to enter into the International Underwriting Agreement to underwrite the [REDACTED]
“International Underwriting Agreement”	the international underwriting agreement relating to the [REDACTED], which is expected to be entered into by, among others, the [REDACTED], the International Underwriters, our Company and the [REDACTED] on or about [REDACTED] as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — [REDACTED]” in this document
“Investor Rights Agreement”	an investor rights agreement enter into by and among the same parties to the Note Purchase Agreement on June 24, 2013
“Jinan Hangji”	Jinan Hangji Finery Sales Co., Ltd. (濟南杭濟服飾有限公司), limited liability company established under the laws of the PRC on March 22, 2011, and was deregistered on November 20, 2015
“JNBY Beijing”	JNBY Finery (Beijing) Co., Ltd. (江南布衣服飾(北京)有限公司), a company incorporated in the PRC with limited liability on October 18, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Changsha”	Changsha JNBY Finery Co., Ltd. (長沙江南布衣服飾有限公司), a company incorporated in the PRC with limited liability on September 13, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Finery”	JNBY Finery Co., Ltd. (江南布衣服飾有限公司), a limited liability company established under the laws of the PRC on June 21, 2011 and an indirectly wholly-owned subsidiary of the Company

DEFINITIONS

“JNBY Guangzhou”	Guangzhou JNBY Finery Co., Ltd. (廣州江南布衣服飾有限公司), a company incorporated in the PRC with limited liability on July 24, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Hefei”	JNBY Finery Hefei Co., Ltd. (江南布衣服飾合肥有限公司), a company incorporated in the PRC with limited liability on July 4, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Ningbo”	Ningbo JNBY Finery Sales Co., Ltd. (寧波江南布衣服飾銷售有限公司), a company incorporated in the PRC with limited liability on April 12, 2013 and an indirectly wholly-owned subsidiary of our Company
“JNBY Shenyang”	Shenyang JNBY Finery Co., Ltd. (瀋陽江南布衣服飾有限公司), a company incorporated in the PRC with limited liability on August 13, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Taiyuan”	Taiyuan JNBY Finery Co., Ltd. (太原江南布衣服飾有限公司), a company incorporated in the PRC with limited liability on July 31, 2015 and an indirectly wholly-owned subsidiary of our Company
“JNBY Tianjin”	JNBY (Tianjin) Finery Co., Ltd. (江南布衣(天津)服飾有限公司), a company incorporated in the PRC with limited liability on August 13, 2012 and an indirectly wholly-owned subsidiary of our Company
“JNBY Wuxi”	JNBY Finery Wuxi Sales Co., Ltd. (江南布衣服飾無錫銷售有限公司), a company incorporated in the PRC with limited liability on May 27, 2013 and an indirectly wholly-owned subsidiary of our Company
“JNBY Xi’an”	Xi’an JNBY Finery Sales Co., Ltd. (西安江南布衣服飾銷售有限公司), a company incorporated in the PRC with limited liability on February 16, 2013 and an indirectly wholly-owned subsidiary of our Company
“JNBY Zhengzhou”	Zhengzhou JNBY Finery Sales Co., Ltd. (鄭州江南布衣服飾銷售有限公司), a company incorporated in the PRC with limited liability on September 28, 2012 and an indirectly wholly-owned subsidiary of our Company

[REDACTED]

DEFINITIONS

“Latest Practicable Date”	October 10, 2016, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Li Family Trust”	a discretionary trust named the Li Family Trust established by Ms. Li (as the settlor) and Credit Suisse Trust Limited (as the trustee), for the benefit of Ms. Li, Mr. Wu, their children and the W&L Trust
“Li Personal Trust”	the revocable trust established by Ms. Li (as settlor) for herself, her family members and other designated persons as beneficiaries
“Li Personal Trust Nominee”	Kaleidoscope World Limited, a company incorporated in the BVI on May 19, 2016, a wholly-owned subsidiary of Core Trust, which will hold the Shares for Li Personal Trust
“Liancheng Huazhuo”	Hangzhou Liancheng Huazhuo Industrial Co., Ltd. (杭州聯成華卓實業有限公司), a limited liability company established under the laws of the PRC on October 19, 2012 and an indirectly wholly-owned subsidiary of our Company
“Linghui Jiayi”	Hangzhou Linghui Jiayi Industrial Co., Ltd. (杭州領繪加益實業有限公司), a company established under the laws of the PRC on July 11, 2011 and was deregistered on August 18, 2015
	[REDACTED]
“[REDACTED] Committee”	the [REDACTED] Committee of the Stock Exchange
“[REDACTED]”	the date, expected to be on or about [REDACTED], on which the Shares are [REDACTED] on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“M&A Rules”	the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by MOFCOM, SASAC, SAT, CSRC, SAIC and SAFE on August 8, 2006, effective on September 8, 2006 and further amended on June 22, 2009 by MOFCOM
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“Main Board”	the stock market known as the “Main Board” operated by the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), conditionally adopted on October 13, 2016, a summary of which is set out in Appendix III to this document
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Wu”	Mr. Wu Jian (吳健), an executive Director and one of our Controlling Shareholders, the spouse of Ms. Li and the settlor of the Wu Family Trust and W&L Trust
“Ms. Li”	Ms. Li Lin (李琳), an executive Director and one of our Controlling Shareholders, the spouse of Mr. Wu and the settlor of the Li Family Trust and W&L Trust
“N&N Capital”	N&N Capital Limited, a limited liability company incorporated in the BVI on May 8, 2013, which is wholly owned by Ms. Li
“NDRC”	National Development and Reform Commission (中華人民共和國發展和改革委員會)
“New Shangwei Finery”	Hangzhou New Shangwei Finery Co., Ltd. (杭州新尚維服飾有限公司), a company incorporated in the PRC with limited liability on June 24, 2015 and a wholly-owned subsidiary of Shangwei Apparel
“NewQuest”	NewQuest Asia Fund II, L.P., an exempted limited partnership registered in the Cayman Islands on October 10, 2013 and the sole shareholder of VNCR
“NewQuest Note Purchase Agreement”	a note purchase agreement entered into by and among Bright Sunshine, Vision Knight Capital (China) Fund I, L.P., VNCR and NewQuest on June 1, 2016, pursuant to which VNCR purchased 75% of the First Note
“Ninth Capital”	Ninth Capital Limited, a limited liability company incorporated in the BVI on November 5, 2012 and wholly owned by Ahead Global, a company indirectly wholly owned by the Wu Family Trust, and one of our Controlling Shareholders
“Ninth Investment”	Ninth Investment Limited, a limited liability company incorporated in the BVI on November 5, 2012 and wholly owned by Puheng Limited, a company indirectly wholly owned by the Li Family Trust, and one of our Controlling Shareholders

DEFINITIONS

“OFAC” Office of Foreign Assets Control of the U.S. Department of the Treasury

[REDACTED]

“PBOC” People’s Bank of China (中國人民銀行)

“PRC government” or “State” 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

“PRC Legal Advisers” Jingtian & Gongcheng, the legal adviser to our Company as the laws of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Puheng Limited”	Puheng Limited, a company incorporated in the BVI on January 5, 2016, which is indirectly wholly owned by the Li Family Trust
“Qingdao Huazhuo”	Qingdao Huazhuo Finery Sales Co., Ltd. (青島華卓服飾銷售有限公司), a limited liability company established under the laws of the PRC on June 7, 2013, a indirectly wholly-owned subsidiary of our Company

[REDACTED]

“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of the Group, details of which are set out in the section headed “Our History and Development” in this document
“RMB”	Renminbi, the lawful currency of the PRC
“RSU”	a restricted share unit awarded to a participant under the RSU Scheme
“RSU Nominee”	Energetic Design Limited, a company incorporated in the BVI on February 26, 2016, 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
“RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by our board on May 16, 2014, the principal terms of which are set out in “Statutory and General Information — D. Share Incentive Scheme — 1. RSU Scheme” in Appendix IV
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國工商行政管理總局)

[REDACTED]

DEFINITIONS

“Sanctioned Country(ies)”	country(ies) which is/are the target of economic sanctions as administered by the U.S., the EU, the United Nations and Australia
“Sanctioned Person(s)”	certain person(s) and entity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the European Union, the U.S., the United Nations or Australia
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Second Parcel of Land”	a parcel of land with an area of 36,084 square meters in Hangzhou, acquired by Liancheng Huazhuo, our wholly-owned subsidiary, in 2016 [REDACTED]
“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 Huazhuo”	Shanghai Huazhuo Finery Sales Co., Ltd. (上海華卓服飾銷售有限公司), a company incorporated in the PRC with limited liability on July 1, 2013 and an indirectly wholly-owned subsidiary of our Company
“Shangwei Apparel”	Hangzhou Shangwei Apparel Co., Ltd. (杭州尚維服裝有限公司), a wholly foreign owned enterprise established under the laws of the PRC on March 15, 2007
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares in the capital of our Company with nominal value of HK\$0.01 each [REDACTED]
“Sole Sponsor”	CCB International Capital Limited [REDACTED]
“State Council”	the PRC State Council (中華人民共和國國務院)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Third-party Manager”	a third party that managed a limited number of our self-operated stores
“Track Record Period”	the years ended June 30, 2014, 2015 and 2016
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“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
“VAT”	Value-added tax
“VKC”	Vision Knight Capital General Partners Ltd., an exempted company incorporated in the Cayman Islands with limited liability on June 17, 2011
“VKC Notes” or “VKC Note”	Second Note and/or Fourth Note
“VKC Note Purchase Agreement”	a note purchase agreement entered into by and among N&N Capital, our Company, the Founders, Ninth Capital, Ninth Investment and several subsidiaries of our Company on June 21, 2013, pursuant to which N&N Capital issued two exchangeable notes with an aggregate principal amount of US\$30 million to Bright Sunshine
“VNCR”	VNCR Holding Limited, a limited liability company incorporated in the BVI on May 26, 2016
“W&L Capital”	W&L Capital Limited, a limited liability company incorporated in the BVI on May 8, 2013, which is wholly owned by Ms. Li, our Controlling Shareholder
“W&L Trust”	a discretionary trust named the W&L Trust established by Mr. Wu and Ms. Li (as the settlors) and Credit Suisse Trust Limited (as the trustee), for the benefit of Mr. Wu, Ms. Li and their children

DEFINITIONS

“Wu Family Trust” a discretionary trust named the Wu Family Trust established by Mr. Wu (as the settlor) and Credit Suisse Trust Limited (as the trustee), for the benefit of Mr. Wu, Ms. Li, their children and the W&L Trust

[REDACTED]

“%” per cent.

In this document, 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 document 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 document in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“Active Members”	refers to membership accounts associated with at least two purchases in any 180-day period within the last 360 days
“EBIT”	refers to a company’s profitability, calculated as revenue minus expenses, excluding tax and interest
“LADYMAX”	an influential new media outlet in the PRC that focuses on the fashion industry and offers the latest news on the fashion, luxury goods and cosmetic industries and related statistics and rankings in these industries
“OEM”	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
“our retail stores”	includes our self-operated stores, distributor-operated stores and stores operated by overseas customers
“POS”	electronic funds transfer system at point of sale
“retail sales”	sales of retail goods at the actual selling price to end customers
“Same Store Sales Growth”	refers to the growth in the retail sales of our retail stores using the comparable full months of operation for those retail stores in two consecutive fiscal periods (meaning only the months in which those retail stores had retail sales in both periods); a retail store is included in the evaluation of Same Store Sales Growth between two fiscal periods when it has had sales for more than 12 consecutive months during the two fiscal periods
“SKU”	stock keeping unit, a unique identifier for each distinct product, as distinguished by style, size and color, that can be purchased
“Tier One Cities”	refers to Beijing, Shanghai, Guangzhou and Shenzhen
“Tier Two Cities”	refers to Tianjin, Chongqing, the provincial capital cities except for Guangzhou, Yinchuan, Xining and Lhasa, and some prefecture-level cities, namely, Qingdao, Foshan, Dalian, Ningbo, Suzhou, Wuxi, Xiamen, Dongguan and Wenzhou

GLOSSARY

“Tier Three Cities”

refers to certain prefecture-level and other cities, namely, Anyang, Baoji, Changde, Chenzhou, Dazhou, Deyang, Ganzhou, Guilin, Hengyang, Heze, Huaihua, Huanggang, Huangshi, Huizhou, Huzhou, Ji’an, Jiangmen, Jiaozuo, Jiaxing, Jieyang, Jingmen, Jingzhou, Jinhua, Jining, Jiujiang, Kaifeng, Leshan, Lhasa, Liaocheng, Linyi, Lishui, Liuzhou, Loudi, Luoyang, Luzhou, Maoming, Mianyang, Nanchong, Nanyang, Neijiang, Panzhihua, Pingdingshan, Puyang, Qingyuan, Qujing, Quzhou, Rizhao, Sanmenxia, Sanya, Shangqiu, Shangrao, Shantou, Shaoguan, Shaoxing, Shaoyang, Shiyan, Tai’an, Taizhou, Weifang, Weihai, Weinan, Xiangfan, Xiangtan, Xianyang, Xiaogan, Xining, Xinxiang, Xinyang, Xuchang, Yan’an, Yangjiang, Yantai, Yibin, Yichang, Yichun, Yinchuan, Yiyang, Yongzhou, Yueyang, Yulin, Yulin, Yuxi, Zaozhuang, Zhanjiang, Zhaoqing, Zhongshan, Zhoukou, Zhuhai, Zhumadian, Zhuzhou, Zibo, Zigong, Ziyang and Zunyi

FORWARD-LOOKING STATEMENTS

This document 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 document, 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 document. 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 in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which 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;
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends;
- effect of competition on the demand for and prices of the products we offer and our ability to compete; and
- our ability to strengthen our omni-channel interactive platform, including offline retail stores, online sales channels and our social network platform on WeChat.

FORWARD-LOOKING STATEMENTS

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 document, 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 document 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 document are qualified by reference to the cautionary statements in this section.

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

RISK FACTORS

You should carefully consider all of the information set out in this document before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the [REDACTED]. 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 may not be able to compete effectively in our industry.

We operate in the designer brand fashion industry, which is highly competitive and relatively fragmented. According to the CIC Report, the top five players in the PRC designer brand fashion industry accounted for 29.3% of market share in terms of retail sales, including both online and offline sales, in 2015.

We face a variety of competitive challenges from both existing and new competitors in the designer brand fashion industry. 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 omni-channel interactive platform, consisting of both online channels 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, 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 portals, e-commerce and information technology systems than us. In particular, although we have established an omni-channel interactive platform to facilitate consumer purchases of our products via both our online channels 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 that companies which focus on other market segments, such as luxury brand or fast fashion brand, may

RISK FACTORS

decide to enter China’s designer brand fashion market and develop new products that are more popular with our consumers. Increased competition could result in price reductions, 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 profit and gross profit margin. 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.

Our business depends significantly on market recognition of our brands. If we are not able to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

Consumers in the designer brand fashion market tend to focus more on a brand’s design philosophy and to make more individualistic decisions when making purchases. We believe our brand image has contributed significantly to the success of our business, and, therefore, maintaining and enhancing the recognition, image and acceptance of our brands are critical to our ability to differentiate our products and services from and to compete effectively with our peers. Our brand image, however, 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, or our Group or our management could also materially harm our brand image.

In order to capture business opportunities in the fast growing designer brand fashion market, in addition to our flagship brand *JNBY*, we currently market our products under four additional brands, namely, *CROQUIS*, *jnby by JNBY*, *less* and *Pomme de terre*, to appeal to different consumer groups. Each of our brands has its own designs, features and characteristics that fit the tastes and needs of our target consumer groups. The designer brand fashion market experiences significant changes in consumer preferences and tastes over time. Our brand image may be negatively affected if the products offered under any of our brands are unable to meet consumer expectations with respect to quality or style. Failure to successfully promote and maintain the image of any of our brands would have a material adverse effect on our business, results of operation and financial condition, including, but not limited to, decline in revenue and rises in both inventory and impairment of inventory.

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

Historically, a significant portion of our revenue has been generated from sales of women’s apparel. Over the years, we have gradually diversified our product offerings to include other product categories, such as men’s apparel and children’s apparel, which have demonstrated strong growth over recent years. Going forward, our goal is to leverage our established brand image to further develop our comprehensive design-driven platform and expand our product offerings to include furniture and household products. However, any new brands or product categories that we may launch may not achieve anticipated sales targets. To support our product expansion plan, we will need to 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

RISK FACTORS

development of new brands and products. We will also need to engage suitable OEM suppliers to 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 expenditures. We may also not be able to successfully integrate new brands or new product categories into our existing brands and product portfolio. We cannot assure you that we will be able to anticipate and respond quickly to evolving consumer 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.

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales.

Maintaining an optimal level of inventory is critical to the success of our business. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our inventory turnover days were 172.8, 215.3 and 213.3, respectively. The balance of provision for impairment was RMB23.1 million, RMB56.7 million and RMB107.8 million, respectively, as of June 30, 2014, 2015 and 2016. We are exposed to increased 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 pursuant to our policies, weather conditions and seasonality. The nature of our business requires us to have stocks of distinct products in different designs (such as *avant-garde* products), colors and sizes for display to satisfy demand from customers at our retail stores. Moreover, we generally estimate 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 over-stocking inventory. In addition, we remain vulnerable to the frequently changing trends and consumer preferences associated with the designer brand fashion 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 successfully expand our omni-channel interactive platform by increasing the number of offline retail stores and our online sales network.

Our omni-channel interactive platform has been a critical factor in driving our business growth and achieving strong operating results. As of June 30, 2016, our offline retail network consisted of 1,316 retail stores across China and 12 other countries or regions, including 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers. Apart from physical stores, our comprehensive and integrated omni-channel interactive platform also provides customers with access to our products through (i) nine third-party e-commerce platforms, including Tmall, Jingdong/JD.com and VIP.com, and (ii) a social network platform on WeChat.

RISK FACTORS

To further increase our market share, we plan to continue to evaluate the geographic coverage of our current retail stores in the PRC, open different types of retail stores, and increase overseas awareness of our brand. We intend to continue to work with a broad range of third-party e-commerce platforms, which provide us with access to a broad online customer base. However, we may not be successful in any of these respects. The success of the expansion of our omni-channel interactive platform depends a number of factors, including, without limitation:

- our ability to maintain relationships with local property owners and third-party e-commerce platforms;
- our ability to respond to the changes in Internet and mobile penetration as well as the online marketing industry in China;
- the reliability of our WeChat platform as well as the third-party e-commerce platforms; and
- the availability of related network infrastructure, such as online payment platforms.

If we are unable to effectively expand our omni-channel interactive platform, our growth potential and profitability could be materially and adversely affected.

Adverse changes in consumer preferences could materially affect our growth and profitability.

Consumer preferences and spending habits and economic conditions may differ or change from time to time in the market in which we operate. We operate in the designer brand fashion industry, where adverse changes in consumer preferences towards brands generally, and such adverse changes to our brand philosophy in particular, can affect the level of consumer 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 consumer preferences to our brands or brand philosophy occur, particularly if the retail environment is stagnant or retail sales decline in the event of a recession or low growth in the general economy.

The majority of our extensive offline retail network is comprised of retail stores that are operated by distributors. We may not be able to effectively monitor the operations and inventory level of these retail stores.

As of June 30, 2014, 2015 and 2016, our offline retail network included 639, 742 and 855 distributor-operated stores, respectively, accounting for 66.9%, 66.7% and 65.0% of our total retail stores as of the respective dates. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, revenue generated from these retail stores totaled RMB619.9 million, RMB730.6 million and RMB806.5 million, respectively, accounting for approximately 44.8%, 45.3% and 42.4% of our total revenue for the respective years. We may not be able to monitor distributor-operated stores as directly and effectively as our self-operated stores. We seek to manage our network of distributor-operated stores through distribution agreements with the distributors, which set forth specific guidelines for distributors to follow. For example, distributors are required to implement our policies on pricing and store appearance. In addition, distributors are required to operate within their respective designated territories. However, there can be no assurance that our distributors will always comply with their

RISK FACTORS

obligations under the applicable distribution agreements. 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 overstocking at distributor-operated stores. Therefore, although we monitor levels of inventory in distributor-operated stores, we cannot assure you that there will not be under- or over-stocking at these stores.

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

Although we seek to maintain stable relationships with the majority of our distributors, we cannot assure you that our distributors will continue their business relationships with us by renewing the distribution agreements upon their expiry on terms acceptable to us, or at all. If any of our distributors terminate or do not renew its distribution agreement with us, we may not be able to replace such distributor with a new and effective distributor in a timely manner, on terms acceptable to us, or at all. Further, we cannot assure you that our distributors will continue to purchase our products at historical levels in the future. In the event that a significant number of our distributors substantially reduce their volume of purchases or fail to fulfill their obligations under the distribution agreements, or if we lose a significant number of our distributors 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 rely on a third party to staff our self-operated stores.

As of July 31, 2016, substantially all sales staff in our self-operated stores, comprised of approximately 2,200 sales representatives, store managers and supporting staff, were employees of the HR Company, a third-party human resources management company. As we grew our network of self-operated stores, we entered into this arrangement in 2015 in order to enable our management team to focus on our core missions. As our business grows and our offline retail network expands, the number of our self-operated stores may increase, we may need more sales staff and our service outsourcing fees may increase accordingly. We have implemented various measures to monitor the implementation of our guidelines by the HR Company, including monitoring sales staff's performance through our information technology system and store inspections. However, there can be no assurance that we will continue to exercise effective control over the management of our self-operated stores. The HR Company's failure to comply with our guidelines or termination of the cooperation would result in a material adverse effect on our business, results of operations and financial condition.

In addition, primarily due to the arrangement with the HR Company, our service outsourcing fees increased from RMB18.7 million in Fiscal 2015 to RMB138.7 million in Fiscal 2016. We may need more outsourced sales staff to support our retail sales growth in the future and if the HR Company is unable to provide enough and qualified sales staff 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 self-operated stores may get 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.

RISK FACTORS

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.

As of June 30, 2016, 261 out of 432 of our self-operated stores were in the form of concession stores located within department stores. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, concession fees of our concession stores amounted to RMB67.9 million, RMB98.4 million and RMB133.2 million, respectively, representing 4.9%, 6.1% and 7.0%, respectively, of our revenue for the same years. The majority of our concession agreements have a term of one year and are not automatically renewed upon expiration. 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 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.

We are exposed to the credit risk of the department stores where our concession stores are located.

Payments from the sales of our products at 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 generally offer credit terms ranging from 45 to 90 days to the department stores to transfer that cash to us. We may be affected by the financial health of the department stores from which we have outstanding receivables. If the department stores are not able to transfer the cash from the sales of our products to us in a timely manner, or at all, our business, financial condition and results of operations may be materially and adversely affected.

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

As of June 30, 2016, 171 out of 432 of our self-operated stores were standalone stores operated on leased premises. In addition, we also lease properties for our offices. 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 Fiscal 2014, Fiscal 2015 and Fiscal 2016, our operating lease rental expenses (which primarily include rental expenses in relation to our standalone stores and offices) amounted to RMB154.1 million, RMB164.1 million and RMB180.0 million, respectively, representing 11.1%, 10.2% and 9.5%, respectively, of our revenue for the same years. In recent years, property prices and levels of rents in the PRC have substantially increased and we expect they will continue to increase in the near future. The increase in the level of rents may increase operating expenses

RISK FACTORS

applicable to our newly opened retail stores or when we renew the leases of our existing retail stores. The lease agreements typically have terms of two to three years, and grant us the option to renew. 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.

We or our distributors may not be able to renew current leases or locate desirable alternatives for offices, self-operated stores or distributor-operated stores.

Our offices and a large number of our self-operated stores and distributor-operated stores across China are presently located on leased premises. Most of the leases for our premises are renewable every two to three years. The ability of us, our distributors and/or independent third-party store operators 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 or our distributors may not be able to negotiate an extension of the lease and may therefore be forced to move to a less favorable location. Due to rapid rental increases in the PRC, particularly in larger cities, we or our distributors may not be able to renew our existing leases at reasonable prices or on commercially acceptable terms and conditions that are 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 or our distributors may not be able to obtain new leases at desirable locations or renew our or their existing leases on acceptable terms, in a timely fashion or at all, which could materially and adversely affect the retail sales of our products, which, in turn, would materially and adversely affect our business and results of operations.

Any product quality problems or any negative publicity or media reports related to our raw materials, our 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 significant 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. We believe that the risk of potential product liability claims against us may increase as consumer protection laws develop and the concept of

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product liability begins to develop and mature among consumers in the PRC. 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 an OEM supplier, 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 of our products to selected domestic OEM suppliers. For Fiscal 2014, Fiscal 2015 and Fiscal 2016, finished goods purchased and cost of processing in aggregate accounted for 71.9%, 63.0% and 59.9% of our total cost of sales, respectively. A majority of our OEM suppliers are located in Guangdong, Zhejiang and Jiangsu Provinces. Their operations are particularly vulnerable to business interruptions, which can be caused by industry downturns, natural disasters or other catastrophic events. The occurrence of any such industry downturn, natural disaster or catastrophic event could cause shortages or delay of supply of products 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 and consumers and potentially expose us to litigation and damage claims.

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 the PRC, 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 Fiscal 2014, Fiscal 2015 and Fiscal 2016, purchases from our five largest suppliers in aggregate accounted for approximately 32.9%, 24.5% and 18.6% of our purchase cost, respectively, while purchases from our largest supplier accounted for approximately 15.1%, 8.0% and 5.0% 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.

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Our results of operations may be adversely affected by an increase in the costs of raw materials or labor.

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. We bear the cost of raw materials directly in the former case and indirectly as part of finished goods purchased in the latter case. 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, processing costs of OEM suppliers and service fees for the HR Company. 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 transportation service providers to deliver our products.

We deliver products from the central logistics center in Xiaoshan to each store by land, ocean or air transportation through independent third-party transportation 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 transportation 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 transportation service providers on terms acceptable to us, or that we will be able to establish relationships with new transportation service providers to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with transportation 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 transportation 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 transportation 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 consumers and sales and our brand image may be tarnished. In addition, our OEM suppliers sometimes deliver products to us through engaging independent third-party transportation service providers. Delays in delivery due to transportation shortages, infrastructure congestion or other factors could adversely impact our OEM suppliers' ability to timely deliver products to us.

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If we fail to protect our intellectual property rights, our business, financial conditions and results of operations would be severely harmed.

The trade names and trademarks we use are vital to our success and future development. We rely on trademark law, company brand name protection policies and agreements with our employees, distributors, OEM suppliers, business partners and others to protect the value of our brand name. As of the Latest Practicable Date, we had 128 trademarks registered in China and six trademarks registered in other countries or regions. As of the same date, we also had 17 and one pending applications to register trademarks in the PRC and other countries or regions, respectively. Despite the precautions we have taken, we cannot assure you that those procedures will provide effective prevention for unauthorized third-party use of our brand name. The protection of intellectual property rights 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 trademarks or other intellectual property rights are infringed by third parties.

We are 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 consumer confidence and loss of sales. Legal proceedings against such infringement of our trademarks or other intellectual property rights may be time consuming and we may be required to devote substantial time and resources to achieve a favorable outcome. If we fail to timely identify illicit use of our trade names and trademarks or if we are unsuccessful in legal proceedings against any infringements of our intellectual property rights, 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.

We use certain trademarks to market our products under the brand of “JNBY”, which is held by one of our related parties, Hangzhou JNBY. We have entered into a master trademark license agreement with Hangzhou JNBY for the use of the “JNBY” trademarks. For further details, see “Connected Transactions — Fully Exempted Continuing Connected Transaction — Master Trademark License Agreement”. If we fail to renew the authorization to use such trademarks or Hangzhou JNBY suspends its authorization of such trademarks to us, our business, financial condition and results of operations may be materially and adversely affected. We are also exposed to the risk that a third party successfully challenges Hangzhou JNBY’s ownership of, or our right to use, the “JNBY” trademarks or if a third party uses the “JNBY” trademarks without authorization.

Our success depends on our ability to retain our key management team and to recruit, train and retain qualified personnel.

The talent, experience and leadership of our key management team are critical to the success of our business. In particular, our founder and chief creative officer, Ms. Li, and our chief executive officer, Mr. Wu, have been pivotal to our success. In addition, 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 also have a material adverse effect on us.

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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, 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 some areas of the PRC retail 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 the PRC retail industry, or significant increases in labor costs, due to competition for talents or changes in labor and healthcare laws, could have a material adverse effect on our results of operations and financial condition.

Our business relies on the proper operation of our information technology systems, any malfunction of which for extended periods could materially and adversely affect our business.

Our business relies on the proper functioning of our information technology systems. We use our advanced information technology platform, which seamlessly integrates our customer relationship management system, information management system, including POS terminals, and warehouse management system, to enable us to quickly and efficiently retrieve and analyze our operational data and information including procurement, sales, inventory, logistics, consumer and membership data and financial data on a real time basis, as well as to provide information technology support to all of our self-operated and distributor-operated 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. 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. We do not carry any business interruption insurance. 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.

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.

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We may not be successful in sustaining growth in our financial performance and we may experience earnings declines or losses in the future.

Although we experienced stable revenue and profit growth during the Track Record Period, we cannot assure you that we can sustain such growth in the future. In addition, our profitability depends on our ability to control costs and operating expenses, which may increase as our business expands. Furthermore, in order to enhance our brand recognition, we may continue to expend significant resources on marketing. This may negatively impact our short-term profitability. If our marketing efforts prove ineffective, however, and we fail to increase sales, or if our cost of sales and operating expenses grow faster than our sales, our business, financial condition and results of operations may be negatively affected.

Our business is susceptible to unexpected weather conditions.

Our business is susceptible to unexpected changes in weather conditions. For example, extended periods of unusually warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory obsolete. These extreme or unusual weather conditions could have an adverse effect on our inventory surplus, business and results of operations.

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

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 consumer groups to increase our sales. We market our brand 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 as we deem appropriate and could have a positive influence on our brand image. Our promotion and marketing expenses amounted to RMB42.9 million, RMB45.7 million and RMB65.0 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016, representing approximately 3.1%, 2.8% and 3.4%, respectively, of our total revenue during the same years. However, we cannot guarantee that our marketing efforts will be well-received by consumers 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 consumer 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.

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

Our government grants amounted to RMB17.9 million, RMB3.3 million and RMB22.7 million, or 11.9%, 1.7% and 9.5% of our net profit, for Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. Such government grants include financial subsidies and financial awards from various local governments in the PRC. Financial subsidies were granted to reimburse the costs of qualified projects; financial awards were granted primarily to recognize and incentivize successful businesses. Government grants fluctuated during the Track Record Period because such grants were subject to the

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sole discretion of the relevant government authorities. There can be no assurance that we will continue to receive significant amounts of government grants, or at all. Accordingly, we may experience additional 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 Comprehensive Income — Other income and gains, net” and Note 24 to the Accountant’s Report in Appendix I to this document.

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 various parties involved in our business operations, including but not limited to our distributors, OEM suppliers, employees, transportation service providers, consumers, 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.

We may be required to make additional contributions of social insurance fund and/or housing provident fund 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 certain subsidiaries of our Group. As of June 30, 2014, 2015 and 2016, the carrying amount of our provisions for social insurance fund and housing provident fund contributions amounted to RMB9.1 million, RMB16.8 million and RMB19.4 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 to 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 to 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 funds within a prescribed time limit. As of the Latest Practicable Date, we had not received any notification from the relevant authorities demanding payment of the housing provident funds.

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 housing provident funds against us, or that we will not receive any claims in respect of 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.

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Failure to commence development of land that we have been granted rights to use within the required timeframe may subject us to default liabilities under land use right grant contracts and cause us to lose such land use rights.

We have the First Parcel of Land located in Greater Jiangdong District, Hangzhou, over which we have obtained land use rights. As we identified a parcel of land that better suits our business needs, we decided not to proceed with construction works for the First Parcel of Land. As a result, the First Parcel of Land may be treated as “idle land” by the relevant local government authorities. Pursuant to the *PRC Urban Real Estate Law*, we are required to commence development within one year from the agreed construction commencement date, which was November 19, 2014, failing which we may be charged an idle land fee of up to 20% of the land premium, or RMB4.6 million; and if we fail to commence construction within two years, we may be deprived of the land use right without compensation, except where the delay in commencement is due to force majeure, actions of government or relevant government departments, or preliminary works necessary for the commencement of construction. We have entered into discussions with the relevant authorities in Greater Jiangdong District for the return of the First Parcel of Land and submitted a formal application for the return of land on November 19, 2015. For more information, see “Business — Properties — Owned Properties”. As of the Latest Practicable Date, we had not received any notice of penalty. However, we cannot assure you that we will not 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.

Some of our leased properties in the PRC may be subject to legal risks and may cause business disruptions.

As of the Latest Practicable Date, 63 properties with a total gross floor area of approximately 9,163 square meters were leased from lessors who were unable to provide sufficient or valid ownership certificates or other ownership documents. As of the Latest Practicable Date, these leased properties accounted for approximately 18.9% of our leased properties by gross floor area. These leased properties are being used as our self-operated stores or offices. 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-operated stores or offices 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 self-operated stores that are located on these leased properties, we estimate that the average relocation costs would be approximately RMB150,000 for each self-operated store. We believe that generally it would take us less than one month to relocate a self-operated store to a new location. As for the offices, 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. 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”.

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Some of our lease agreements have not been filed with the relevant PRC authorities and we might be subject to administrative fines.

As at the Latest Practicable Date, we had not completed the administrative filings of the lease agreements relating to 153 properties we leased. These properties had an aggregate floor area of approximately 27,338 square meters. Of these 153 properties for which we had not completed the administrative filings of the lease agreements, 43 were mandatory for filing while 110 were voluntary, according to the relevant governmental authorities. We have completed lease registration of 73.5% of those lease filings that are mandatory in terms of gross floor area. 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 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. Our PRC Legal Advisers advised that the risk of being fined or penalized for failing to file those leases that are voluntary for filing is remote. 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 of up to RMB1.5 million.

The application of HKFRS 16 may affect our financial condition and results of operations due to our operating lease commitments.

We are a lessee of self-operated stores, offices and warehouses under which the relevant leases are classified as operating leases. Our current accounting policy for such leases is set out in Note 2.26 to the Accountant’s Report in Appendix I to this document. As at June 30, 2016, our total non-cancellable operating lease commitments amounted to RMB181.0 million. HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of their financial information. Instead, all non-current leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in the consolidated balance sheets. Short-term leases of less than 12 months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated balance sheets. In the consolidated statements of comprehensive income, leases will be recognized in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortization and the interest expense will increase. The new standard is not expected to apply until Fiscal 2019, which will include the adjustment of prior years. For more information, please refer to Note 2.1 to the Accountant’s Report in Appendix I to this document.

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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, and 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 [REDACTED], 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 document. 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 our Company 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 at 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. A failure to meet relevant government requirements could occur in our operations or those of our distributors or suppliers. This could result

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in fines, suspension of operations, loss of production permits, and in more extreme cases, criminal proceedings against our Company 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 document, 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” in this document. 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.

We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the U.S. government, the United Nations Security Council, the EU and other relevant sanctions authorities.

The U.S. and other jurisdictions or organizations, including the EU, the United Nations and Australia, have comprehensive or broad economic sanctions targeting Sanctioned Countries and Sanctioned Persons. During the Track Record Period, we had product sales to one customer in Russia, a Sanctioned Country. The amount of total revenue generated from sales to this customer in Russia in Fiscal 2014, Fiscal 2015 and Fiscal 2016 represented approximately 0.5%, 0.4% and 0.1% of our total revenue for the same years, respectively. Our sole customer in Russia is not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the U.S., the United Nations or Australia and therefore is not a target of International Sanctions. As advised by DLA Piper UK LLP, our legal adviser as to International Sanctions laws, our historical sales in Russia during the Track Record Period do not implicate the applicability of International Sanctions on our Group, our Shareholders or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and HKSCC Nominees. Please see “Business — Business Activities in a Sanctioned Country” for details of our business activities in Russia. We confirm that, save as disclosed in relation to Russia in the section headed “Business” in this document, our Group has not had during the Track Record Period and up to the Latest Practicable Date, any other business activities in connection with any countries, governments, entities or individuals sanctioned by the U.S., the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC administered sanctions. In relation to our sales to customers in Russia during the Track Record Period, we have not been notified that any sanctions will be imposed on us.

We undertake to the [REDACTED] that we will not use the proceeds from the [REDACTED], as well as any other funds raised through the [REDACTED], to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Sanctioned Countries, or Sanctioned Persons or any other government, individual or entity sanctioned by the U.S., the EU, the United Nations, Australia or Hong Kong, including, without limitation, any government, individual or entity

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that is the subject of any OFAC sanctions. We also undertake to the [REDACTED] that we will not enter into sanctionable transactions that would expose us or the relevant persons to risks of being sanctioned. If we breach any of these undertakings to the [REDACTED] after the [REDACTED], it is possible that the [REDACTED] may delist our [REDACTED]. In order to ensure our compliance with these undertakings to the [REDACTED], we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For details of our internal control procedures, please refer to “Business — Business activities in a Sanctioned Country — Our undertakings and internal control procedures”.

As a Group with operations based in Hong Kong, we will comply with all Hong Kong laws and applicable laws in the jurisdictions where we have operations. We will also seek to avoid doing business with any Sanctioned Persons. However, to the extent such sanctions are imposed on our Company, our business and Shareholders’ interests could be affected.

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the EU, the United Nations, Australia and other applicable jurisdictions with respect to any future activities by us or our affiliates in Russia and/or with Sanctioned Persons. We have no present intention to undertake any future business that would cause us, the Stock Exchange, [REDACTED], [REDACTED], or our Shareholders or investors to violate or become a target of sanctions laws of the U.S., the EU, the United Nations, Australia or Hong Kong. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that our business will conform to the expectations and requirements of the U.S. authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the authorities of the U.S., the EU, the United Nations, Australia or any other jurisdictions were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

In addition, certain U.S. state and local governments and universities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries. As a result, concern about potential legal or reputational risk associated with our historical operations in the Sanctioned Country could also reduce the marketability of the [REDACTED] to particular investors, which could affect the price of our [REDACTED] and Shareholders’ interests in us, despite our commitment not to direct the proceeds from the [REDACTED] to dealings with Sanctioned Persons. Before investing in our [REDACTED], you should consider if such investment would expose you to any of the International Sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

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

During the Track Record Period, we made loans to one of our related party (the “**Loans**”), Huikang Industrial (the “**Borrower**”), which was not compliant with certain PRC laws and regulations. These Loans were non-trade in nature and unsecured with a pre-agreed annual interest rate of 9%. The Loans were made for the purposes of (i) meeting the general working capital needs of the Borrower; and (ii) meeting capital expenditure needs for construction of self-operated properties. The funds we provided under the Loans were generated from our regular operating activities. Please see “Business — Legal and Compliance” for details of the Loans.

As of June 30, 2014, 2015 and 2016, outstanding balances of the Loans and interest were approximately RMB154.3 million, RMB166.8 million and nil, respectively. In addition, for Fiscal 2014, Fiscal 2015 and Fiscal 2016, we recognized interest income relating to the Loans in the amounts of RMB9.3 million, RMB12.5 million and RMB5.6 million, respectively. Details of such Loans are set out in the section headed “Financial Information — Related Party Transactions and Balances — Amounts due from related parties”.

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 as 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**”) promulgated on May 23, 2015 and 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%. Pursuant to the Notice of the Supreme People’s Court on Conscientiously Studying, Implementing and Applying the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於認真學習貫徹適用《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》的通知) published on August 25, 2015, the Provisions shall apply to loans entered into prior to the implementation of the Provisions that are invalid under the former judicial interpretations but valid under the Provisions.

As of the Latest Practicable Date, the amount due from related companies in terms of the full principal amount and capitalized interest in respect of the Loans had been fully repaid and we had not received any notice of claim or penalty relating to the Loans. Save as disclosed herein, we have not made any other similar loans or advances to related companies or other third parties and we do not intend to make such loans or advances in the future. If we are subject to penalties from the PBOC or to an adverse judicial ruling in respect of the Loans, our cash flows, financial position and results of operations may be adversely affected.

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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 the PRC and substantially all of our revenue is derived from our operations in the PRC. 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 of 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 of our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to rapidly evolve, 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 [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds from the [REDACTED] or any further [REDACTED], 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 approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals or to complete 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 [REDACTED] 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 of 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. In addition, if any of our PRC 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 PRC 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 *PRC Enterprise Income Tax Law*, or EIT Law, the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, or Notice 112, which was issued on January 29, 2008, the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, or Notice 601, which became effective on October 27, 2009 and the

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Announcement of the State Administration of Taxation on the Determination of “Beneficial Owners” in the Tax Treaties, or Notice 30, which became effective on June 29, 2012, 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 Double Taxation Arrangement (Hong Kong). Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. We are actively monitoring the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

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 of 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, a circular 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 of 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 of 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 of our management is currently located in the PRC, 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.

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 PRC State Administration of Taxation.

On February 3, 2015, the PRC State Administration of Taxation issued the SAT Circular No. 7, which abolished certain provisions in the Circular on Strengthening the Administration of Enterprise

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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 State Administration of Taxation 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 other 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 there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been 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 of the PRC 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 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.

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 all of our assets and substantially all of 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 Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特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.

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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 of our revenue and expenditures are denominated in Renminbi, while the net proceeds from the [REDACTED] 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 Dollar or U.S. Dollar 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. Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk.

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 achieve certain exchange rate targets and policy goals. From mid-2008 to mid-2010 Renminbi traded within a narrow range against U.S. Dollar. In June 2010 the People’s Bank of China announced the removal of the *de facto* peg. Following this announcement, Renminbi has appreciated from approximately RMB6.38 per U.S. Dollar to RMB6.23 per U.S. Dollar as of March 22, 2014. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against Hong Kong Dollar or U.S. Dollar 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 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

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effective on July 14, 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 the PRC could negatively affect our profitability and growth.

Economic growth in the PRC 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 PRC economy, including increasing interest rates and capital reserve thresholds at PRC 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 the PRC and reduce demand for our products and decrease our revenue growth and adversely affect our results of operations.

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 the PRC. 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

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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 [REDACTED]

There has been no prior [REDACTED] for our Shares.

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

We have applied to [REDACTED] in our Shares on the Stock Exchange. However, even if approved, being [REDACTED] on the Stock Exchange does not guarantee that an active [REDACTED] for our Shares will develop or be sustained. If an active market for our Shares does not develop after the [REDACTED], 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 [REDACTED].

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the [REDACTED].

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;
- 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

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- 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 [REDACTED] and [REDACTED] of our [REDACTED], the price of our [REDACTED] could fall below the [REDACTED] when the [REDACTED] commences.

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be [REDACTED] Hong Kong business days after the [REDACTED]. 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 [REDACTED] when the [REDACTED] commences as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time [REDACTED] begins.

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

Based on the [REDACTED] range, the [REDACTED] is expected to be higher than the net tangible book value per Share prior to the [REDACTED]. 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 HKFRSs, our Articles of Association, market conditions, our strategic

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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 — Dividend Policy” for more details of our dividend policy.

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 [REDACTED], our Controlling Shareholders will together control approximately [REDACTED]% of our issued share capital, without taking into account of the Shares which may be issued upon the exercise of the [REDACTED]. Therefore, they 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. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are 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.

Sale, or perceived sale, of substantial amounts of our Shares in the [REDACTED] 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 [REDACTED] 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 [REDACTED], or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

Facts and statistics in this document relating to the PRC economy and the industry in which we operate may not be fully reliable, and statistics in the document provided by CIC are subject to assumptions and methodologies set forth in the “Industry Overview” section of this document.

Facts and statistics in this document relating to China and the industry in which we operate, including those relating to the PRC 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

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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 any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the [REDACTED], the Sole Sponsor, the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED] and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

WAIVER IN RELATION TO COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the joint company secretaries 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;
- (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 Securities and Futures Ordinance, 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. Zhang Li as one of the joint company secretaries of the Company. Mr. Zhang has been the Board Secretary of our Company since September 2015. He is primarily responsible for coordination of board affairs, investors’ relationship management, internal auditing, internal control and compliance of the Group. Prior to this, he served as financial director of JNBY Finery from July 2014 to September 2015, and has served as supervisor in a number of our subsidiaries. Mr. Zhang has approximately 10 years of working experience in the auditing and financial industry. Prior to joining our Group, Mr. Zhang worked at Ernst & Young Hua Ming LLP Shanghai Branch from October 2006 to April 2014, where he last served as an auditing manager. See “Directors and Senior Management” for details. However, Mr. Zhang 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, the Company believes that, having regard to Mr. Zhang’s knowledge and past experience in handling our corporate matters, he has a thorough understanding of the operations of the Company and is able to perform his duties as a joint company

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

secretary of the Company. Ms. Ng Sau Mei, another joint company secretary, will provide guidance and assistance to Mr. Zhang for an initial period of three years from the [REDACTED] so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. Further, Mr. Zhang undertakes to take no less than 15 hours of relevant professional training in each financial year of the Company.

Ms. Ng will work closely with Mr. Zhang to jointly discharge the duties and responsibilities as joint company secretaries and assist Mr. Zhang to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. In addition, we will ensure Mr. Zhang 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 [REDACTED] 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 [REDACTED] and will be revoked immediately if Ms. Ng ceases to provide assistance and guidance to Mr. Zhang as our joint company secretary during the three years after the [REDACTED] or upon the expiry of the three-year period after the [REDACTED], whichever occurs first. At the end of the three year period, the Company will liaise with the Stock Exchange. The Stock Exchange will revisit the situation and the expectation that the Company should be able to demonstrate to the Stock Exchange’s satisfaction that Mr. Zhang, 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”.

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INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

[REDACTED]

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INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

[REDACTED]

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[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Wu Jian (吳健)	Flat A, 76/F The Cullinan I Sun Sky 1 Austin Road West Tsim Sha Tsui, Kowloon, Hong Kong	St. Kitts and Nevis
Li Lin (李琳)	Flat A, 76/F The Cullinan I Sun Sky 1 Austin Road West Tsim Sha Tsui, Kowloon, Hong Kong	St. Kitts and Nevis
Li Ming (李明)	Room 1102, Unit 2, No. 11 Shouchun Yuan Xixi Chengyuan, Chengyuan Community Jiangcun Street, Xihu District, Hangzhou Zhejiang Province, PRC	Chinese
Non-Executive Directors		
Wei Zhe (衛哲)	No. N51, Tomson Golf 1 Longdong Avenue Pudong, Shanghai, PRC	Chinese
Zhang Beili (張倍力)	Room 2503, Unit 2, No. 1 Weilan Apartment Jianggan District, Hangzhou Zhejiang Province, PRC	Chinese
Independent Non-Executive Directors		
Lam Yiu Por (林曉波)	Flat D, 8/F, Tower 3 Ocean Shores, Tseung Kwan O New Territories, Hong Kong	Chinese
Han Min (韓敏)	Room 101, No. 28, Lane 2777 Langu Road Pudong, Shanghai, PRC	Chinese
Hu Huanxin (胡煥新)	Room 601, No. 6, Qiangsheng Gubei Garden No. 717 Golden City Road Changning District, Shanghai, PRC	Chinese

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor [REDACTED]

CCB International Capital Limited
12/F., CCB Tower
3 Connaught Road Central
Central
Hong Kong

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
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing
China

As to Cayman Islands laws:

Conyers Dill & Pearman
Cricket Square
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to International Sanctions law:

DLA Piper UK LLP
3 Noble Street
London
EC2V 7EE
United Kingdom

**Legal Advisers to the Sole Sponsor
[REDACTED]**

As to Hong Kong law:

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to PRC law:</i> Tian Yuan Law Firm 10F China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing 100032 China</p>
Reporting Accountant	<p>PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F Prince’s Building Central Hong Kong</p>
Industry Consultant	<p>China Insights Consultancy Limited 10/F Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai China</p>
Compliance Adviser	<p>First Shanghai Capital Limited 19/F, Wing On House 71 Des Voeux Road Central Hong Kong</p>
Receiving Banks	<p>[REDACTED]</p>

CORPORATE INFORMATION

Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters	3/F, Blue Ocean Times Building No. 39 Yile Road, Xihu District Hangzhou, Zhejiang Province, PRC
Principal Place of Business in Hong Kong	Unit 709, 7/F., Lippo Sun Plaza 28 Canton Road Tsim Sha Tsui Kowloon Hong Kong
Company’s Website	http://www.jnbygroup.com <i>(The information on the website does not form part of this document)</i>
Joint Company Secretaries	Mr. Zhang Li (張立) Room 301, Unit 8, Building 74 Zhaohui Block 9, Xiacheng District Hangzhou, Zhejiang Province China Ms. Ng Sau Mei (伍秀薇) (HKICS) 36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized Representatives	Mr. Wu Jian (吳健) Flat A, 76/F The Cullinan I Sun Sky 1 Austin Road West Tsim Sha Tsui, Kowloon, Hong Kong Ms. Ng Sau Mei (伍秀薇) 36/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Audit Committee	Mr. Lam Yiu Por (林曉波) (Chairman) Ms. Han Min (韓敏) Mr. Hu Huanxin (胡煥新)

CORPORATE INFORMATION

Remuneration Committee	Mr. Hu Huanxin (胡煥新) (<i>Chairman</i>) Mr. Wu Jian (吳健) Mr. Lam Yiu Por (林曉波)
Nomination Committee	Mr. Wu Jian (吳健) (<i>Chairman</i>) Mr. Hu Huanxin (胡煥新) Ms. Han Min (韓敏)
The Cayman Islands Principal Share Registrar and Transfer Office	[REDACTED]
Hong Kong Share Registrar	[REDACTED]
Principal Banks	Bank of Hangzhou, Guanxiangkou Branch No. 178 Jiefang Road, Hangzhou Zhejiang Province, PRC Huaxia Bank, Heping Branch No. 213 Dongxin Road, Hangzhou Zhengjiang Province, PRC

INDUSTRY OVERVIEW

The information and statistics set forth in this section and elsewhere in this document 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 Limited, 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 [REDACTED], the [REDACTED], the [REDACTED], any other party involved in the [REDACTED] 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 [REDACTED], we have commissioned CIC, an independent third party, to conduct research and analysis of, and to produce a report on China’s apparel market in general and China’s designer brand fashion market in particular. The report we commissioned, or the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB660,000 for the preparation of the report, which we consider in line with market rates. CIC is a consulting firm founded in Hong Kong, with offices in Beijing and 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 apparel industry, the designer brand fashion industry and economic data, which have been quoted in this document. 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, such as the National Bureau of Statistics and industry associations.

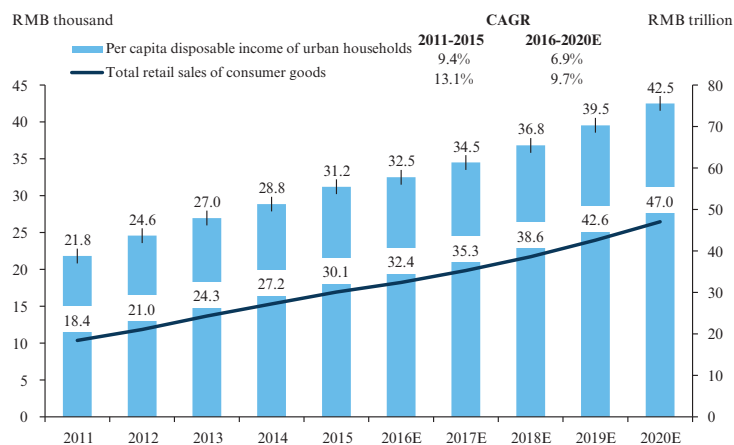
The market projections in the commissioned report are based on the following key assumptions: (i) China’s economy and industry development is likely to maintain steady growth over the next decade; (ii) related key industry drivers, such as the increasing urbanization rate and disposable income, prosperous economic development and government support, are likely to drive the growth of China’s apparel and accessories market as well as the market for household textile products during the forecast period; and (iii) there is no any 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.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA’S ECONOMY

The living standards of people in China have significantly improved along with the growing economy. Per capita disposable income of urban households in China increased from RMB21.8 thousand in 2011 to RMB31.2 thousand in 2015, representing a CAGR of 9.4% during the period. With greater levels of disposable income, consumer spending has also increased. The total retail sales of consumer goods sold in China reached RMB30.1 trillion in 2015, up from RMB18.4 trillion in 2011, representing a CAGR of 13.1% during this period.

Total retail sales of consumer goods and per capita disposable income of urban households, China, 2011-2020E



Source: CIC

OVERVIEW OF CHINA’S APPAREL MARKET

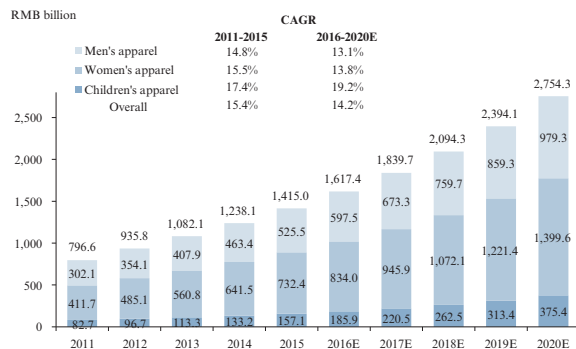
Apparel products mainly include men’s apparel, women’s apparel and children’s apparel. Men’s apparel is primarily intended to be worn by males 15 or older. Women’s apparel is primarily intended to be worn by females 15 or older. Children’s apparel is primarily intended to be worn by children under 15.

Market Size and Forecast for China’s Apparel Market

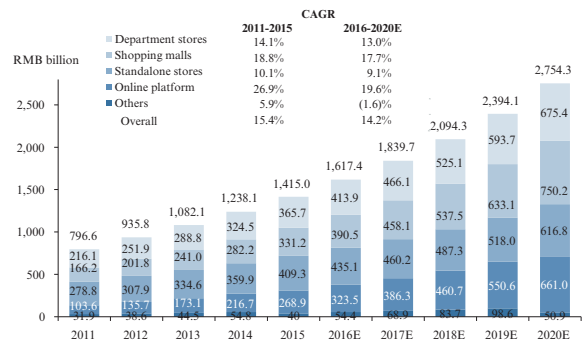
China’s apparel market has grown rapidly, increasing from RMB796.6 billion in 2011 to RMB1,415.0 billion in 2015, representing a CAGR of 15.4% during the period. Rising per capita disposable incomes and net incomes in China have been the main drivers of growth in the market. Over the forecast period from 2016 to 2020, China’s apparel market is expected to grow steadily at a CAGR of 14.2%. Retail sales of China’s apparel market are forecasted to reach RMB2,754.3 billion in 2020. The four major distribution channels in China’s apparel market are shopping malls, department stores, standalone stores and online platforms.

INDUSTRY OVERVIEW

Market size and forecast of apparel market in terms of retail sales, China, 2011-2020E



Market size and forecast of apparel market by channels in terms of retail sales, China, 2011-2020E



Note: “Others” mainly include small-sized stores such as individual garment-making stores, clothing stores in the community, etc.

Source: CIC

Per Capita Expenditure on Apparel and Footwear in China in 2014

In 2014, per capita expenditure on apparel and footwear reached US\$250.8. Though undergoing rapid growth, per capita expenditure on apparel and footwear in China still lags behind that of developed countries and regions. In 2014, per capita expenditure on apparel and footwear in the United States, Japan, the EU, Singapore and South Korea was US\$1,156.4, US\$1,089.2, US\$1,002.9, US\$671.0 and US\$593.0, respectively. China’s apparel and footwear market is expected to have large potential to expand.

China’s Apparel Market by City Tier

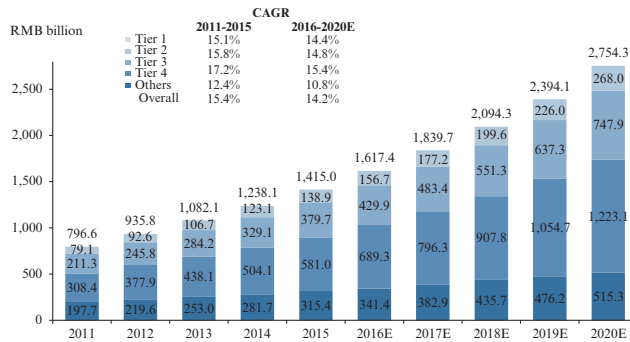
By City Tier

Expenditure on apparel in a given city varies commensurate with the city’s tier ranking in China. Per capita expenditure on apparel in Tier 1 cities reached RMB2,061.9 in 2015, which is far higher than the expenditure in cities of the other three tiers. In 2015, per capita expenditure on apparel in Tier 1 cities was about 1.5 times, 2.4 times, and 4.0 times the amount spent in Tier 2 cities, Tier 3 cities, and Tier 4 cities, respectively. Per capita expenditure on apparel in Tier 2 cities, Tier 3 cities and Tier 4 cities reached RMB1,395.8, RMB849.4 and RMB516.9, respectively, in 2015. As illustrated by the

INDUSTRY OVERVIEW

chart below, the growth of China’s apparel market was primarily driven by growth in Tier 1, Tier 2 and Tier 3 cities in the period from 2011 to 2015, and such trend is expected to continue in the period from 2016 to 2020.

Market size and forecast of apparel market by city tiers in terms of retail sales, China, 2011-2020E



Note:

Tier 1 cities refer to Beijing, Shanghai, Guangzhou, and Shenzhen;

Tier 2 cities refer to Tianjin, Chongqing, provincial capital cities except for Guangzhou, and some prefecture-level cities, namely, Qingdao, Foshan, Dalian, Ningbo, Suzhou, Wuxi, Xiamen, Dongguan and Wenzhou;

Tier 3 cities refer to all other prefecture-level cities except for Tier 1 and Tier 2 cities;

Tier 4 cities are defined to include all other cities in mainland China.

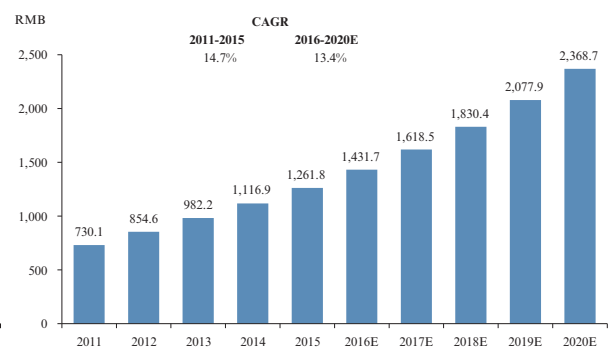
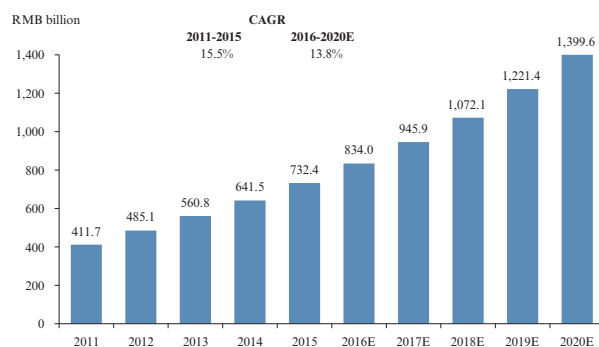
Source: CIC

OVERVIEW OF WOMEN’S, MEN’S AND CHILDREN’S APPAREL MARKETS IN CHINA

Women’s

Women’s apparel market in China in terms of retail sales has increased from RMB411.7 billion in 2011 to RMB732.4 billion in 2015, representing a CAGR of 15.5%. Rising disposable incomes and rapid urbanization have been major drivers of this rapid growth. Going forward, retail sales in women’s apparel market in China is expected to reach RMB1,399.6 billion by 2020, growing at a CAGR of approximately 13.8% from 2016. From 2011 to 2015, women’s average spending on apparel has increased rapidly from RMB730.1 to RMB1,261.8, representing a CAGR of 14.7%. Average spending on women’s apparel is expected to increase further and reach RMB2,368.7 in 2020.

Market size and forecast of women’s apparel market in terms of retail sales, China, 2011-2020E



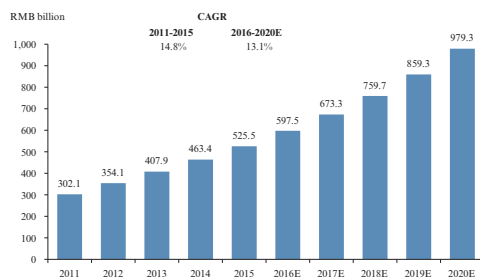
Source: CIC

INDUSTRY OVERVIEW

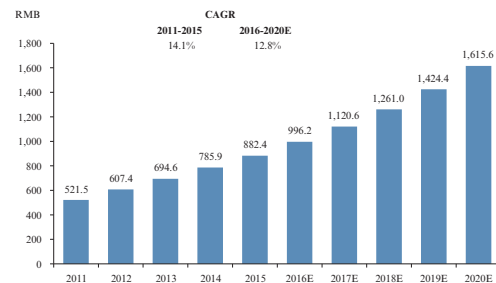
Men’s

From 2011 to 2015, men’s apparel market in China has expanded rapidly from RMB302.1 billion to RMB525.5 billion, up by more than RMB200 billion during barely four years. Over the forecast period from 2016 to 2020, men’s apparel market in China is expected to maintain steady growth at a CAGR of 13.1%. Retail sales in the men’s apparel market are forecasted to hit RMB979.3 billion in 2020. Average spending on men’s apparel has increased from RMB521.5 in 2011 to RMB882.4 in 2015, representing a CAGR of 14.1%. Driven by increasing disposable income as well as the increasing purchasing power of China’s rising middle class, average spending on men’s apparel is expected to increase further and reach RMB1,615.6 in 2020.

Market size and forecast of men’s apparel market in terms of retail sales, China, 2011-2020E



Men’s per capita expenditure on apparel, China, 2011-2020E



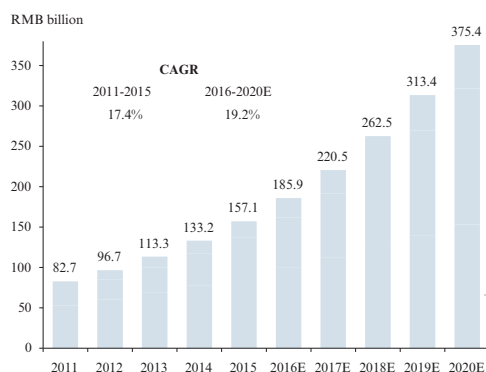
Source: CIC

Children’s

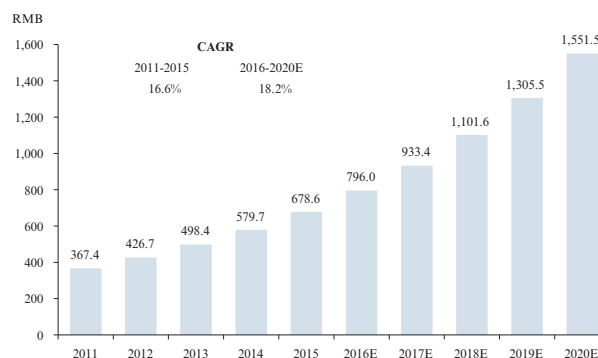
The size of the children’s apparel market in China in terms of sales revenue increased significantly from RMB82.7 billion in 2011 to RMB157.1 billion in 2015, representing a CAGR of 17.4% during the period, which indicates this market’s prosperous development and future potential. The attitude of Chinese parents regarding children’s apparel can be directly reflected from the trend of increasing average per capita apparel expenditure of Chinese children. From 2011 to 2015, per capita children’s apparel expenditure has increased significantly from RMB367.4 in 2011 to RMB678.6 in 2015, representing a CAGR of 16.6%. Considering the strong development momentum of high-end and middle-end children’s apparel brands, average per capita apparel expenditure of Chinese children is expected to increase more rapidly in the near future. The implementation of the two-child policy is expected to be a driving force behind the continued development of the children’s apparel market in China. As a consequence, average expenditure on apparel for newborn children is expected to be higher, especially in more developed cities with richer families.

INDUSTRY OVERVIEW

Size and forecast of children’s apparel market in China in terms of retail sales, 2011-2020E



Per capita expenditure on children’s apparel, China, 2011-2020E



Source: CIC

Market Size and Forecast of China’s Designer Brand Fashion Market

Designer brand fashion products usually feature strong designer characteristics and iconic styles that can be easily identified. These attributes differentiate the designer brand fashion segment from the luxury brands, fast fashion and commercial brands in China’s apparel market.

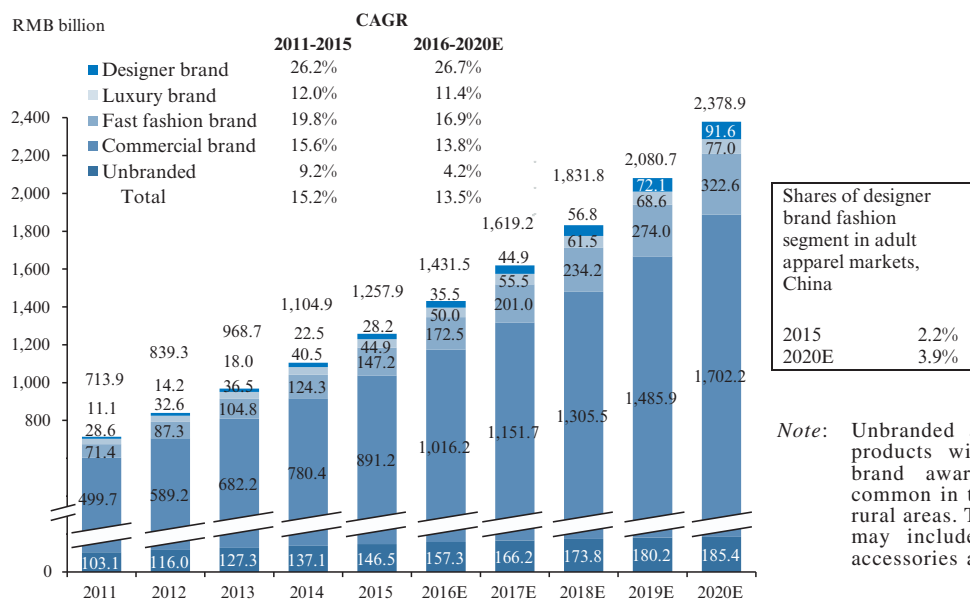
	Designer brand segment	Luxury brand segment	Fast fashion brand segment	Commercial brand segment
Definition and description	<ul style="list-style-type: none"> Designer brand apparel products are usually featured with strong designer characteristics and iconic styles that can be easily identified. For designer brand, consumers usually value more on design, styles, and unique shopping experience and thus are less sensitive on prices. 	<ul style="list-style-type: none"> Luxury brand is regarded as images in the minds of consumers that comprise associations about a high level of price, quality, aesthetics, rarity, extraordinariness and a high degree of non-functional associations. 	<ul style="list-style-type: none"> Fast fashion is a contemporary term for designs that move from the catwalk quickly in order to capture latest fashion trends. Fast fashion companies thrive on fast cycles: rapid prototyping, small batches combined with a large variety, more efficient transportation and delivery, and merchandise that is presented ‘floor ready’ on hangers with price tags already attached. 	<ul style="list-style-type: none"> Commercial brands usually produce mass quantities of sales-oriented apparel products, covering full range of low to high end products. They are usually focused on more popular and common styles of apparel products with large batches of best-selling apparel SKUs.
Design and style	<ul style="list-style-type: none"> Strong designer characteristics and iconic features on apparel products Stress on consistent design Designer has the strongest influence on end products 	<ul style="list-style-type: none"> Designs comply with the taste of the upper class Stress on brand culture and product rarity Designer has strong influence on end products 	<ul style="list-style-type: none"> Rapid prototyping of trendy designs Stress on variety and diversity of products Designer follows the market trends 	<ul style="list-style-type: none"> Designs change with mass market fashion trends More focused on popular and common styles widely accepted by mass market Designer follows the mass market trends
Major targeting customers	<ul style="list-style-type: none"> Middle to high income level group who pursue high-quality apparel products that can represent them on a personal level 	<ul style="list-style-type: none"> High income level group who are conscious about social status and product brand 	<ul style="list-style-type: none"> Middle income level group that seek a diversified apparel wearing experience 	<ul style="list-style-type: none"> Groups of different income levels with diversified demand for apparel products
Typical brands	<ul style="list-style-type: none"> JNBY Exception de MIXMIND Zuczug Zukka Pro 	<ul style="list-style-type: none"> Louis Vuitton Chanel Armani Michael Kors 	<ul style="list-style-type: none"> H&M Zara UNIQLO 	<ul style="list-style-type: none"> La chapelle E-land Vera Moda

Source: CIC

For designer brands, consumers usually place greater emphasis on design, styles, and unique shopping experiences and thus are less sensitive to prices. China’s designer brand fashion market has expanded rapidly, increasing from RMB11.1 billion in 2011 to RMB28.2 billion in 2015, representing a CAGR of 26.2%. In the future, with rising brand awareness and increasing attention on apparel design, the market is expected to maintain high-speed growth with a CAGR of 26.7% over the forecast period from 2016 to 2020.

INDUSTRY OVERVIEW

Market segmentation of adult apparel market, China, 2011-2020E



Source: CIC

Key Trends, Drivers and Success Factors of China’s Designer Brand Fashion Market

Multi-brand strategies adopted by designer brand fashion companies. In today’s world, consumers’ tastes in fashion and design are rather diversified. As a result, multi-brand strategies are increasingly adopted to fully capitalize on business opportunities and offer products that appeal to diverse consumer segments with differing consumption propensities. To the extent that designer brands can extend their design capability and integrate resources along the value chain to lifestyle related fields, such as home furnishings and household textiles as well as apparel and accessories, this can build a virtuous cycle and customer ecosystem that can help drive their success.

Enhancing brand strategy through social media and the Internet due to expanding online sales channels. As compared with traditional brick-and-mortar retail stores, online stores generally feature a wider selection of products, convenient delivery, and advantageous prices. Given the popularity of mobile devices, an increasing number of consumers are spending more time online to browse apparel information and read style opinions. E-commerce is expected to constitute an ever larger proportion of total apparel retail sales in China. Accordingly, more apparel brands are increasing their investments to enhance branding strategy through social media and the Internet. Additionally, growing popularity of smartphones will likely drive apparel companies to further enhance their online platforms.

Pursuit of highly differentiated products to represent individuality. Apparel of high quality and stylish designs are becoming more popular due to consumers’ rising participation in social and commercial activities. Increasingly sophisticated Chinese consumers have been looking to express their identity and status through fashion. With strong innovation capabilities, designer brands can offer differentiated products with a high degree of uniqueness, and accordingly have rapidly gained popularity over the past few years.

Strong design capabilities. Strong design capabilities are the very spirit of designer brand fashion companies, and are of vital importance for differentiating their products from those of their competitors. With such capabilities, designer brand fashion companies can constantly deliver innovative products, receive higher price premiums, achieve higher profit margins over the long term, as well as expand beyond apparel segments, reaching a broader customer base.

INDUSTRY OVERVIEW

Strategies to maintain and enhance customer loyalty through active interaction with VIP members on a diversified client platform. Since designer brands largely target younger generations of consumers who view apparel as an expression of personality and culture, considerable proportions of them are characterized by high brand loyalty, low price sensitivity, and strong purchasing power. Providing VIP member programs to these customers often involve timely new product promotions, customer behavior studies, and incentive policies to offer more discounts. Maintaining and expanding a group of core customers will sustain a company’s long-term organic growth.

Entry Barriers of China’s Designer Brand Fashion Market

Experienced designer team. Designer brand fashion companies rely heavily on leading designers to manage and oversee the overall operations of the company. Designers and their teams are deeply involved in almost all aspects of business operations to ensure that consistency is reflected in the flow of the business. Such unique business operations can only be achieved after years of experiences, talent acquisitions, and internal cooperation.

Established premium sales channel. As most designer brands target consumers with higher purchasing power, it is necessary to establish a premium sales channel to attract and retain customers. New entrants need to invest significant capital and undergo a long negotiation process to gain access to such channels.

Brand establishment. Once its market position is established, a designer brand enjoys obvious advantages in terms of brand awareness, customer loyalty, higher profit margins, and channel dominance in department stores and/or shopping malls. Newcomers in the designer brand fashion market may find it difficult to attract customers away from well-established brands, and this is even more difficult in the men’s segment due to the stronger brand loyalty of male customers.

Consumer Survey on Brand Awareness

The designer brand fashion market in China is relatively fragmented with the top ten market participants having accounted for 43.2% of market share in terms of retail sales, including both online and offline sales, in 2015. Our Group had the highest retail sales and a market share of 9.6% in 2015 among designer brand fashion companies (children’s apparel is treated as a separate segment and therefore excluded from the designer brand fashion industry).

Ranking of the top 10 designer brand fashion companies by retail sales, China, 2015 (note 1)

Rank	Company name	Designer brands included	Retail sales (billion RMB)	Market share
1	JNBY	JNBY, less, CROQUIS	2.7	9.6%
2	Company A	1 brand	1.8	6.4%
3	Company B	1 brand	1.3	4.6%
4	Company C	2 brands	1.2	4.4%
5	Company D	2 brands	1.2	4.3%
6	Company E	2 brands	1.0	3.5%
7	Company F	1 brand	0.9	3.2%
8	Company G	1 brand	0.8	2.8%
9	Company H	1 brand	0.7	2.3%
10	Company I	1 brand	0.6	2.1%
	Other participants		16.0	56.8%
Total			28.2	100.0%

Ranking of the top 10 women’s designer brand fashion companies by retail sales, China, 2015 (note 1)

Rank	Company name	Designer brands included	Retail sales (billion RMB)	Market share
1	JNBY	JNBY, less	2.2	10.4%
2	Company A	1 brand	1.8	8.5%
3	Company C	2 brands	1.2	5.9%
4	Company D	1 brand	1.1	5.2%
5	Company F	1 brand	0.9	4.3%
6	Company G	1 brand	0.8	3.8%
7	Company H	1 brand	0.7	3.1%
8	Company I	1 brand	0.6	2.8%
9	Company J	1 brand	0.6	2.6%
10	Company K	1 brand	0.5	2.1%
	Other participants		10.9	51.3%
Total			21.2	100.0%

Source: CIC

INDUSTRY OVERVIEW

Ranking of the top 10 domestic medium to high end women’s apparel brands (note 2) in terms of number of WeChat users, China, first quarter 2016 (note 3)

Rank	Brands	Brand WeChat account name	Number of WeChat users (in thousand)	Average views on headlines	Average views on all articles	Average posts	Account type
1	JNBY	JNBY	400	56,611	32,411	3	Service account
2	Orchirly	orchirly	350	38,249	28,249	7	Service account
3	MO&Co.	MO&Co. 官方服务号	230	37,496	27,611	3	Service account
4	DAZZLE	DAZZLE	200	37,330	37,330	1	Service account
5	FivePlus	FivePlus	180	30,307	14,461	4	Service account
6	ElegantProsper	EP 雅莹	170	30,806	17,062	4	Service account
7	Marisfrolg	Marisfrolg 瑪斯 芬爾	160	18,874	18,874	1	Subscription account
8	PeaceBird	太平鸟时尚女装	150	18,364	12,838	4	Service account
9	JORYA	JORYA	140	20,987	13,763	2	Service account
10	VGRASS	VGRASS	130	23,766	14,185	1.9	Service account

Source: LADYMAX

Note 1: Retail sales refers to the sales of retail goods at the actual selling price to the end customer. Our retail sales were derived from the sum of: (i) the revenue from self-operated stores plus VAT; (ii) revenue from distributors at wholesale prices adding back any wholesale discount provided to distributors, plus VAT and netting off estimated price discounts offered to end customers from the suggested retail price; and (iii) the revenue from online platforms plus VAT.

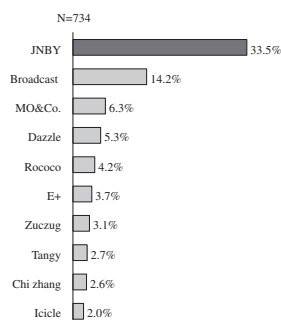
Note 2: Medium to high end women’s apparel brands were defined and selected based on considerations of multiple criteria including (i) the price of the brands’ major apparel products ranges from RMB800 to RMB2,500 per piece; and (ii) the target customers are aged mainly between 20 and 35 with a considerable purchasing power and consumption capacity. Other criteria taken into consideration include, among others, target customers’ income and lifestyle, store image, relevant media coverage and exposure of brand, customer recognition and perception.

Note 3: Brands are primarily ranked by the number of their WeChat users. However, average views of headlines are used for ranking in case of same number of WeChat users for different companies.

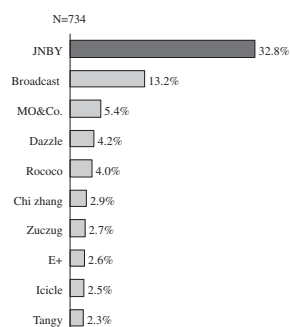
COMPETITIVE STRENGTHS OF JNBY

In connection with the CIC Report, CIC conducted a survey of 734 consumers, which shows that JNBY’s brand image is associated with the following characteristics by consumers: impressive designer characteristics, simple and stylish design, comfortable fabric and high brand awareness.

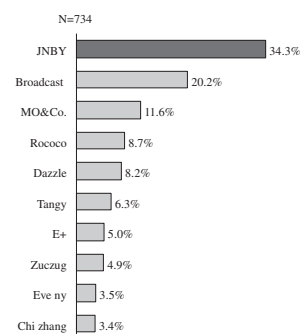
Awareness of the most unique and recognizable women’s designer brands



Top-of-mind brand awareness of women’s designer brand



Women’s designer brands with repeated purchases over the past two years (2014, 2015)



Source: CIC

INDUSTRY OVERVIEW

In the overall awareness market research of women’s designer brands, 32.8% of customers first mentioned JNBY as representing a women’s designer brand. JNBY was recognized by 71.8% of the survey participants as a women’s designer brand, still ranking first in terms of frequency of being mentioned. 33.5% of the consumers surveyed believed that JNBY is the most unique and recognizable brand in terms of the level of identification of their apparel products. 34.3% of the consumers surveyed had bought JNBY at least twice during the last two years. JNBY ranked as the designer brand with most purchases among the consumers surveyed, representing 25.7% of respondents’ choices.

OVERVIEW OF CHINA’S APPAREL ACCESSORIES MARKET

The total retail sales of China’s apparel accessories industry increased from RMB434.1 billion in 2011 to RMB701.2 billion in 2015, with a CAGR of 12.7%. Increasingly sophisticated consumption demand for decorative apparel accessories driven by a strong awareness of brands is likely to boost the development of China’s apparel accessories industry. Consequently, the total retail sales of China’s apparel accessories market is expected to reach RMB1,287.8 billion in 2020 with a CAGR of 13.0% from 2016 to 2020.

OVERVIEW OF CHINA’S HOUSEHOLD TEXTILES MARKET

The total retail sales of China’s household textiles market increased from RMB791.5 billion in 2011 to RMB1,155.0 billion in 2015, representing a CAGR of 9.9% from 2011 to 2015. The largest household textiles segment in 2015 was decorative textiles, followed by bedding and bathroom textiles, which accounted for 64.0%, 15.5% and 20.5%, respectively, of the market for that year. China’s per capita expenditure on household textiles is low compared to developed countries. It is expected that the household textiles market will grow further in the future, driven by increasing focus on living standards. China’s per capita expenditure on household textile products is expected to reach RMB1,337.3 in 2020, representing a CAGR of 9.9% from 2016 to 2020. It is expected that the retail sales value of China’s household textiles market will further reach RMB1,916.2 billion in 2020, representing a CAGR of 10.3% from 2016 to 2020.

RAW MATERIALS AND LABOR COSTS OF CHINA’S APPAREL MARKET

Primary raw materials used in the manufacture of apparel products include cotton and Terylene fully drawn yarn (“FDY”), where any cost fluctuation may directly affect apparel companies’ cost structure and product pricing. According to CIC, the price of cotton decreased from RMB23,716.0 per ton in 2011 to RMB13,895.0 per ton in 2015, which was primarily due to the declining costs of cotton during this period. Similarly, the price of FDY has decreased from RMB13,400.0 per ton in 2011 to RMB6,551.1 per ton in 2015, which was primarily due to the declining price of crude oil during this period. The average wage paid to urban workers employed in China’s wholesale and retail sectors has experienced stable growth, increasing from RMB40,654.0 per annum in 2011 to RMB60,328.0 per annum in 2015.

REGULATORY OVERVIEW

REGULATIONS RELATING TO OUR INDUSTRY

Laws and regulations relating to the PRC retail sector

The principal PRC laws and regulations governing foreign investment in retail enterprises include, but are not limited to, the Catalogue of Industries for Guiding Foreign Investment (the “**Foreign Investment Catalogue**”) (外商投資產業指導目錄), Administrative Measures for the Foreign Investment in Commercial Fields (the “**Administrative Measures**”) (外商投資商業領域管理辦法), Circular of the Ministry of Commerce on Expanding the Business Scope of Non-commercial Foreign-funded Enterprises to Include Commodities Distribution (the “**Distribution Circular**”) (關於外商投資非商業企業增加分銷經營範圍有關問題的通知), the *PRC Competition Law* (中華人民共和國反不當競爭法), the *PRC Consumer Protection Law* (中華人民共和國消費者權益保護法), the *PRC Product Quality Law* (中華人民共和國產品質量法) and the *PRC Labor Contract Law* (中華人民共和國勞動合同法), etc. These laws and regulations are summarized in this section.

The Foreign Investment Catalogue

The Foreign Investment Catalogue lists out specific industries and economic activities which foreign investment in the PRC is encouraged in, or from which foreign investment in the PRC is restricted or prohibited.

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) jointly promulgated the Foreign Investment Catalogue in 1995. Since then, the Foreign Investment Catalogue has been revised several times, with the most significant revisions taking place in 2002, 2004, 2007, 2011 and 2015. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the NDRC and the Ministry of Commerce on March 10, 2015 and came into effect on April 10, 2015. On the same day, the Foreign Investment Catalogues (amended in 2011) was repealed.

In general, the Foreign Investment Catalogue (amended in 2015) improves Foreign Investors’ access to real estate, e-commerce, finance and wholesale and retail industry while placing greater restriction on access to online publication services, the auction of cultural relics, etc.

The Administrative Measures and the Distribution Circular

The principal legal provisions governing foreign investment in the commercial sector are set out in the Administrative Measures which was promulgated by the Ministry of Commerce on April 16, 2004 and came into effect on June 1, 2004, and was revised on October 28, 2015. Besides, the Ministry of Commerce has promulgated several Supplementary Provisions for the principal legal provisions governing foreign investment in the commercial sector in 2006, 2007, 2009, 2012.

The PRC started to open its retail industry to foreign investment in the early 1990s. In 1992, the State Council introduced qualifications and conditions for foreign investment in commercial retail enterprises with the promulgation of the Approval and Reply Concerning the Use of Foreign Investment in the Commercial Retail Sector (關於商業零售領域利用外資問題的批覆).

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Following the PRC’s accession to the World Trade Organization and in fulfilment of its commitments, the PRC government promulgated the Administrative Measures which replaced the Interim Measures on Foreign Investment in Commercial Enterprises and removed the conditions for joint venture partners and geographic restrictions provided in the previous regulations. According to the Administrative Measures, a foreign-invested commercial enterprise must fulfil the following requirements:

- maintaining a minimum registered capital which is in compliance with the relevant provisions of the *PRC Company Law* (中華人民共和國公司法) and comply with the relevant provisions on registered capital and total investment of a foreign-invested enterprise; and
- the term of operation of a foreign-invested commercial enterprise not exceeding 30 years in general and not exceeding 40 years in general in the case of a foreign-invested commercial enterprise established in central and western China.

In addition, a foreign-invested commercial enterprise which intends to open stores shall comply with the relevant provisions on city development and urban commercial development.

The Distribution Circular was promulgated by the Ministry of Commerce on April 2, 2005 which came into effect on the same date, and was amended on October 28, 2015. Compared to the Administrative Measures, the Distribution Circular further stipulates that a non-commercial foreign-invested enterprise is allowed to expand its business scope to include distribution activities, subject to the relevant approvals and registration procedures as set out in the Distribution Circular.

PRC Competition Law

The principal legal provisions governing market competition are set out in the *PRC Competition Law*, which was promulgated by the National People’s Congress Standing Committee on September 2, 1993 and came into effect on December 1, 1993.

The *PRC Competition Law* provides that business operators shall not undermine their competitors by engaging in the following improper market activities:

- infringement of trademark rights or confidential business information;
- false publication through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and
- other improper practices, including commercial bribery, cartels, dumping sales at below-cost prices and offering prizes as sales rebates illegally.

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* (中華人民共和國消費者權益保護法), which was promulgated by the National People’s Congress Standing Committee on October 31, 1993 and came into effect on January 1, 1994, and was subsequently amended in 2009 and 2013. 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.

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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 National People’s Congress Standing Committee on February 22, 1993 and amended on July 8, 2000. 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.

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

- be responsible for the quality of products it produces;
- 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

REGULATORY OVERVIEW

- 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 licence 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 the producer as well as 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.

REGULATIONS RELATING TO FOREIGN INVESTMENT IN CHINA

The M&A Rules

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Rules**”), promulgated by six PRC ministries including MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE, effective from September 8, 2006 and amended on June 22, 2009, provide 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.

Regulations on Foreign Exchange and Dividend Distribution

The Foreign Exchange Management Regulations (外匯管理條例) which was promulgated by the State Council on January 29, 1996 and was amended on January 14, 1997 and August 5, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) which was promulgated by the People’s Bank of China on June 20, 1996 and became effective on July 1, 1996, apply and provide regulatory provisions to the foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in PRC.

The *Law of the People’s Republic of China on Enterprise Income Tax* (中華人民共和國企業所得稅法) prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, 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), which was promulgated on December 6, 2007 and became effective on January 1, 2008, reduced the rate from 20% to 10% with the implementation date starting from January 1, 2008.

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Pursuant to the Arrangement between Mainland China and Hong Kong for 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稅避免雙重徵稅和防止偷漏稅的安排) on August 21, 2006, no more than 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 holds at least 25% of the capital of the PRC company. 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

TAXATION LAWS AND REGULATIONS

Enterprise Income Tax

The *Law of the People’s Republic of China on Enterprise Income Tax* (中華人民共和國企業所得稅法), which was promulgated by National People’s Congress on March 16, 2007, and came into effect on January 1, 2008, adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知), which was promulgated on December 26, 2007 and became effective on the same day, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the *Law of PRC Enterprise Income Tax*. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the *Law of PRC Enterprise Income Tax* may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the *Law of PRC Enterprise Income Tax*. Enterprises that were granted preferential Enterprise Income Tax treatments before the effectiveness of the *Law of PRC Enterprise Income Tax* may continue to enjoy the preferential Enterprise Income Tax treatments until their expiration.

Value Added Tax

The Provisional Regulations of PRC Concerning Value Added Tax (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 came into effect on January 1, 1994, and was subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and was amended on February 6, 2016. 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%.

Business Tax

The Provisional Regulations of PRC Concerning Business Tax (中華人民共和國營業稅暫行條例) (the “**Business Tax Regulations**”) was promulgated by the State Council on December 13, 1993 and amended on November 5, 2008 and came into effect on January 1, 2009. Under the Business Tax Regulations, businesses that provide services (including entertainment business), assign intangible

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assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case maybe. The formula for calculation of the amount of tax payable is set forth below: Amount of tax payable = business income × tax rate

The business income shall be calculated in RMB. Taxpayers that settle their amounts of business income in currency other than RMB shall convert the amounts into RMB.

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 PRC* (中華人民共和國商標法), which was promulgated by the National People’s Congress Standing Committee on August 23, 1982 and came into effect on March 1, 1983 and was amended respectively on February 22, 1993, October 27, 2011 and August 30, 2013, and came into effect on May 1, 2014, and the Regulation on Implementation of Trademark Law of the PRC (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 registration and grants a term often 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 applications 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.

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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.

In addition, according to the Provisions on Recognition and Protection of Well-known Trademarks (馳名商標認定和保護規定) promulgated by State Administration for Industry and Commerce on July 3, 2014 and became effective on August 3, 2014, for the identification of the well-known trademarks, the principles of case-by-case identification and passive protection shall be followed.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (中國互聯網路功能變數名稱管理辦法), promulgated on November 5, 2004 and with effect from December 20, 2004, “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. After completing the domain name registration, the applicants become the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

LABOR LAW AND REGULATIONS

Enterprises in China are mainly subject to the following PRC labor laws and regulations: *Labor Law of the PRC* (中華人民共和國勞動法), *PRC Labor Contract Law* (中華人民共和國勞動合同法), the *Social Insurance Law of the PRC* (中華人民共和國社會保險法), 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 (社會保險費征繳暫行條例), the Administrative Regulation on Housing 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 *Labor Law of the PRC*, 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 accident 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 Standing Committee of the NPC 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*,

REGULATORY OVERVIEW

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 *Social Insurance Law of the PRC*, 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 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 accumulation fund.

REGULATIONS RELATING TO IMPORTING AND EXPORTING GOODS

According to the *Foreign Trade Law of the People's Republic of China* (中華人民共和國對外貿易法) which was promulgated by the Standing Committee of the National People's Congress on May 12, 1994 and amended on April 6, 2004, and Measures for the Archival Filing and Registration of Foreign Trade Business Operators (對外貿易經營者備案登記辦法) which was promulgated by the MOFCOM on June 25, 2004 and became effective on July 1, 2004, foreign trade operators engaged in imports and exports of goods are regulated by a filing and registration system, which is implemented by the foreign trade authority under the State Council or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

The *Customs Law of the PRC* (the “**Customs Law**”) (中華人民共和國海關法) was promulgated by the Standing Committee of the National People's Congress on January 22, 1987 and was respectively amended on July 8, 2000, June 29, 2013, and December 28, 2013. Pursuant to the Customs Law, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted Customs brokers that have registered with the Customs. In addition, the consignor or consignee of the goods exported or imported and the Customs broker must register themselves for declaration activities at the Customs office.

Principal regulations on the inspection of import and export commodities are set out in the *Law of the People's Republic of China on Import and Export Commodity Inspection* (中華人民共和國進出口商品檢驗法) promulgated by the Standing Committee of the National People's Congress on February 21, 1989 and amended on April 28, 2002 and June 29, 2013 and its implementation rules promulgated on August 31, 2005 and amended on July 18, 2013 and February 6, 2016. Pursuant to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalog compiled by the State administration shall be inspected by the commodity inspection authorities, and the import and export goods which are not subject to statutory inspection shall be inspected randomly. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

REGULATORY OVERVIEW

INTERNATIONAL SANCTIONS LAWS

During the Track Record Period, we had product sales to one customer Russia, a Sanctioned Country. The amount of total revenue generated from sales to this customer in Russia in Fiscal 2014, Fiscal 2015 and Fiscal 2016 represented approximately 0.5%, 0.4% and 0.1% of our total revenue for the same years, respectively. Our sole customer in Russia is not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the U.S., the United Nations or Australia and therefore is not a target of International Sanctions. As advised by DLA Piper UK LLP, our legal adviser as to International Sanctions laws, our historical sales in Russia during the Track Record Period do not implicate the applicability of International Sanctions on our Group, our Shareholders or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and HKSCC Nominees. Please see “Business — Business Activities in a Sanctioned Country” for details of our business activities in Russia.

OUR HISTORY AND DEVELOPMENT

OVERVIEW

We are a leading designer brand fashion house based in China. We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers under five distinctive brands — *JNBY*, *CROQUIS*, *jnby by JNBY*, *less* and *Pomme de terre*. Each of our five labels has a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”.

THE BIRTH OF “JUST NATURALLY BE YOURSELF”

Our Founders, Ms. Li and Mr. Wu, started our business in the 1990s utilizing their own financial resources. In late 1994, Ms. Li started a small business of selling womenswear in Hangzhou with merchandise she selected and purchased from wholesalers. During this time, she developed a keen interest in fashion and formulated a belief that clothing should be designed to allow consumers to express their own individuality and personality and “Just Naturally Be Yourself”. With this belief, Ms. Li began creating her own designs and produced womenswear through a third-party manufacturer as well as herself using machinery she purchased. Our Founders opened their first retail store offering Ms. Li’s self-designed apparel in Hangzhou in 1996.

As the business began to grow and our designs gained acceptance, our Founders established Hangzhou JNBY in 1997, followed by the arrival of the first member of our design teams to work with Ms. Li in the same year and the successful registration of the “JNBY” trademark in 1999. During the early days of our business, we focused on designs and engaged distributors to sell our products.

Since our Founders’ humble beginnings, Ms. Li has pursued and adhered to her original belief that has flourished into a brand philosophy across our family of five brands. Together, Ms. Li and Mr. Wu were and remain the design and business souls, respectively, of the apparel business that has grown into a leading design-driven fashion house based in China that we are today.

Business Milestones

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

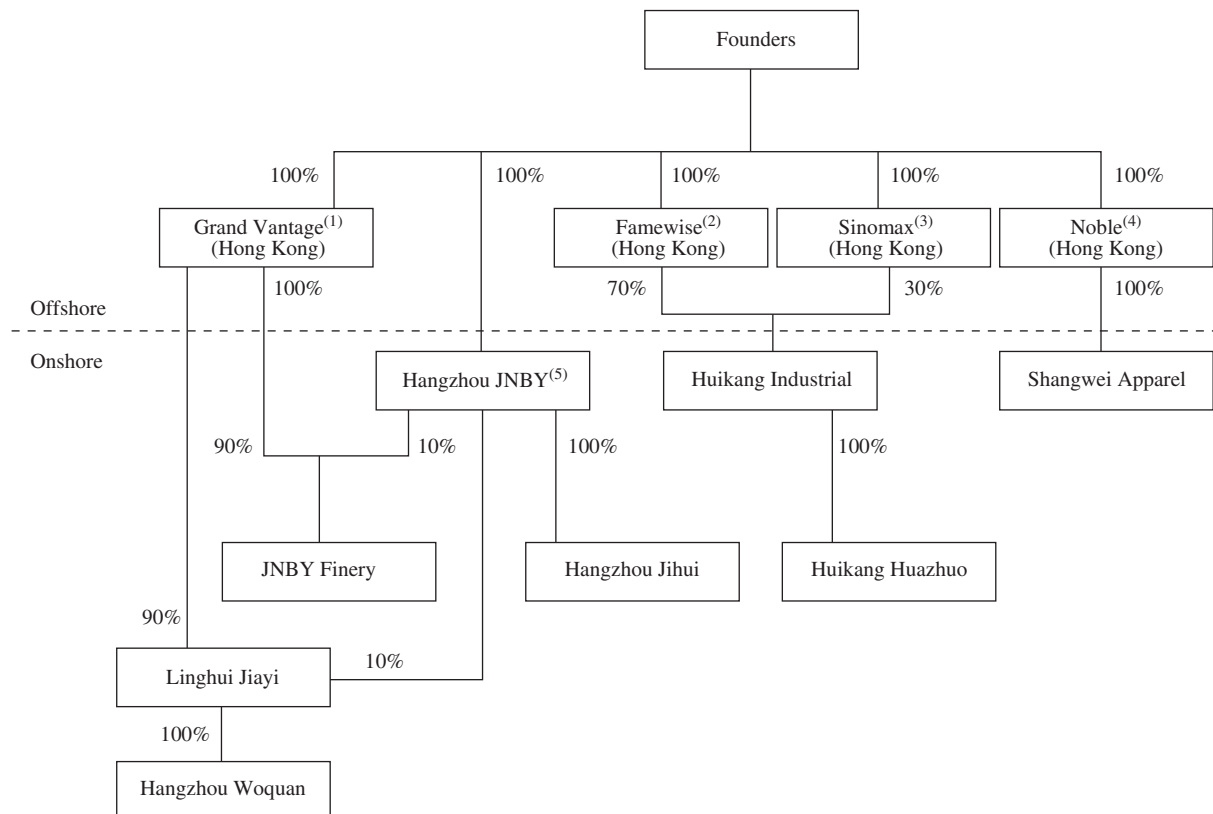
Year	Event
1997	• Hangzhou JNBY was founded in Hangzhou, China
1999	• The “JNBY” trademark was registered
2005	• Our menswear brand <i>CROQUIS</i> was launched
	• Our <i>JNBY</i> retail store network expanded to Russia
2006	• Our <i>JNBY</i> retail store network expanded to Tokyo, Japan
2010	• <i>JNBY</i> was accredited as a “China Well-known Trademark” (“中國馳名商標”)
	• Ms. Li was named among “25 Most Influential Chinese In Global Fashion” by Forbes.com

OUR HISTORY AND DEVELOPMENT

Year	Event
2011	<ul style="list-style-type: none"> • <i>JNBY</i> was recognized as one of the “Top 6 Chinese Brands with the Greatest Potential for Internationalization” by Forbes China • Our children’s wear brand <i>jnby by JNBY</i> was launched
2013	<ul style="list-style-type: none"> • VKC invested in Exchangeable Notes issued by N&N Capital
2015	<ul style="list-style-type: none"> • We launched our WeChat platform which serves as our primary flagship online platform
2016	<ul style="list-style-type: none"> • The number of our membership accounts exceeded 1 million • <i>CROQUIS</i> was accredited as the “Most Trendy Menswear Brand” in the “China Garment Brands Annual Award” presented by the China National Garment Association • Our children’s and teenagers’ wear brand <i>Pomme de terre</i> was launched, with the official opening of the first retail store in July 2016

Our Business prior to the Reorganization

Prior to our Reorganization commencing in 2012, our business was carried out through a number of companies incorporated in Hong Kong and Mainland China. The following diagram sets forth our corporate structure immediately prior to our Reorganization:



Notes:

(1) Mr. Wu and Ms. Li each holds 50% of the issued share capital of Grand Vantage.

OUR HISTORY AND DEVELOPMENT

- (2) The registered shareholder of Famewise is an independent third party who holds the entire issued share capital on trust for Mr. Wu and Ms. Li (as to 50% each).
 - (3) The registered shareholder of Sinomax is an independent third party who holds the entire issued share capital on trust for Mr. Wu.
 - (4) The registered shareholder of Noble is an independent third party who holds the entire issued share capital on trust for Mr. Wu.
 - (5) Mr. Wu and Ms. Li respectively hold 52% and 48% of the equity interests in Hangzhou JNBY.
- **Hangzhou JNBY** - Hangzhou JNBY was the principal operating company of our business prior to the Reorganization. It was established in the PRC on September 4, 1997 with a registered capital of RMB2 million, and was owned by Mr. Wu (48%) and Ms. Li (52%). Prior to the Reorganization, Hangzhou JNBY’s principal business was the design, research and development and sales of products under our *JNBY* and *jnby by JNBY* brands.
 - **Huikang Industrial** - Huikang Industrial was established in the PRC on August 22, 2002 by Famewise Development Limited (慧康發展有限公司) (“**Famewise**”) (70%) and Sinomax Corporation Limited (華卓有限公司) (“**Sinomax**”) (30%), with a registered capital of US\$10 million. Mr. Wu and Ms. Li were the 100% beneficial owners of Famewise with their shares held on trust by an independent third party. Mr. Wu was at that time the 100% beneficial owner of Sinomax with his shares held on trust by an independent third party. Prior to the Reorganization, Huikang Industrial’s principal business was the design, manufacturing and processing and sales of products under our *JNBY*, *jnby by JNBY* and *CROQUIS* brands, as well as the leasing of properties, logistics services and warehousing.
 - **Shangwei Apparel** - Shangwei Apparel was established in the PRC on March 15, 2007 by Noble International (HK) Limited (上華國際(香港)有限公司) (“**Noble**”), with a registered capital of US\$1 million. Mr. Wu was at that time the 100% beneficial owner of Noble with his shares held on trust by an independent third party. Prior to the Reorganization, Shangwei Apparel’s principal business was the manufacture and processing as well as sales of products under our *JNBY*, *jnby by JNBY* and *CROQUIS* brands.
 - **Huikang Huazhuo** - Huikang Huazhuo was established in the PRC on May 23, 2008 by Huikang Industrial, with a registered capital of RMB2 million. Prior to the Reorganization, Huikang Huazhuo’s principal business was the import and export businesses relating to our *JNBY* brand.
 - **Grand Vantage** - Grand Vantage was incorporated in Hong Kong as a limited liability company on March 24, 2011, with Mr. Wu and Ms. Li each holding 50% of Grand Vantage, respectively. The principal business of Grand Vantage is investment holding and trading.
 - **JNBY Finery** - JNBY Finery was established in the PRC on June 21, 2011 by Grand Vantage (90%) and Hangzhou JNBY (10%), with a registered capital of US\$10 million.

OUR HISTORY AND DEVELOPMENT

- **Linghui Jiayi** - Linghui Jiayi was established in the PRC on July 11, 2011 by Grand Vantage (90%) and Hangzhou JNBY (10%), with a registered capital of US\$5 million. Prior to the Reorganization, Linghui Jiayi’s principal business was the design, research and development and sales of products under our *CROQUIS* brand. Linghui Jiayi was later deregistered on August 18, 2015 after its relevant businesses were transferred to JNBY Finery.
- **Hangzhou Jihui** - Hangzhou Jihui was established in the PRC on December 13, 2011 by Hangzhou JNBY, with a registered capital of RMB5 million. Prior to the Reorganization, Hangzhou Jihui’s principal business was the design, research and development, manufacturing and processing as well as sales of products under our *less* brand. Hangzhou Jihui was later deregistered on March 17, 2015 after its relevant businesses were transferred to JNBY Finery.
- **Hangzhou Woquan** — Hangzhou Woquan was established in the PRC on September 3, 2012 by Linghui Jiayi, with a registered capital of RMB2 million. Prior to the Reorganization, Hangzhou Woquan’s principal business was manufacturing and processing of products under our *less* brand, as well as sales of products under our *JNBY*, *jnby by JNBY* and *CROQUIS* brands. In July 2015, the manufacturing and processing business for *less* was transferred to New Shangwei Finery, a subsidiary of Shangwei Apparel.

DEVELOPMENT OF OUR GROUP STRUCTURE

With the aim of streamlining our operating structure and business model, and to create an offshore holding company structure in anticipation of the investment in the Exchangeable Notes by VKC, a well-known financial investor, our Founders undertook the following steps as part of our Reorganization.

(a) Establishment of our holding company structure

- ***Establishment of our Company***

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 26, 2012, with Mr. Wu, through Ninth Capital, and Ms. Li, through Ninth Investment, each holding 1,000 shares, representing 50% of our Company, respectively. On May 23, 2013, our Company underwent a capital increase, pursuant to which N&N Capital and W&L Capital, both wholly owned by Mr. Wu (50%) and Ms. Li (50%), each subscribed for 250 new shares in our Company for a consideration of US\$250. As a result of this subscription, our Company was owned by Ninth Investment (as to 40%), Ninth Capital (as to 40%), N&N Capital (as to 10%) and W&L Capital (as to 10%).

On June 9, 2016, our authorized share capital was increased by HK\$10 million divided into one billion shares of par value HK\$0.01 each. On the same date, our Company repurchased the Shares held by the then existing shareholders of our Company with the issuance of an aggregate of 1,950,000 new Shares; and reduced the authorized share capital by US\$50,000 by the cancellation of 50,000 Shares

OUR HISTORY AND DEVELOPMENT

of US\$1.00 each. As a result, 780,000 Shares were issued to each of Ninth Capital and Ninth Investment and 195,000 Shares were issued to each of N&N Capital and W&L Capital. After the capital increase and re-denomination of our Shares, Ninth Investment, Ninth Capital, N&N Capital and W&L Capital owned 40%, 40%, 10% and 10% of our Company, respectively.

- ***Establishment of Croquis Holdings***

Our Company established Croquis Holdings in the BVI as a limited liability company on December 14, 2012 as its wholly-owned subsidiary.

- ***Transfer of Grand Vantage***

On June 7, 2013, Grand Vantage issued 139,990,000 shares of a par value of HK\$1.00 each to Croquis Holdings. Subsequently, on June 21, 2013, Mr. Wu and Ms. Li transferred their entire interest in Grand Vantage to Croquis Holdings for an aggregate consideration of HK\$100,000 at par value of HK\$1.00 each. As a result, Grand Vantage became a wholly-owned subsidiary of Croquis Holdings.

- ***Establishment of Liancheng Huazhuo***

Liancheng Huazhuo was established as a wholly foreign owned enterprise in the PRC on October 19, 2012 by Grand Vantage with a registered capital of US\$35 million. Its principal business is the procurement of raw materials and OEM management for our Group.

(b) Our Onshore Reorganization

The purpose of our onshore Reorganization was to streamline our corporate structure and business model in anticipation of the investment in the Exchangeable Notes by VKC. The previous corporate structure was becoming inefficient as we grew in size and in the number of brands, as a number of companies were responsible for overlapping functions for one or more different brands. This was becoming increasingly inefficient in terms of functions and management resources and was cost ineffective, and we concluded that it was necessary to streamline our structure to support our growth. With inputs from VKC, we therefore decided to implement a structure whereby JNBY Finery would become our principal operating subsidiary in the PRC and would be responsible for the design and research and development functions across all of our brands. Our sales function would be consolidated under JNBY Finery and Hangzhou Woquan together with newly established subsidiaries under JNBY Finery responsible for sales in their respective geographic markets.

We also decided to increase our focus on being a design-driven fashion house, by gradually ceasing to manufacture products in-house. Accordingly, in conjunction with the Reorganization, the manufacturing and processing functions held by Huikang Industrial, Shangwei Apparel and Hangzhou Woquan remained with our Founders. In addition, as part of the agreement between our Founders and VKC under the VKC Note Purchase Agreement, certain off-season inventory (amounting to approximately RMB217.1 million) was retained and assumed by Huikang Industrial, which then entered into cooperation agreements with our Group for subsequent sales. Please see “Financial Information — Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details.

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We undertook the following steps to implement our new onshore structure:

(1) *Transfer of interest in JNBY Finery*

On May 31, 2012, Grand Vantage acquired the 10% equity interest in JNBY Finery from Hangzhou JNBY for a consideration of RMB7.5 million and became the sole owner of JNBY Finery.

(2) *Transfer of businesses to our Group*

In order to transfer the design, research and development and sales (including sales through self-operated channels and distributors) business (our “**core business**”) that we operated immediately prior to the Reorganization to our new holding company structure, the following steps were carried out:

Fixed assets

JNBY Finery purchased the fixed assets used for our core business (namely, office equipment, air-conditioning units, sewing machines, security system, product inspection equipment and support system software) of Hangzhou JNBY, Shangwei Apparel, Hangzhou Jihui, Linghui Jiayi and Huikang Industrial for an aggregate consideration of approximately RMB7.2 million, which was determined based on independent valuation reports and was fully settled on or before June 2013.

Contracts and personnel

JNBY Finery took over all the retail stores and personnel of Hangzhou JNBY by either assigning the lease agreements to JNBY Finery, or terminating the previous lease agreements and entering into new lease agreements with the original landlords. JNBY Finery and Liancheng Huazhuo entered into new employment agreements with the original employees of our core business of Hangzhou JNBY, Huikang Industrial, Linghui Jiayi, Hangzhou Jihui and Shangwei Apparel. JNBY Finery entered into new distribution agreements with the distributors of Huikang Industrial and Shangwei Apparel.

Trademarks and patents

We have entered into a master trademark licensing agreement (the “**Master Trademark Licensing Agreement**”) on October 13, 2016 with Hangzhou JNBY, pursuant to which Hangzhou JNBY agreed to grant to our Group an irrevocable right to use certain trademarks for the *JNBY* and *jnby by JNBY* brands registered under its name for use in our core business and the related brand name of the products sold by our Group on an exclusive and royalty-free basis. The term of the Master Trademark Licensing Agreement is for a period of 20 years, subject to automatic renewal and is not unilaterally terminable by Hangzhou JNBY. We have the sole discretion to decide whether to require Hangzhou JNBY to renew and maintain the registration of relevant trademarks upon their expiry. The reason for the licensing arrangement is because *JNBY* brand was accredited as a “China Well-known Trademark” in 2010 and registered under Hangzhou JNBY and we consider that the practical difficulties in transferring the trademarks, including the time and expense involved, and the availability of the long-term exclusive royalty-free license, which can only be terminated by us, make the transfer unnecessary. See “Connected Transactions” for further details.

OUR HISTORY AND DEVELOPMENT

Hangzhou JNBY assigned all significant trademarks registered in the PRC that are necessary for our *CROQUIS* and *less* business to JNBY Finery for nil consideration. Huikang Industrial also assigned all of its patents related to our core business to Liancheng Huazhuo for nil consideration.

Equity interests in Hangzhou Woquan and Huikang Huazhuo

On October 22, 2012, JNBY Finery entered into an equity transfer agreement with Linghui Jiayi and acquired the entire equity interest in Hangzhou Woquan for a consideration of RMB2.0 million. The consideration was determined with reference to the then net assets of Hangzhou Woquan and the consideration was fully settled in December 2012.

On February 25, 2013, Liancheng Huazhuo entered into an equity transfer agreement with Huikang Industrial and acquired the entire equity interest in Huikang Huazhuo, for a consideration of RMB2.0 million. The consideration was determined with reference to Huikang Huazhuo’s then net assets and the consideration was fully settled in March 2013.

Assets outside our core business

Following the above steps to transfer our core business to the new holding company structure, JNBY Finery became our principal operating subsidiary. Hangzhou Jihui and Linghui Jiayi were subsequently de-registered. In addition, as agreed between our Founders and VKC under the VKC Note Purchase Agreement, the following assets that do not form part of our core business were retained by our Founders:

- owned office premises (including office equipment) and retail stores;
- logistics and warehousing facilities;
- manufacturing and processing facilities; and
- off-season inventory.

The owned office premises (including office equipment) and owned retail stores of Hangzhou JNBY, the owned retail stores of Huikang Industrial, the logistics and warehousing assets of Huikang Industrial and the manufacturing and processing assets of Huikang Industrial and Shangwei Apparel were not part of our core business and therefore did not form part of our Group following the Reorganization. In addition, the manufacturing and processing assets of Hangzhou Woquan were transferred to New Shangwei Finery, a wholly-owned subsidiary of Shangwei Apparel, in July 2015 for a consideration of approximately RMB450,000, which was determined based on the book value of the transferred assets and was settled on March 22, 2016. See “Relationship with Our Controlling Shareholders” for further details. Following the Reorganization, we continue to carry out transactions with our Founders for the above ancillary services (namely, office premises (and office equipment) leasing, retail store leasing, logistics and warehousing services and manufacturing and processing services). See “Connected Transactions” for further details.

OUR HISTORY AND DEVELOPMENT

In the course of discussions with VKC on its strategic cooperation, VKC and our Founders could not reach an agreement as to the valuation of off-season inventory, which was an estimate based on management’s historical experience of selling such inventory and it was difficult for VKC to verify the valuation by itself. To avoid a deadlock in the negotiation and facilitate VKC’s valuation of its investment in the Exchangeable Notes, our Founders and VKC agreed that the new holding company structure would be a streamlined structure and that therefore off-season inventory (in the amount of approximately RMB217.1 million) was agreed to be retained and assumed by Huikang Industrial pursuant to the VKC Note Purchase Agreement. Our Founders and VKC also agreed that Huikang Industrial would act as a product supplier for such off-season inventory. We sell these products through our online platforms and outlets based on our promotional discount policies and programs, and we purchased products from Huikang Industrial based on consumers’ orders for sales through our online channels and on a monthly basis for sales at our outlets. This arrangement allowed Huikang Industrial to sell us off-season inventory over a period of time based on market demand, and our Founders and VKC agreed that such arrangement was commercially reasonable. See “Financial Information — Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details.

Our PRC Legal Advisers have confirmed that all necessary approvals from and/or registrations with the relevant authorities for the equity and asset transfers described above had been obtained as of the Latest Practicable Date.

(c) Our Other PRC Operating Subsidiaries

Apart from JNBY Finery, Hangzhou Woquan, Liancheng Huazhuo and Huikang Huazhuo, we have 15 other PRC operating subsidiaries, which are engaged in sales and marketing operations across China. Details of these 15 operating subsidiaries are as follows:

Name of Subsidiary	Date of Establishment	Owner	Interest
1. JNBY Hefei	July 4, 2012	JNBY Finery	100%
2. JNBY Guangzhou.....	July 24, 2012	JNBY Finery	100%
3. Croquis Chongqing	August 9, 2012	JNBY Finery	100%
4. JNBY Tianjin.....	August 13, 2012	JNBY Finery	100%
5. JNBY Shenyang.....	August 13, 2012	JNBY Finery	100%
6. Grand Vantage Wuhan.....	September 12, 2012	JNBY Finery	100%
7. JNBY Changsha.....	September 13, 2012	JNBY Finery	100%
8. JNBY Zhengzhou.....	September 28, 2012	JNBY Finery	100%
9. JNBY Beijing	October 18, 2012	JNBY Finery	100%
10. JNBY Xi’an	February 16, 2013	JNBY Finery	100%
11. JNBY Ningbo.....	April 12, 2013	JNBY Finery	100%
12. JNBY Wuxi.....	May 27, 2013	JNBY Finery	100%
13. Qingdao Huazhuo.....	June 7, 2013	JNBY Finery	100%
14. Shanghai Huazhuo.....	July 1, 2013	JNBY Finery	100%
15. JNBY Taiyuan.....	July 31, 2015	JNBY Finery	100%

OUR HISTORY AND DEVELOPMENT

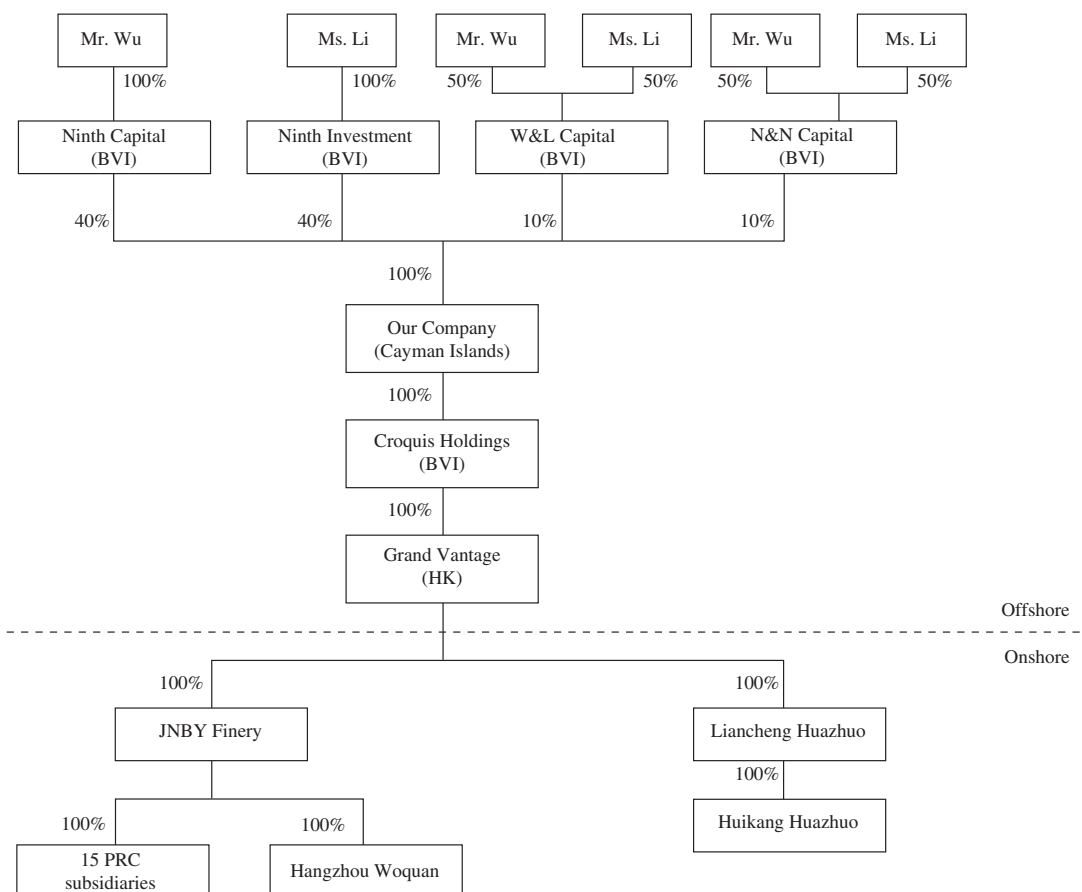
There have not been any changes to the interests owned by us in the above wholly-owned subsidiaries since their respective dates of establishment.

(d) Acquisition and merger of Jinan Hangji

In May 2013, JNBY Finery acquired Jinan Hangji, a company established in the PRC on March 22, 2011 by its then owners, who are Ms. Li’s associates. The consideration was RMB500,000, being the registered capital amount of Jinan Hangji. Jinan Hangji operated *CROQUIS* and *less* retail stores in Shandong Province. In December 2014, Jinan Hangji was merged into Qingdao Huazhuo, our wholly-owned subsidiary, and was subsequently de-registered.

(e) Our Corporate Structure following the Reorganization

The following diagram sets forth our corporate structure following our Reorganization:



OUR HISTORY AND DEVELOPMENT

ISSUE OF THE EXCHANGEABLE NOTES BY N&N CAPITAL

In June 2013, N&N Capital, a company owned by our Founders, issued Exchangeable Notes to Bright Sunshine pursuant to the VKC Note Purchase Agreement dated June 21, 2013. The VKC Note Purchase Agreement was entered into by and among N&N Capital, our Company, the Founders, Ninth Capital, Ninth Investment and Croquis Holdings, Grand Vantage, JNBY Finery and Liancheng Huazhuo (together, the “**Material Subsidiaries**”), pursuant to which N&N Capital issued (i) an 8% senior secured exchangeable note due 2018 in a principal amount of US\$20.0 million (“**First Note**”) and (ii) an 8% senior secured exchangeable note due 2018 in a principal amount of US\$10.0 million (“**Second Note**”) to Bright Sunshine. According to the VKC Note Purchase Agreement, the First Note and the Second Note are exchangeable for the issued and fully-paid ordinary shares or preferred shares with a par value of US\$1.00 in the capital of our Company. The consideration paid by Bright Sunshine was the principal amount of the First Note and the Second Note and was determined based on arm’s length negotiations and by reference to the financial condition, earning potential and growth prospects of our Group at the time of the investment. Bright Sunshine settled the consideration for the First Note and the Second Note on June 26, 2013 and May 24, 2014, respectively, and N&N Capital issued the First Note and Second Note on June 24, 2013 and May 20, 2014, respectively.

According to the VKC Note Purchase Agreement, the proceeds from the sale of the First Note and Second Note shall be used by the Founders, Ninth Capital and Ninth Investment. None of the proceeds was received by us.

On June 1, 2016, Bright Sunshine, Vision Knight Capital (China) Fund I, L.P., VNCR and NewQuest entered into the NewQuest Note Purchase Agreement, pursuant to which VNCR purchased 75% of the First Note from Bright Sunshine, including the principal amount of US\$15.0 million together with all rights, titles, interests, benefits and advantages attached or accruing thereto, at a purchase price of US\$20.5 million by reference to the financial condition, earning potential and growth prospects of our Group. The consideration was determined based on arm’s length negotiations between VKC and NewQuest. According to the same agreement, N&N Capital issued (i) an 8% senior on June 1, 2016 note due 2018 in the principal amount of US\$15.0 million (“**NewQuest Note**” or “**Third Note**”), representing 75% of the First Note, to VNCR and (ii) an 8% senior exchangeable note due 2018 in the principal amount of US\$5.0 million (“**Fourth Note**”), representing the remaining outstanding principal amount of US\$5.0 million of the First Note, to Bright Sunshine on June 1, 2016, and VNCR settled the consideration on the same date. The First Note was canceled subsequently.

As of the Latest Practicable Date, Bright Sunshine holds the Second Note and the Fourth Note, representing a total principal amount of US\$15.0 million, and VNCR holds the Third Note, representing a total principal amount of US\$15.0 million.

OUR HISTORY AND DEVELOPMENT

Background of the Exchangeable Noteholders

(1) *Bright Sunshine and VKC*

Bright Sunshine, a limited company established under the laws of BVI on October 30, 2012, held as to approximately 98.3% and 1.7% by Vision Knight Capital (China) Fund I, L.P., which is managed by VKC, and by an independent third party, respectively. VKC is the sole general partner of Vision Knight Capital (China) Fund I, L.P. and a Cayman Islands exempted company with limited liability established on June 17, 2011 with the general nature of business to acquire, hold, sell and otherwise dispose of securities, 61.6% beneficial interest of VKC is owned by Mr. Wei Zhe, our Director.

(2) *VNCR and NewQuest*

VNCR is a company established under the laws of BVI on May 26, 2016, which is directly wholly-owned by NewQuest, an exempted limited partnership registered in the Cayman Islands on October 10, 2013. NewQuest Asia Fund II GP Ltd. (“**NewQuest GP**”) is the sole general partner of NewQuest, an exempted company with limited liability established in the Cayman Islands on October 9, 2013. NewQuest GP is beneficially held as to 100% by Amit Gupta, Lung-Chi Lee, Min Lin, Bonnie Lo and Darren Massara, all of whom are independent third parties.

Exchange of the Exchangeable Notes

As of the Latest Practicable Date, the Exchangeable Notes have not been exchanged into Shares of our Company. According to the terms of the Exchangeable Notes, the Exchangeable Notes are subject to mandatory exchange on the date of consummation of the underwriting commitments in connection with the [REDACTED]. The [REDACTED] constitutes a [REDACTED] under the VKC Note Purchase Agreement. The table below sets forth details of the shareholding in our Company by the Exchangeable Noteholders upon the Exchangeable Notes having been exchanged in full:

Name of Exchangeable Noteholders	Principal Amount of the Exchangeable Notes	Number of Shares to be exchanged upon full exchange of the Exchangeable Notes ⁽¹⁾	Cost per Share paid by the Exchangeable Noteholders (HK\$) ⁽²⁾	Effective [REDACTED] to the [REDACTED] ⁽¹⁾	Approximate percentage of shareholding in Company immediately upon [REDACTED] ⁽³⁾	Approximate percentage of shareholding in Company after the full exercise of the [REDACTED] ⁽¹⁾
Bright Sunshine.....	US\$15.0 million	[REDACTED]	[REDACTED]	[REDACTED]%	[REDACTED]%	[REDACTED]%
VNCR.....	US\$15.0 million	[REDACTED]	[REDACTED]	[REDACTED]%	[REDACTED]%	[REDACTED]%

Notes:

- (1) Assuming the [REDACTED] will be conducted at the mid-point of the [REDACTED] range.
- (2) Assuming conversion of U.S. dollars into Hong Kong dollars is based on the exchange rate of US\$1 to HK\$7.8.
- (3) Assuming the [REDACTED] will be conducted at the mid-point of the [REDACTED] range and the [REDACTED] is not exercised.

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Set forth below is a summary of the terms of the Exchangeable Notes. Unless otherwise indicated, the following terms apply to the VKC Notes and the NewQuest Note.

Principal Amount:	<ul style="list-style-type: none">• Second Note: US\$10.0 million• Third Note: US\$15.0 million• Fourth Note: US\$5.0 million
Maturity Date:	June 23, 2018
Interest Rate:	8% per annum simple interest on the outstanding principal amount of the Exchangeable Notes.
Payment of Interest:	Interest is payable annually in arrears on the last business day of each 12-month period following the issue date, with a grace period of 60 days.
Strategic benefits the Exchangeable Noteholders brought to our Company:	Our Group benefits from the experience of VKC and the advice provided with regard to business strategies and operation management.
Shareholding upon mandatory exchange in respect of the Exchangeable Notes:	The shareholding of our Company upon mandatory exchange of the Exchangeable Notes is determined by applying the following computation formula:

$$N = V / P$$

Whereas,

“N” shall mean number of Shares upon exchange

“P” shall mean the issuance price per Share of our Company on the date of [REDACTED]

“V” shall mean the sum of the (i) outstanding principal amount of the Exchangeable Notes plus any and all accrued but unpaid interest under the Exchangeable Notes as of the date of exchange of the Exchangeable Notes into our Shares, and (ii) a further sum that will result in the Exchangeable Noteholder receiving an internal rate of return of “Xn” per annum calculated from the calculation starting date for each of the Exchangeable Notes up to but excluding the date of consummation of the [REDACTED] on the outstanding principal amount under the Exchangeable Notes. For the Second Note, the calculation starts on the issue date of the same. For the Third Note and the Fourth Note, the calculation starts on the issue date of the First Note.

OUR HISTORY AND DEVELOPMENT

“Xn” shall be:

The date of consummation of the [REDACTED] (months after the Issue Date for the VKC Note)	Xn
25-27	24.03%
28-30	21.10%
31-33	18.80%
34-36	16.69%
37-39	22.05%
40-42	20.20%
43-45	18.63%
46-48	17.28%
49-51	16.12%
52-54	15.10%
55-57	14.21%
58-60	13.41%
61-63	12.70%
64-66	12.06%
67-69	11.48%
70-72	10.96%

The number of Shares to be transferred to the Exchangeable Noteholders pursuant to each of the Exchangeable Notes shall not exceed the following limitations:

- NewQuest Note: no more than [REDACTED]% of the total issued Shares (including Shares being issued in the [REDACTED]);
- Fourth Note: no more than [REDACTED]% of the total issued Shares (including Shares being issued in the [REDACTED]), less any Shares transferred or to be transferred pursuant to the NewQuest Note; and
- Second Note: no more than [REDACTED]% of the total issued Shares (including Shares being issued in the [REDACTED]), less any Shares transferred or to be transferred pursuant to the NewQuest Note and the Fourth Note.

If the Shares to be transferred would exceed the corresponding transfer limitation described above, the excess portion shall be satisfied by way of cash payable by N&N Capital to the Exchangeable Noteholders within three months from the date of exchange with interest at 13.5% per annum.

Upon exchange of the Exchangeable Notes, N&N Capital shall transfer or exchange our Shares to VNCR in satisfaction of the exchange right in priority to and before any transfer or exchange to VKC.

OUR HISTORY AND DEVELOPMENT

- Redemption at Maturity: Unless previously redeemed or exchanged or purchased and cancelled, on the Maturity Date, 100% of the outstanding principal amount of the Exchangeable Note together with accrued and unpaid interests thereon shall be redeemed by N&N Capital at the Redemption Amount at Maturity.
- Redemption Amount at Maturity: The Redemption Amount at Maturity shall be the sum of: (i) the outstanding principal amount of the Exchangeable Note plus all accrued and unpaid interest thereon, and (ii) an additional amount to enable the Exchangeable Noteholder to achieve an internal rate of return of 5.5% in respect of the outstanding principal amount of the Exchangeable Note, provided that, if there is any accrued interest owing by N&N Capital as of the Maturity Date in respect of any period before the last interest payment date, the additional sum of the Redemption Amount at Maturity shall instead reflect an internal rate of return of 13.5% per annum (less the amount of interest that has been paid on the Exchangeable Note).
- Redemption at Extended Maturity Date: If the [REDACTED] fails to occur before the Maturity Date (as defined above) but the kick-off of [REDACTED] (meaning the date the Board of Directors of our Company passes the resolutions to approve the initiation of the [REDACTED] of our Company) has been initiated as of the Maturity Date (as defined above), the Exchangeable Noteholder shall have the right to extend the Maturity Date to the last day of the 72nd month from the issue date for the First Note or the Second Note, depending on which Exchangeable Note is to be redeemed (the “**Extended Maturity Date**”). If the [REDACTED] fails to occur before the Extended Maturity Date, N&N Capital shall redeem the outstanding Exchangeable Notes within six months of the Extended Maturity Date at the Redemption Amount at the Extended Maturity Date.

OUR HISTORY AND DEVELOPMENT

Redemption Amount at Extended
Maturity Date:

The Redemption Amount at the Extended Maturity Date shall be the sum of: (i) the outstanding principal amount of the Exchangeable Note plus all accrued and unpaid interest thereon, (ii) an additional amount to enable the Exchangeable Noteholder to achieve an internal rate of return of 5.5% in respect of the principal amount of the Exchangeable Note, provided that, if there is any accrued interest owing by N&N Capital as of the Maturity Date in respect of any period before the last interest payment date, the additional sum of the Redemption Amount at Maturity shall instead reflect an internal rate of return of 13.5% per annum (less the amount of interest that has been paid on the Exchangeable Note), and (iii) interest on the outstanding amount under (i) and (ii) at a rate of 5.5% per annum compound interest calculated from the Extended Maturity Date.

Redemption upon Event of
Default:

Upon the occurrence of certain events of default specified in the Exchangeable Notes, the Exchangeable Noteholder shall have the right to require N&N Capital to redeem the Exchangeable Note and the amount payable upon such redemption shall equal either the Redemption Amount at the Extended Maturity Date or Redemption Amount at Maturity.

The events of default specified in the Exchange Notes are as follows:

- (a) failure to make payment due to the Exchangeable Noteholder pursuant to the Exchangeable Notes by N&N Capital;
- (b) failure to deliver any Shares following exchange of the Exchangeable Notes pursuant to the Exchangeable Notes by N&N Capital;
- (c) material breach of the provisions of the VKC Note Purchase Agreement and NewQuest Note Purchase Agreement and other transaction documents relating to the Exchangeable Notes;
- (d) material breach of applicable law or regulation by N&N Capital, Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment or any member of our Group;
- (e) change made to the constitutional documents of any company within our Group or any transaction documents relating to the Exchangeable Notes which would materially adversely affect the Exchangeable Noteholder’s rights and interest thereunder;

OUR HISTORY AND DEVELOPMENT

- (f) cross default in respect of any other present or future indebtedness of N&N Capital, Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment or any member of our Group;
- (g) any distress, attachment, execution or other legal process affecting assets of N&N Capital, Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment or any member of our Group;
- (h) any present or future mortgage, charge, pledge, lien or other encumbrance, created or assumed by N&N Capital, Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment or any member of our Group becomes enforceable and any step is taken to enforce it which will have a material adverse effect;
- (i) N&N Capital, our Company and the Material Subsidiaries being subject to insolvency or bankruptcy proceedings;
- (j) an order is made or effective resolution for the winding-up or dissolution judicial management or administration of any of N&N Capital, our Company and the Material Subsidiaries or any cessation of business of the said parties, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation (i) on terms approved by the Exchangeable Noteholders, (ii) in relation to the [REDACTED], or (iii) in the case of the said parties, whereby the undertaking and assets of such party are transferred to or otherwise vested in another said party;
- (k) an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the property, assets or revenues of N&N Capital, our Company or any Material Subsidiary (as the case may be) and is not discharged in 14 business days;
- (l) seizure, compulsory acquisition, expropriation or nationalization of all or a material part of the assets of N&N Capital, our Company and the Material Subsidiaries;
- (m) any condition or action required to be taken, fulfilled or done to enable N&N Capital to comply with the obligations under the Exchangeable Notes;

OUR HISTORY AND DEVELOPMENT

- (n) it is or will become unlawful for N&N Capital, Mr. Wu, Ms. Li, Ninth Capital, Ninth Investment or any member of our Group to perform or comply with its obligation under the transaction documents related to the Exchangeable Notes and such breach is incapable of being remedied within 14 business days of N&N Capital becoming aware of the breach;
- (o) the audited consolidated net profit of our Company is less than US\$20 million in any fiscal year (excluding the financial and accounting impact of the Exchangeable Notes, the [REDACTED] related expenses and intra-Group liabilities); or
- (p) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing events of default.

The above events of default are typical terms for instruments of a similar nature as the Exchangeable Notes.

Guarantee: The Exchangeable Notes are guaranteed by Ninth Capital and Ninth Investment (together the “**Note Guarantors**”).

Share Charges: 10% of our Shares held by N&N Capital and 10% of our Shares held by W&L Capital were charged in favor of Bright Sunshine and VNCR. These share charges will be fully released upon the earlier of full repayment of the Exchangeable Notes and the [REDACTED].

Transferability: The Exchangeable Notes may not be transferred to any person who directly or indirectly competes with the principal business of our Group or without prior written consent of N&N Capital.

The Investor Rights Agreement

In conjunction with the VKC Note Purchase Agreement, the same parties entered into an Investor Rights Agreement on June 24, 2013, pursuant to which Bright Sunshine was granted a number of special rights in relation to our Company, including without limitation, information rights, right of first refusal, preemptive right and appointment of Directors. As Bright Sunshine and VKC assigned 50% of their rights (except the right to appoint Directors), titles, interests, benefits and advantages in and to the transaction documents related to the VKC Note Purchase Agreement, including the Investor Rights Agreement, to VNCR pursuant to the NewQuest Note Purchase Agreement, VNCR shall enjoy the rights (except the right to appoint Directors) under the Investor Rights Agreement. Set forth below is a summary of the principal special rights granted to the Exchangeable Noteholders under the Investor Rights Agreement:

OUR HISTORY AND DEVELOPMENT

Director Appointment Rights:	VKC is entitled to appoint one director to the board of N&N Capital, the Board of our Company and the board of Hangzhou JNBY.
Matters requiring prior consent of the Exchangeable Noteholders for as long as the Exchangeable Noteholders own any Shares of our Company:	Certain customary corporate actions of any member of our Group require the prior written consent of the Exchangeable Noteholders.
Preemptive Right:	The Exchangeable Noteholders have a preemptive right to purchase up to a <i>pro rata</i> share of any new securities that our Company may from time to time issue, other than certain excepted issuances, such as the [REDACTED] and stock split or subdivision.
Right of First Refusal:	If any Shareholder proposes to sell or transfer any Shares to a third party, the Exchangeable Noteholders and N&N Capital have the right to purchase all or part of such Shares upon terms and conditions no less favorable than those stated in the transfer notice given by the transferor.
Right of Tag-Along:	To the extent that the Exchangeable Noteholders have not exercised its Right of First Refusal (as defined above), the Exchangeable Noteholders have the right to participate in such transfer by way of tag-along sale on the same terms and conditions set forth in the transfer notice given by the transferor.
Information and Inspection Rights:	The Exchangeable Noteholders have the right to receive financial and operation information of each company of our Group, to inspect properties and records of each company of our Group and to make copies of the same, and to discuss its affairs, finances and accounts with its officers.

According to the Investor Rights Agreement, all the special rights enjoyed by the Exchangeable Noteholders as described above and the agreement itself will terminate upon the [REDACTED].

Lock-up

Each of the Exchangeable Noteholders has agreed that, it will not, at any time during the period of 12 months following the [REDACTED], dispose of any Shares.

OUR HISTORY AND DEVELOPMENT

Compliance with Interim Guidance

The Sole Sponsor is of the view that the terms of the Exchangeable Notes are in compliance with the Interim Guidance on Pre-[REDACTED] Investments issued by the Stock Exchange on October 13, 2010 as the consideration for the Exchangeable Notes was settled more than 28 clear days before the date of our first submission of the [REDACTED] to the [REDACTED] of the Stock Exchange in relation to the [REDACTED], the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 as the special rights granted to the Exchangeable Noteholders will terminate upon [REDACTED], and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 as no atypical rights will be outstanding immediately upon [REDACTED] and no new Shares will be issued in connection with the exchange of the Exchangeable Notes.

ADOPTION OF THE RSU SCHEME

With a view to formalize our grant and our proposal to grant share incentives to eligible personnel of our Group, the Board approved and adopted the RSU Scheme on May 16, 2014, pursuant to which our Company is allowed to grant a maximum of [REDACTED] Shares. On September 27, 2016, Ninth Capital transferred [REDACTED]% of the Shares held by it (representing approximately [REDACTED]% of the issued Shares of the Company immediately before the completion of the [REDACTED]) to the RSU Nominee, which holds the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme. The transfer of the Shares was for nil consideration.

As of the date of this document, the RSUs in respect of an aggregate of [REDACTED] Shares, representing approximately [REDACTED]% of the total issued share capital of the Company immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED]), had been granted to 87 RSU Participants pursuant to the RSU Scheme. For details and principal terms of the RSU Scheme, please see “Appendix IV — Statutory and General Information — D. Share Incentive Scheme — 1. RSU Scheme”.

ESTABLISHMENT OF FAMILY TRUSTS

For estate-planning purposes, a discretionary trust named the Wu Family Trust was established by Mr. Wu (as the settlor) and Credit Suisse Trust Limited (as the trustee), for the benefit of Mr. Wu, Ms. Li, their children and the W&L Trust. Likewise, a discretionary trust named the Li Family Trust was established by Ms. Li (as the settlor) and Credit Suisse Trust Limited (as the trustee), for the benefit of Ms. Li, Mr. Wu, their children and the W&L Trust. In addition, a discretionary trust named W&L Trust was established by Mr. Wu and Ms. Li (as the settlors) and Credit Suisse Trust Limited (as the trustee), for the benefit of Mr. Wu, Ms. Li and their children. On June 6, 2016, Mr. Wu transferred all his shares in Ninth Capital to Ahead Global, and on the same date, Ms. Li transferred all her shares in Ninth Investment to Puheng Limited. Ahead Global and Puheng Limited are wholly-owned by Wu Family Limited and Li Family Limited respectively. Wu Family Limited and Li Family Limited are held by Credit Suisse Trust Limited, through its nominee companies, as the underlying companies of the Wu Family Trust and the Li Family Trust respectively.

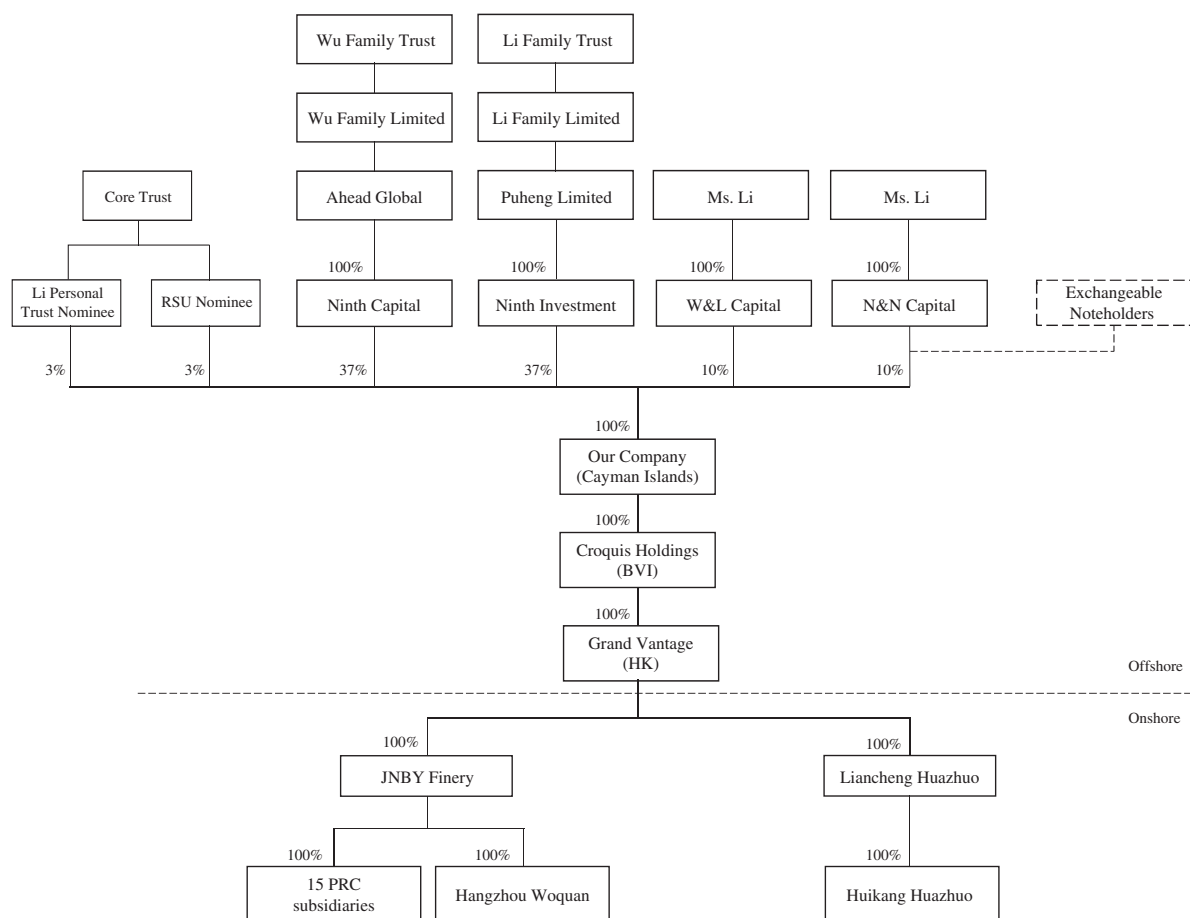
OUR HISTORY AND DEVELOPMENT

On June 6, 2016, Mr. Wu transferred all of his shares in N&N Capital and W&L Capital respectively to Ms. Li. Following such transfer, Ms. Li became the sole shareholder of N&N Capital and W&L Capital.

Another discretionary trust named Li Personal Trust was established by Ms. Li (as the settlor) and Core Trust (as the trustee), for beneficiaries in the following order: (i) Ms. Li; (ii) upon the death of Ms. Li, Mr. Wu; (iii) upon the death of Ms. Li or Mr. Wu whichever occurs later, mother of Ms. Li and mother of Mr. Wu; (iv) upon the death of mother of Ms. Li, Mr. Li Ming (executive director, Ms. Li’s brother); (v) upon the death of mother of Mr. Wu, Ms. Wu Liwen (member of senior management, Mr. Wu’s sister). Ms. Li is entitled to instruct the trustee to add or remove any such other persons as beneficiaries from time to time. On September 27, 2016, Ninth Investment transferred to Li Personal Trust Nominee by way of gift [REDACTED]% of the Shares held by it (representing approximately [REDACTED]% of the total issued capital of our Company immediately following the completion of Capitalization Issue and the [REDACTED] without taking into account any Shares which may be issued upon the exercise of the [REDACTED]).

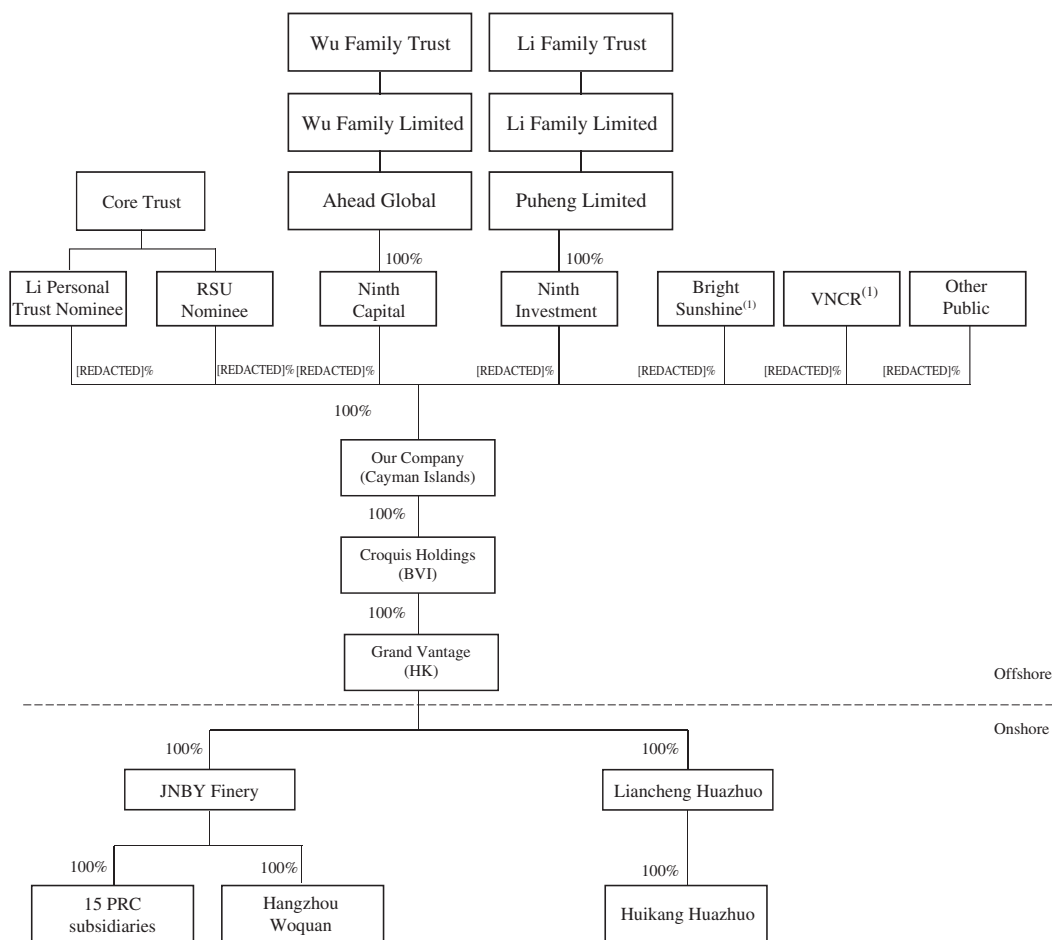
CORPORATE STRUCTURE

The following diagram sets forth our corporate structure immediately prior to the [REDACTED]:



OUR HISTORY AND DEVELOPMENT

Immediately upon completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), the shareholding structure of our Group will be as follows:



Note:

(1) Assuming exchange of the Exchangeable Notes into our Shares at the mid-point of the [REDACTED] range.

OUR HISTORY AND DEVELOPMENT

COMPLIANCE WITH PRC LAWS

SAFE Circular 37

According to Circular 37 promulgated by the SAFE, PRC residents are required to register with competent local SAFE branches regarding establishing or controlling offshore companies. As advised by our PRC Legal Advisers, no registration under SAFE Circular 37 is required for the Reorganization since Mr. Wu and Ms. Li obtained citizenship in St. Kitts and Nevis prior to the Reorganization. Based on further confirmation with the Hangzhou Administration of Foreign Exchange, Mr. Wu and Ms. Li were not required to apply for such registration.

M&A Rules

On August 8, 2006, six PRC governmental and regulatory authorities, including the MOFCOM, the CSRC and the SAFE, jointly issued M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include 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 are 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 our PRC Legal Advisers, Ms. Li and Mr. Wu obtained citizenship in St. Kitts and Nevis before the Reorganization. During the process of the Reorganization, the establishment of Liancheng Huazhuo by Grand Vantage, the acquisition of Huikang Huazhuo by Liancheng Huazhuo and the acquisition of Hangzhou Woquan by JNBY Finery, which should be governed by the Interim Provisions on Foreign-invested Enterprises Investing Domestic Enterprises (《關於外商投資企業境內投資的暫行規定》) and the *Law of the People’s Republic of China on Wholly Foreign-owned Enterprises* (《中華人民共和國外資企業法》), have obtained appropriate approvals and registrations. The Reorganization does not fall within the scope of the M&A Rules, which provide rules in respect of the acquisition of domestic companies by foreign investors. As a result, the M&A Rules do not apply to the Reorganization.

BUSINESS

OVERVIEW

We are a leading designer brand fashion house based in China. According to CIC, we had the largest market share of 9.6% in the PRC designer brand fashion industry and had a market share of 0.2% in the PRC apparel industry, each as measured by total retail sales in 2015. We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers. According to CIC, the PRC designer brand fashion industry is a fast growing market segment in the apparel industry primarily due to consumers’ increasingly sophisticated taste in fashion and growing desire to pursue greater individuality and uniqueness in clothing. The total retail sales of the PRC designer brand fashion industry have grown by a CAGR of 26.2% from 2011 to 2015, and are expected to grow by a CAGR of 26.7% from 2016 to 2020, according to the same source. Our brand portfolio currently comprises five brands — (i) *JNBY*, (ii) *CROQUIS*, (iii) *jnby by JNBY*, (iv) *less* and (v) *Pomme de terre*, each targeting a distinct customer segment and having a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”, which seeks to convey our belief in embracing independent thinking, independent expression, distinctive trends and allowing consumers to derive greater joy from their attire.

Our products target middle- and upper-income customers who seek to express their individuality through fashionable clothing. Our broad range of product offering and brand portfolio create a lifestyle ecosystem that enables us to address our customers’ needs at different stages of their lives, which in turn allows us to build a large and loyal customer base. We started our business in 1994 by selling women’s apparel. Our trademark for our flagship brand, *JNBY*, was registered in 1999. According to a survey conducted by CIC, our *JNBY* brand is considered the most unique and recognizable women’s apparel designer brand in China, ranked first in terms of brand awareness and enjoys the highest brand loyalty in terms of customer number with repeated purchases among top 10 women’s apparel designer brands in China. We further expanded our brand portfolio between 2005 and 2011 to include *CROQUIS*, *jnby by JNBY* and *less*. These brands were able to generate significant revenue growth, with *CROQUIS*, *jnby by JNBY* and *less* growing by CAGRs of 26.3%, 120.8% and 28.4%, respectively, from Fiscal 2014 to Fiscal 2016. We recently launched *Pomme de terre*, for children and teenagers between six and 14 years of age, to enhance our brand portfolio and enable us to serve consumers of most age groups. Going forward, our goal is to further develop our comprehensive design-driven platform and expand and diversify our product offering and brand portfolio to include designer household products and furniture based on our Group’s universal brand philosophy, so as to achieve sustainable long-term growth.

We believe a key driver to our success has been the originality of our designs, as well as our designers’ capability to inspire different interpretations among our customers. Under the leadership of our founder and chief creative officer, Ms. Li, who was named among the “25 Influential Chinese In Global Fashion” by Forbes.com in 2010, our creative team has nurtured our flagship brand *JNBY* to become the most unique and recognizable women’s apparel designer brand in China, according to a survey conducted by CIC. We give our talented and experienced team of designers considerable creative freedom to focus on originality in the design process. We strive to use high quality fabrics to create highly differentiated products that echo our brand philosophy and seasonal themes. To support this, we design and develop certain fabrics in-house and engage Hangzhou JNBY, a related party, to produce sample apparel (樣衣) based on designs provided by our design teams.

BUSINESS

We have built an omni-channel interactive platform with the goal of nurturing a “Fans Economy”, which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. The platform takes into account our customers’ purchasing patterns and information needs and consists of three components, (i) retail stores, (ii) online platforms and (iii) our social network platform on WeChat. Each component plays a critical role in transforming our 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-operated and distributor-operated stores. As of June 30, 2016, we offered our products through 1,316 retail stores, covering all Tier One and substantially all of the Tier Two Cities in China and across 12 other countries or regions around the world. With the growing prevalence of e-commerce in recent years, a substantial number of our customers prefer the convenience of online shopping, which allows them to make purchases “24/7” on demand. Therefore, we also sell our products on major online platforms, such as Tmall, Jingdong/JD.com and VIP.com. As the third component of our omni-channel interactive platform, our social network platform on WeChat not only provides our customers with another means of buying our products, but also and more importantly, it is designed to educate them about our design philosophy and lifestyle vision 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.

To retain and grow our community of fans, we constantly strive to optimize shopping experience on our omni-channel interactive platform. For example, the platform features (i) consistent merchandise and pricing as well as (ii) our synchronized membership program, which allows our members to enjoy the same benefits across our retail stores and our social network platform on WeChat. Our uniform pricing and benefits practices allow our customers to focus their attention on finding the most suitable products, instead of hunting the best bargains. In addition, the platform is supported by an efficient inventory sharing and allocation system, which enables us to deliver products to our customers swiftly. As a testament to our successful “Fans Economy” strategy, our membership accounts increased from over 360,000 as of June 30, 2014 to over 1.2 million as of June 30, 2016, and the number of Active Members¹ rapidly increased from over 86,000 as of June 30, 2014 to over 190,000 as of June 30, 2016. Since the launch of our social network platform on WeChat in 2015, we had accumulated over 720,000 subscribers as of June 30, 2016. The retail sales contributed by our members as a percentage of our total retail sales increased from 40.2% in Fiscal 2014 to 46.0% in Fiscal 2015 and further to 56.7% in Fiscal 2016. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our retail stores achieved Same Store Sales Growth of 0.1%, 7.1% and 8.3%, respectively.

¹ Active Members are membership accounts associated with at least two purchases in any 180-day period within the last 360 days.

BUSINESS

Our business experienced robust growth during the Track Record Period. Our revenue increased from RMB1,383.4 million in Fiscal 2014 to RMB1,902.6 million in Fiscal 2016, representing a CAGR of 17.3% from Fiscal 2014 to Fiscal 2016. Our net profit increased from RMB149.9 million in Fiscal 2014 to RMB239.3 million in Fiscal 2016, representing a CAGR of 26.3% from Fiscal 2014 to Fiscal 2016.

OUR STRENGTHS

We believe we have achieved our success to date and are well-positioned to achieve future growth due to the following competitive strengths.

Leadership in the rapidly growing designer brand fashion industry in China

We are a leading designer brand fashion house based in China. According to CIC, we had the largest market share of 9.6% in terms of total retail sales in the PRC designer brand fashion industry in 2015. We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers. The PRC designer brand fashion industry is a fast growing market segment in the apparel industry. According to CIC, a designer brand consists of apparel products that feature strong designer characteristics and iconic styles that can be easily identified. For designer brands, consumers usually place greater value and emphasis on design, styles and unique shopping experience and are thus less sensitive to price.

According to CIC, the designer brand fashion industry, which accounted for 2.2% of China’s apparel industry in 2015, was the fastest-growing market segment in China’s apparel industry between 2011 and 2015. According to CIC, the market share of the designer brand fashion industry is expected to further increase to 3.9% of China’s apparel industry by 2020. According to the same source, total retail sales of the designer brand fashion market in China’s apparel industry increased from approximately RMB11.1 billion in 2011 to approximately RMB28.2 billion in 2015, representing a CAGR of 26.2% from 2011 to 2015, and this same market is expected to achieve total retail sales of approximately RMB91.6 billion by the end of 2020, representing a CAGR of 26.7% from 2016 to 2020, significantly outpacing the overall growth of China’s apparel industry at a historical CAGR of 15.4% from 2011 to 2015 and at an expected CAGR of 14.2% from 2016 to 2020, according to CIC. Despite the continual growth of China’s designer brand fashion industry, according to CIC, the penetration rate of the designer brand fashion industry in China in 2015 was only 2.2%, which is still very low compared with approximately 10% to 12% of U.S. and 12% to 15% of Japan in the same year. 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 share of the designer brand fashion industry in China is expected to continue to increase rapidly due to (i) consumers’ increasingly sophisticated tastes in fashion and (ii) a growing desire in recent years to pursue greater individuality and uniqueness in clothing, according to CIC. Given the rapid growth of our industry and our leadership position, we are well-positioned to capture market opportunities and continue our expansion.

BUSINESS

A commitment to design, research and development with an internationally recognized team

We believe that our strong initiatives and trend-setting design and development capabilities have been key drivers of our continued success. Our core values are “Better Design, Better Life” and we are committed to building China’s best platform for design. We believe our presence in overseas markets such as Japan and the United States is a testament to recognition of our design by sophisticated international consumers. In 2011, we were recognized as one of “the Top 6 Chinese Brands with the Greatest Potential to Internationalize” by Forbes China, primarily due to our exceptional design, research and development efforts.

We employ dedicated product design, research and development teams for each of our major product categories. Our design, research and development department is headed by our founder and chief creative officer, Ms. Li, a pioneer in the designer brand fashion industry in the PRC with over 20 years of experience. Ms. Li was named among the “25 Influential Chinese In Global Fashion” by Forbes.com in 2010. We encourage our talented and experienced team of designers to focus on originality in the design process, rather than following and simply reacting to the latest trends. We focus on retaining our designer talents by providing an attractive compensation package, including the RSU Scheme. We identify talents in our design teams to take the lead in creating and nurturing new brands.

Over the Track Record Period, we launched an average of over 3,000 new products each year to offer a sufficiently diverse selection of products to our customers. Moreover, we are focused on the design, research and development of high quality fabrics, which is rare in the PRC designer brand fashion industry. We have a team dedicated to the development of new fabrics, and the team has successfully developed 10 kinds of fabrics.

Our design, research and development capabilities are evidenced by our numerous industry recognitions and awards. We have been featured on the runways of two leading international fashion shows, namely Japan Fashion Week in 2012 and Toronto Fashion Week in 2013. In 2005, we were named the “Most Favorite Apparel Brand among Chinese Youth” (中國青年最喜愛的服裝品牌) by the committee for the Second Annual Chinese Youth Apparel Fashion Week. In 2007 and 2008, we were awarded a “China Garment Brands Annual Award” (中國服裝品牌年度大獎) by the China National Garment Association in the style category and also were listed among the finalists in the innovation category. In 2016, CROQUIS was accredited as the “Most Trendy Menswear Brand” (最佳潮流男裝品牌) in the “China Garment Brands Annual Award” (中國服裝品牌年度大獎) presented by the China National Garment Association.

Multi-brand operations to achieve sustainable growth

We have successfully capitalized on market opportunities by using a multi-brand strategy to offer a strong breadth and depth of highly differentiated fashion products to diverse segments of consumers. We started our business in 1994 by selling women’s apparel. The trademark for our flagship brand, JNBY, was registered in 1999. According to a survey conducted by CIC, our JNBY brand is considered the most unique and recognizable women’s apparel designer brand. Of consumers surveyed, 33.5% believed that JNBY is the most unique and recognizable brand in terms of the level of identification of their apparel products. The next closest brand only had 14.2% consumers expressing such opinion.

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In 2005 we launched *CROQUIS*, which provides high quality apparel and accessories for men and is considered the most unique and recognizable men’s apparel designer brand according to a survey conducted by CIC. With our successful experience from *JNBY* and *CROQUIS*, in 2011 we launched our first children’s apparel brand, *jnby by JNBY*. In 2011, we acquired *less*, a ladies’ brand offering products at higher prices and targeting professional women who pursue simplified and refined lives. We have significantly increased the profitability of *less* over the past five years and achieved a gross profit margin of 64.4% in Fiscal 2016. By benefiting from our established customer base, we were able to generate significant revenue growth across our brand portfolio, with *JNBY*, *CROQUIS*, *jnby by JNBY* and *less* growing by CAGRs of 7.8%, 26.3%, 120.8% and 28.4%, respectively, from Fiscal 2014 to Fiscal 2016. As a result of our strong branding capabilities, our EBIT margin (calculated as our EBIT divided by our revenue for the relevant period) increased from 16.4% in Fiscal 2014 to 18.0% in Fiscal 2016. In March 2016, we introduced our fifth brand, *Pomme de terre*, which carries apparel for children and teenagers and has been warmly received by our existing customers as reflected by existing sales orders placed at our trade fair (定貨會). We opened the first *Pomme de terre* store in July 2016.

Each of our brands has different design style, brand positioning and target customers. We believe our designer brands and full range of apparel, footwear and accessory products allow us to diversify our revenue sources, generate positive brand synergies as well as achieve sustainable overall growth at various stages of our brands’ lifecycles. This business strategy of “growing with our customers” enables us to create a lifestyle ecosystem in which our loyal customers can make their purchases of different brands for their children, spouses or other family members at various stages of their lives, or purchase our household products and furniture, which we introduced in our trade fair in August 2016. As of June 30, 2016, over 23,000, or 7.1% of membership accounts were registered for both our *JNBY* and *CROQUIS* brands, over 15,000, or 14.3% of membership accounts were registered for both our *JNBY* and *less* brands and over 24,000, or 13.9% of membership accounts were registered for both our *JNBY* and *jnby by JNBY* brands. Given our membership base of over 1.2 million membership accounts, we believe we are well-positioned to achieve continued growth through cross-selling among our brands.

An effective “Fans Economy” strategy nurtured by our omni-channel interactive platform

We have built an omni-channel interactive platform in order to nurture a “Fans Economy”, which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. As purchasing power has increased over the past five years and a wider selection of apparel products has become available, many Chinese consumers, especially those in Tier One and Tier Two Cities, have developed their own tastes in fashion and reduced their tendency to blindly follow common trends or purchase clothes displaying obvious logos to flaunt wealth. To capitalize on this market trend, we have targeted our products towards middle- and upper-income customers who seek to express their individuality through fashionable clothing.

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Our omni-channel interactive platform takes into account our customers’ needs and enables us to transform them into loyal fans. Our omni-channel interactive platform consists of retail stores, online platforms and social network platform on WeChat:

- *Retail stores:* Retail stores offer engaging shopping experience and are therefore 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-operated and distributor-operated stores. As of June 30, 2016, we offered our products through 1,316 stores, covering all Tier One and substantially all of the Tier Two Cities in China and across 12 other countries or regions around the world.
- *Online platforms:* With the growing prevalence of e-commerce in recent years, a substantial number of our customers prefer the convenience of online shopping, which allows them to make purchases “24/7” on demand. To meet this growing demand, we also sell our products on major online platforms, such as Tmall, Jingdong/JD.com and VIP.com.
- *Social network platform on WeChat:* In addition to providing our customers access to our products, we also seek to convey our brand philosophy to them. We believe our customers tend to be technologically savvy and rely heavily on social media for information needs. Therefore, we have established our social network platform on WeChat, which not only provides our customers with another means of buying our products, but also and more importantly, it is designed to educate our customers about our design philosophy and lifestyle vision. We periodically publish releases of new seasons’ products and new promotional activities as well as design and fashion updates through our WeChat platform. Those customers who identify with our design philosophy and lifestyle vision become our fans.

The following are testaments to the growth of our fans community and the effectiveness of our “Fans Economy” strategy:

- *Subscribers on our WeChat Platform:* Since the launch of our social network platform on WeChat in 2015, we had accumulated over 720,000 subscribers on our WeChat platform as of June 30, 2016. We were attracting approximately 40,000 new subscribers to the platform each month on average since the launch of our WeChat platform. Our JNBY brand ranked first in terms of number of fans and readership of articles published to our WeChat Subscriptions in the first quarter of 2016 among mid- to high-end female fashion brands in the PRC, according to LADYMAX.
- *Membership accounts and member purchases:* Our membership accounts increased from over 360,000 as of June 30, 2014 to over 1.2 million as of June 30, 2016, and the number of our Active Members rapidly increased from over 86,000 as of June 30, 2014 to over 190,000 as of June 30, 2016. As a noticeable indicator for successfully translating customer loyalty into revenue, the revenue contributed by our members as a percentage of our total retail sales increased from 40.2% in Fiscal 2014 to 46.0% in Fiscal 2015 and further to 56.7% in Fiscal 2016.

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- *Same Store Sales Growth:* Our “Fans Economy” strategy and our omni-channel interactive platform contributed to increases in Same Store Sales Growth rates, which were 7.1% in Fiscal 2015 and 8.3% in Fiscal 2016.

An efficient inventory sharing and allocation system

Our omni-channel interactive platform is supported by an efficient inventory sharing and allocation system, which was self-developed and tailored to our retail network. The system allows our customers to make purchases on demand even if the desired item is out of stock at a particular location, which in turn both enhances customers’ shopping experience and drives our sales. In addition, it enables us to shorten our products’ time to market and improve inventory management, thereby helping us to remain competitive in a fast-paced industry. Key features of our inventory sharing and allocation system include the following:

- *Inventory sharing among stores.* This system is designed to enhance consumers’ shopping experience by optimizing inventory sharing and allocation across our online and offline channels (including self-operated and distributor-operated stores) through our immediate inventory tracking, online or in-store order placement and home delivery services.
- *Inventory allocation and delivery system.* After an order has been placed, our inventory sharing and allocation system will quickly decide the optimal delivery route by locating, ordering and shipping the product directly to the customer in the shortest time frame from a logistics center or one of our self-operated stores or distributor-operated stores nearby. The amount of time for a customer to receive the requested item depends on the distance between such customer’s address and the location of the requested item. We aim to achieve the optimal delivery route, and the delivery time within the same city or between nearby cities typically ranges from one to two days.
- *Inventory monitoring.* We also maintain a disciplined inventory replenishment policy under which we alert our distributors to replenish the inventory of popular products when their inventory reaches a prescribed level and we proactively oversee distributors’ orders to ensure the delivery of sufficient quantities of products to meet consumer demand in a timely fashion.

According to CIC, we are one of a few leading designer fashion brands which have successfully incorporated a centralized inventory sharing and allocation system with both online and offline channels integrated as a whole, which allows customers to make purchases on demand even if the desired item is out of stock at a particular store. As a result of our inventory sharing and allocation system, our incremental retail sales generated significantly increased from RMB6.0 million in Fiscal 2014 to RMB112.8 million in Fiscal 2015, and further to RMB236.3 million in Fiscal 2016, amounting to 0.3%, 4.2% and 7.3%, respectively, of total retail sales during these years. In addition, our Same Store Sales Growth rate increased from 0.1% in Fiscal 2014 to 7.1% in Fiscal 2015 and further to 8.3% in Fiscal 2016.

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Highly experienced management and design teams driven by entrepreneurialism, professionalism and experience

We have passionate and dynamic management and design teams with an entrepreneurial spirit, extensive operational expertise and an in-depth understanding of our industry. Both of our Founders gained their respective expertise in different aspects of our industry and have brought us from our inception to the current prosperity of our business. Ms. Li is a member of the council at the Museum of Contemporary Art Beijing and the Vancouver Art Gallery. It was under Ms. Li’s leadership that we grew into a well-established and vertically-integrated fashion house with a high degree of product differentiation and a broad brand portfolio. Mr. Wu, our chief executive officer, is in charge of our sales and marketing, merchandise management and overall operations. Under the guidance of Mr. Wu’s management and leadership, we rapidly expanded our retail network, which in turn helped us achieve incremental sales over a short period of time.

We believe that the industry knowledge and experience of our senior management and our product design, research and development team members have been a crucial element to our success. Since 2000, we have been devoted to establishing an experienced and professional management team with working experience in international corporations specializing in areas such as fashion design, retailing, marketing and financial functions to support our Founders. Mr. Zhu, our chief financial officer, who was certified as a SHICPA-SNAI top CPA (上海市註冊會計師行業優秀人才) by the Shanghai National Accounting Institute and the Shanghai Institute of Certified Public Accountant in August 2013, brings over 10 years of experience in finance and has played an important leadership role in the development of the Company since he joined us in 2013. Across the Group, our management has fostered a corporate culture of commitment to innovation, implemented our corporate governance program and spearheaded our rapid development into one of the most unique and recognizable brands in the designer brand fashion industry in China.

In addition, we rely on valuable guidance provided by our non-executive Directors, each of whom brings along a wealth of experience in fields such as retail business, e-commerce and art. For example, Mr. Wei, our Director and the representative of VKC, has approximately 20 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 designer brand fashion house based in China. Specifically, we plan to pursue the following strategies to achieve our objectives:

Continue to expand and diversify our product portfolio by further enhancing our design capabilities and brand awareness

We intend to leverage our design, research and development capabilities and market leading position to grow our business and broaden our customer base through following initiatives:

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- *Strengthen design, research and development efforts.* We plan to devote more resources to design, research and development, which is critical to our ability to introduce new products. We plan to continue our development of new and high quality fabrics and materials. In addition, we plan to develop new technologies and techniques in relation to footwear and new apparel, particularly with respect to patterns, cutting and structure.
- *Strengthen our designer team.* We plan to complement our existing design teams with designers who have international experience and can help us introduce and commercialize innovative products and new brands so as to achieve sustainable growth.
- *Expand product offerings under our brand philosophy.* We plan to introduce designer household and furniture products under the brand of *JNBY Home* in the fourth quarter of 2016 as well as sportswear in the future to provide consumers with a full-fledged lifestyle concept. We also plan to expand our offerings in existing product lines such as footwear and accessories. We aim to extend our core value of “Better Design, Better Life” to our future brands and product offerings to enrich our product portfolio.
- *Increase our brand awareness.* We plan to enhance our profile and promote our core values by sponsoring artistic and cultural events and selectively utilizing traditional media, such as fashion magazines. We also plan to expand our marketing efforts through online media and social network platforms. By enhancing our brand awareness, we will be able to maintain our competitiveness and pricing power, as well as quickly promote our newly-launched brands to our existing customers.
- *Mergers and acquisitions, strategic alliances and joint ventures.* As part of our plan to continue to develop our lifestyle ecosystem, we intend to selectively pursue mergers and acquisitions, strategic alliances and joint ventures to expand our brand portfolio and product offerings while maintaining our brand philosophy. We have the experience of successfully integrating an acquired brand into our brand portfolio. In 2011, we acquired *less*, a ladies’ brand offering products at higher prices and targeting professional women who pursue simplified and refined lives. We have significantly increased the profitability of *less* during the Track Record Period and achieved a gross profit margin of 64.4% in Fiscal 2016. Our selection criteria for potential targets include:
 1. *Business nature.* We may consider other designer brands and designer studios in the apparel industry. We may also consider designer brands and designer studios dedicated to accessories, household products, stationary or furniture that would allow us to expand product offerings and provide consumers with a full-fledged lifestyle concept.
 2. *Design philosophy.* We value designer brands and designer studios with unique artistic vision. We will evaluate their artistic vision for its potential to be commercialized and its fit with our Group’s universal brand philosophy.
 3. *Size and scale of operations.* We will consider designer brands and designer studios that can bring fresh design concepts to our product offerings, instead of brands and

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studios that have already heavily commercialized their designs. Therefore, we prefer targets whose scale of operations is relatively small and plan to grow such brands and studios by leveraging our distribution network, marketing capabilities and other resources.

4. *Financial condition and profitability.* We will also take into account the financial condition and profitability of the potential targets.

As of the Latest Practicable Date, we had not identified any specific acquisition target. In addition, we may also consider opportunities for setting up joint ventures or enter into strategic cooperation with business partners. For more details, see “Future Plans and Use of Proceeds”.

Further enhance our retail network and optimize our channel mix

As of June 30, 2016, we already had an extensive retail network with 1,316 retail stores in the PRC and 12 other countries or regions around the world, online channels, including major online platforms, such as Tmall, Jingdong/JD.com and VIP.com and our social network platform on WeChat. In order to better manage our current retail network and capitalize on the diversity of our brands, our planned initiatives include the following:

- *Diversify our store types and retail channels.* We plan to introduce new design concepts to our retail stores, including opening more multi-brand flagship stores and “lifestyle labs” where our customers can experience and purchase various collections to address the needs of their family members. To highlight the benefits of combining our diverse product offerings in one place, we call such multi-brand stores “JNBY+” (江南布衣+). These stores will sell not only apparel, footwear and accessories products but also furniture and household products. As a continuation of our current practice, we aim to convey our brand philosophy to our customers by paying close attention to the design and appearance of these new types of stores. We expect this plan to provide long-term growth momentum and bolster our leading position in the PRC fashion sector.
- *Expand our online presence.* We plan to increase the resources devoted to online platforms. Online platforms traditionally were the means for consumers to obtain off-season products at discounts. In response to the growing prevalence of online shopping, online platforms such as Tmall are starting to shift their attention to in-season products. To capitalize on the market trend, we sell in-season products on Tmall and our WeChat store. In addition, we plan to increase our marketing expenditure on online platforms as well as participate in such platforms’ promotional events. We believe our online presence resonates well with our customers, who tend to be technologically savvy and spend a substantial amount of time online.
- *Expand our retail network in the PRC as well as overseas.* We will carefully analyze our retail network and expansion plan to determine the optimal scale of the retail network of each brand with the aim to enhance economies of scale and achieve strong and sustainable growth. In the next two years, *CROQUIS*, *jnby by JNBY* and *Pomme de terre* brands will be

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the focus in our expansion plan with respect to our retail network. For those three brands, we plan to open in aggregate 51 and 50 self-operated stores in Fiscal 2017 and Fiscal 2018, respectively. We will also provide support to distributors to help them expand into new locations and enhance their store visual displays. In addition to expanding our retail network in the PRC, we also intend to expand our retail network in Europe and the U.S.

Improve customer experience to improve Same Store Sales Growth

We believe that our success in establishing an extensive and well-managed retail network provides us with a solid foundation for future growth. To further expand our market share, in addition to continuing to increase the Same Store Sales Growth of comparable retail stores, we plan to strengthen the training of in-store sales representatives, continue to analyze sales data and promote the interaction between online and offline channels in order to optimize our customers’ shopping experience. We intend to achieve our goal through the following initiatives:

- *Expand the role of in-store sales representatives.* Owing to our brand philosophy and design essence, we emphasize the importance of our customers’ in-store shopping experience when trying our products in person with the assistance of sales representatives. We therefore aim to improve our customers’ in-store shopping experience by providing better training for in-store sales representatives through smart device training programs for customer styling.
- *Enhance our store visual display.* We plan to further enhance our store visual displays with measures including using smart device illustration. As of the Latest Practicable Date, 223 of our self-operated stores each had a separate footwear display counter to sell our footwear. Compared to stores without such separate footwear display counter, these stores have recorded higher retail sales since we included the in-store footwear display counters. Through our initial market analysis, we plan to increase the number of our self-operated stores to carry footwear display counters going forward.
- *Enhance value-added experience for our online and offline customer base.* We will continue to devote significant efforts to attain growth from our existing customer base and to enhance our ability to address their needs. We aim to enhance our customers’ experience through increased interactions with them through our social network platform on WeChat, so as to make swift adjustments to address their needs and promote our brand image to help maintain customer loyalty, achieve incremental sales and facilitate the launch of new brands and products.
- *Enhance our consumer behavior response mechanism.* We plan to better analyze and manage in-store information and feedback from in-store sales representatives and customers to better adjust to changes in customer behavior. This will help us respond more quickly to changes in customer preferences, strengthen cooperation among suppliers and further shorten our products’ time-to-market.

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Strengthen supply chain management and enhance warehousing and logistics infrastructure

Continuously enhancing our supply chain and logistics 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. Our planned initiatives in this area include the following:

- *New logistics center.* While we currently engage a related party, Huikang Industrial, for warehousing and logistics services, we are in the process of constructing a new logistics center in Xiaoshan, Hangzhou in response to the steady expansion of our business. With a gross floor area of approximately 90,000 square meters, the expected annual sorting and distributing capacity of this facility will be approximately 12.8 million pieces of products. To establish the New Xiaoshan Facility, we expect to incur total capital expenditures of approximately RMB319.0 million, of which RMB290.5 million will be incurred after June 30, 2016. We expect this logistics center to commence operations by 2019.
- *Upgrade inventory sharing and allocation system.* We plan to upgrade our inventory sharing and allocation system across all our retail stores so as to optimize internal order and inventory management as well as to reduce redundancies. In order to accommodate increasing usage of our inventory sharing and allocation system, we plan to continue to devote resources to supply chain management to further integrate our suppliers into our value chain.

OUR BUSINESS MODEL

We are principally engaged in the design, promotion and sale of contemporary apparel, footwear and accessories for women, men, children and teenagers under five brands — (i) *JNBY*, (ii) *CROQUIS*, (iii) *jnby by JNBY*, (iv) *less* and (v) *Pomme de terre*.

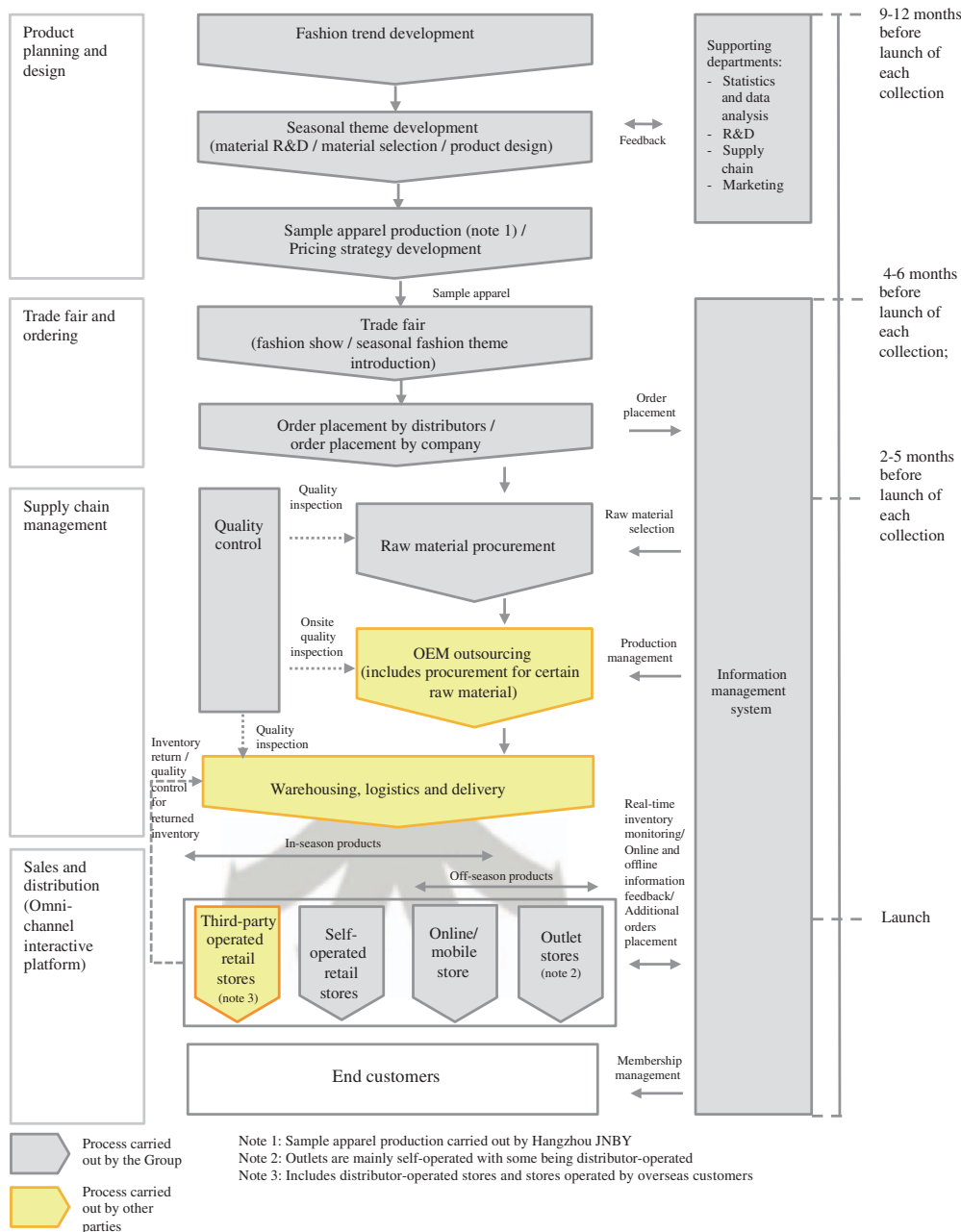
We operate a highly integrated business model, which enables us to seamlessly and efficiently connect each critical stage of our business operations.

Our business model is illustrated in the following diagram.

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Business Model

The following diagram illustrates our business model and product life cycle:



- *Product planning and design.* We analyze each year’s fashion trend and develop a seasonal theme for our new products which is then supported by our design, research and development team and supply chain management team.
- *Trade fair and ordering.* We hold trade fairs twice a year during which we introduce our new products and receive orders from distributors. During the trade fair, we hold a fashion show to introduce our new products during this period.

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- *Supply chain management.* We outsource our production to selected domestic OEM suppliers and depending on the type of product whose manufacture we outsource, we either provide our OEM suppliers with raw materials directly, or require them to procure raw materials from suppliers designated by us before commencing production. We also implement strict quality control standards for our operations as to sourcing of raw materials, production, packaging and inventory storage, sale and delivery. In addition, our information technology systems assist us in planning and managing our product design, budgeting, human resources, inventory control, retail management and financial reporting.
- *Sales and distribution (omni-channel interactive platform).* We provide consumers with access to our products through an omni-channel interactive platform consisting of, as of June 30, 2016 (i) an offline network of 1,316 retail stores across China and 12 other countries or regions, including 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers, (ii) major online platforms, such as Tmall, Jingdong/JD.com and VIP.com and (iii) our social network platform on WeChat.

OUR BRANDS AND PRODUCTS

We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers under five brands — (i) *JNBY*, (ii) *CROQUIS*, (iii) *jnby by JNBY*, (iv) *less* and (v) *Pomme de terre*. Each of our five brands has a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”. We are premised upon the core values of “Better Design, Better Life” and are devoted to building China’s best platform for design.

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






	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Women	1,104,058	79.8	1,200,762	74.4	1,320,295	69.3
<i>JNBY</i>	1,029,632	74.4	1,110,500	68.8	1,197,610	62.9
<i>less</i>	74,426	5.4	90,262	5.6	122,685	6.4
Men	237,781	17.2	298,058	18.5	379,595	20.0
<i>CROQUIS</i>	237,781	17.2	298,058	18.5	379,595	20.0
Children	41,596	3.0	114,273	7.1	202,752	10.7
<i>jnby by JNBY</i>	41,596	3.0	114,273	7.1	202,752	10.7
<i>Pomme de terre</i> ⁽¹⁾	—	—	—	—	—	—
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Note:

⁽¹⁾ We introduced *Pomme de terre* in March 2016, opened the first *Pomme de terre* store in July 2016, and did not record any revenue under this brand during the Track Record Period.

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Our products target middle- and upper-income customers who seek to express their individuality through fashionable clothing. The table below sets forth certain information regarding our brand portfolio, including each brand’s year of launch, target customers and demographics, design concept, retail price range and our brand images.

	Brand				
	JNBY	less	速写 sketch	jnby by JNBY	Pomme de terre
Brand images					
Year of launch	1999	2003 ⁽¹⁾	2005	2011	2016
Target customers	Women between 25 and 40	Professional women between 30 and 45	Men between 30 and 45	Children between 3 and 10	Children and teenagers between 6 and 14
Design concepts	Modern (現代), vigorous (活力), charming (意趣) and serene (坦然)	Simplified (簡約), refined (精緻), independent (獨立) and rational (理性)	Modern (當代), textured (質感), thoughtful (玩味) and elegant (優雅)	Freedom (自由), imagination (想像力), joyful (快樂) and sincerity (真實)	Texture (質感), nifty (俏皮), quirky (鬼馬) and yuppy (雅痞)
Retail price range (RMB per unit)					
Tops	160 — 15,800	560 — 11,800	350 — 9,500	160 — 1,990	260 — 1,690
Bottoms	360 — 1,695	290 — 2,890	490 — 3,790	185 — 795	390 — 890
Dresses	330 — 2,280	890 — 2,890	N/A	220 — 1,165	490
Accessories	27 — 2,850	65 — 2,750	55 — 2,990	29 — 895	35 — 640

Note:

(1) We acquired 100% ownership of *less* brand in 2011.

Customer’s average spending in each purchase on our omni-channel interactive platform was approximately RMB1,177, RMB1,278 and RMB1,287 in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively.

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PRODUCT PLANNING AND DESIGN

Each of our five brands has a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”, which conveys our belief in embracing independent thinking, independent expression, distinctive trends and allowing consumers to derive greater joy from their attire. The notions of simplicity and clean lines are at the very core of our design ethos. We aim to offer apparel, footwear and accessories that have a distinctive design identity that leads fashion trends and improves our brand value and visibility to our target customers.

Product Design, Research and Development Team

Our design, research and development team included 57 designers as of the Latest Practicable Date and is led by Ms. Li, our founder and chief creative officer. Ms. Li has more than 20 years of experience in this industry and was named among the “25 Influential Chinese in Global Fashion” by Forbes.com in 2010. Ms. Li is also a member of the council at the Museum of Contemporary Art Beijing and the Vancouver Art Gallery.

We established an in-house design center that is devoted to each of our major product categories. The designs for our brands are led by three chief designers, each of whom has been with us for over 15 years. Each chief designer has profound experience in fashion design, while the team leaders contribute young and new perspectives. This combination allows us to consistently explore new design concepts while maintaining our brand philosophy, thereby striking an ideal balance between innovation and tradition.

We use our design-driven retailing model to give our talented and experienced team of designers considerable creative freedom to focus on originality in the design process. This empowers our designers to leverage their experiences and pursue their artistic vision, rather than following and simply reacting to the latest trends. Our core values are “Better Design, Better Life” and we are committed to building China’s best platform for design. We believe our presence in overseas markets such as Japan and the United States is a testament to recognition of our design by sophisticated international consumers. In 2011, we were recognized as one of “the Top 6 Chinese Brands with the Greatest Potential to Internationalize” by Forbes China, primarily due to our exceptional design, research and development efforts.

Moreover, we have a team dedicated to the development of new fabrics, and the team has successfully developed 10 kinds of fabrics.

Product Planning and Design

Typically, we take the following design, research and development steps during our products’ lifecycles:

- *Market analysis and product planning:* We typically begin product planning at least nine months in advance of launching new products. During this period, our product planning team analyzes monthly product sales and market research on our competitors and consumers; our design teams collect information regarding the latest trends, determine the

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seasonal theme, attend raw materials fairs and collect elements for the theme; our production procurement team collects information on potential raw materials needed for the theme; and 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.* For each season, our design teams formulate their designs for three product lines, classic, youthful and *avant-garde*, under our brands, based on the seasonal theme. Our design team leaders then select designs to be further developed and marketed, after which these designs are made into sample apparel by Hangzhou JNBY, a related party. We believe that fabric and raw materials are a critical aspect of our design, and seek to procure innovative fabrics to encourage creativity in design.
- *Marketing and product launch.* Our marketing department formulates a marketing strategy based on the seasonal themes of our main products and accessories determined by our design teams, as well as the target marketing window for our product launch.
- *Consumer experience and customer feedback.* After sales of new products commence, members of our marketing team closely monitor our sales data and consumer feedback and communicate regularly with our design teams. Our design teams take consumer feedback into consideration when designing new products.

We have benefited from our design, research and development capabilities by successfully developing and offering an extensive collection of products under existing brands as well as introducing new brands. We strive to offer a sufficiently diverse collections of products for our customers while streamlining SKUs for effective cost control. We have registered a total of 14 patents in the PRC, including two invention patents and 12 utility model patents. We also participated in designing four sets of apparel industry standards, which we believe is a testament to our market leadership.

Our product design, research and development department incurred expenses of RMB48.3 million, RMB48.7 million and RMB56.7 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016, representing 3.5%, 3.0% and 3.0%, respectively, of our revenue during the same years. We plan to continue to invest in product design, research and development and to focus on pioneering innovations in order to remain competitive.

We incurred product development outsourcing fees, which amounted to RMB0.9 million, RMB1.5 million and RMB20.7 million in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. Such fees were incurred primarily for the production of sample apparel based on our design and for modelling for our sample apparel. Since July 2015, such fees have been paid primarily to Hangzhou JNBY.

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In order to further diversify our product offering and brand portfolio, we have begun to extend our reach into household products and furniture. We established a dedicated team to focus on the design of our footwear products. In addition to the footwear display counters we already offer in our stores, we also plan to open standalone and concession footwear stores in selected department stores and shopping malls. We have introduced our new brand, *JNBY Home*, at our trade fair in August 2016.

In 2010, our Founders started a project called “Imagokentics” (想像力學實驗室), through which our Founders invite guest speakers from various professions to give speeches every month to our employees. We have jointly funded Imagokentics with our Founders since June 2016. Through these monthly events, our employees can interact with speakers from different industries, which provide inspiration to our design teams and enable them to continuously come up with new design ideas and contemporary fashion elements, fostering further innovation among our employees.

TRADE FAIR AND ORDERING

We hold trade fairs twice a year, in February or March for our upcoming Autumn/Winter collection and in July or August for our upcoming Spring/Summer collection, to introduce our new products to our distributors. Our new product collections will be presented at the trade fair.

Generally, the trade fair lasts for three to eight days. During the trade fair, we hold a fashion show to introduce our new products. Since our distributors normally place orders during the trade fair, the outcome of the trade fair has a direct effect on our sales for the coming year.

After each trade fair, we collect data to analyze the popularity of our products and to determine which products should be marketed more heavily by our Group or distributors and arrange for such products to be produced in higher volumes accordingly.

SUPPLY CHAIN MANAGEMENT

Based on orders placed during trade fairs and final review of production cost, our production procurement department begins to schedule production and ensures that our products are delivered on time.

Production Outsourcing

We outsourced the production of substantially all of our products to OEM suppliers and produced a small portion of our products in Fiscal 2014 and Fiscal 2015. Since July 2015, in order to focus our resources on key stages of the product life cycle, such as product planning and design, brand promotion and management as well as supervision of retail and distribution network, we have outsourced the production of all of our products to selected domestic OEM suppliers. This strategy has also enabled us to avoid direct exposure to the risks and expenses of operating production facilities, while at the same time, promptly adjusting our product offerings in response to shifting market trends so as to maintain a highly competitive cost structure.

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OEM Suppliers

We maintained a broad network of OEM suppliers during the Track Record Period. Our OEM suppliers consist of two types: (i) finished product suppliers, which process raw materials and fabrics purchased by themselves and provide us with the finished products; and (ii) processing suppliers, which process raw materials and fabrics provided by us and provide us with the processed products. For Fiscal 2014, Fiscal 2015 and Fiscal 2016, we had 180, 208 and 231 OEM suppliers, respectively, all of which were located in the PRC. A majority of our OEM suppliers are located in Guangdong Province, Zhejiang Province and Jiangsu Province, China. We strive to expand and diversify our network of OEM suppliers, while maintaining close relationships with existing OEM suppliers.

Selection of OEM Suppliers

We carefully select our OEM suppliers and require them to satisfy certain evaluation and assessment criteria. We evaluate them based on a range of factors, including overall track record, expertise, product quality and quality control effectiveness, historical relationship with us, price, reliability, financial condition, reputation, experience, ability to meet our delivery timeline and production capacity.

Supply Agreements

We usually enter into annual supply agreements with our OEM suppliers and place orders during the contract period as necessary. These agreements 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, confidentiality obligations and protection of trademarks and other intellectual property rights.

These supply agreements usually 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. Depending on the type of products to be processed, we either provide our OEM suppliers with raw materials directly, or require them to procure raw materials from suppliers designated by us before commencing production. Typically, OEM suppliers request an advanced deposit of the purchase price. Payments are generally settled by us within two months for finished product suppliers and within one month for processing suppliers, of the date on which we accepted 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.

Relationships with our OEM Suppliers

Our major OEM suppliers have generally cooperated with us for over three years. While we generally do not manufacture our products in-house, we exercise certain control over key steps of our OEM suppliers’ manufacturing process. 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.

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We also conduct seasonal evaluations of our existing OEM suppliers to identify unqualified suppliers. During the Track Record Period and 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.

Raw Materials

The principal raw materials for our products include wool, cotton, linen and synthetic materials. For our outsourced production, depending on the type of products to be processed, we either provide our OEM suppliers with raw materials directly, or require them 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. 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 have fluctuated during the Track Record Period and may continue to fluctuate in the future. While we usually purchase raw materials through short-term contracts at market prices and therefore do not have control over the costs of such raw materials, we believe we can pass on any major increase in our raw material costs to our customers through appropriate pricing of our products.

Major Suppliers

Purchase amounts from our five largest suppliers together accounted for approximately 32.9%, 24.5% and 18.6%, respectively, of our total purchase cost in Fiscal 2014, Fiscal 2015 and Fiscal 2016, while purchase amounts from our largest supplier for the same years accounted for approximately 15.1%, 8.0% and 5.0%, respectively, of our total purchase cost. While our suppliers are mostly independent third parties, purchase amounts from related parties, including Huikang Industrial, Shangwei and Shenzhen Hengyi, for Fiscal 2014, Fiscal 2015 and Fiscal 2016 in aggregate amounted to RMB161.2 million, RMB93.7 million and RMB69.5 million, respectively, which represented 24.7%, 14.5% and 9.4%, respectively, of our total purchase cost for the same years. As of the Latest Practicable Date, Mr. Wu and Ms. Li held 100% of the equity interests in Huikang Industrial and Shangwei. Shenzhen Hengyi Finery Co., Ltd. (“**Shenzhen Hengyi**”) has ceased being our connected party since April 2016. See “Financial Information — Related Party Transactions and Balances” for further details of our business relationships with related parties above. Our purchases of inventory from Huikang Industrial were due to the Reorganization and pursuant to the cooperation agreements entered into between Huikang Industrial and us. Please see “Financial Information — Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” and “Our History and Development — Development of Our Group Structure” for further details.

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SALES AND DISTRIBUTION

We sell our products through a comprehensive and integrated omni-channel interactive platform comprising multiple offline and online sales networks. As of June 30, 2016, our omni-channel interactive platform consisted of (i) an offline network of 1,316 retail stores across China and 12 other countries or regions, including 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers and (ii) online channels, including major online platforms, such as Tmall, Jingdong/JD.com and VIP.com as well as our social network platform on WeChat.

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.

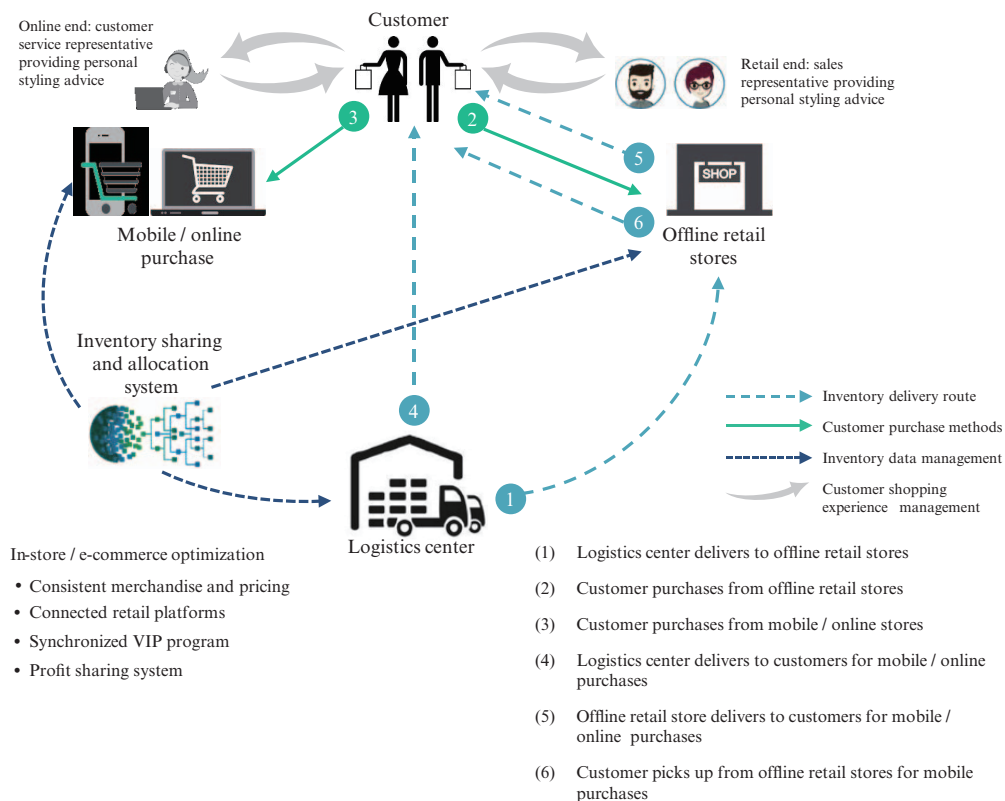
	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>
Revenue						
Offline channels	<u>1,268,740</u>	<u>91.7</u>	<u>1,485,935</u>	<u>92.1</u>	<u>1,759,800</u>	<u>92.5</u>
Self-operated stores ⁽¹⁾	617,717	44.7	732,803	45.4	940,759	49.4
Distributor-operated stores	619,851	44.8	730,577	45.3	806,531	42.4
Others ⁽²⁾	31,172	2.2	22,555	1.4	12,510	0.7
Online channels	<u>114,695</u>	<u>8.3</u>	<u>127,158</u>	<u>7.9</u>	<u>142,842</u>	<u>7.5</u>
Total revenue	<u><u>1,383,435</u></u>	<u><u>100.0</u></u>	<u><u>1,613,093</u></u>	<u><u>100.0</u></u>	<u><u>1,902,642</u></u>	<u><u>100.0</u></u>

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “— Our Retail Stores — Self-operated stores”.
- (2) Consists of stores operated by overseas customers.

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The below diagram illustrates our omni-channel interactive platform:



We build the foundation of our omni-channel interactive platform around our customers. Every individual customer has his or her own shopping patterns and habits, whether through online or offline channels. As a result, our main objective at the front end of our omni-channel interactive platform is to satisfy the needs of our customers regardless of their means of purchase, whether through offline retail stores or online stores. We also strive to enhance the shopping experiences of our customers by providing them with personalized styling advice through sales and customer service representatives. The sales and customer service representatives are trained regularly through meetings in person at our headquarters, onsite training sessions conducted at retail stores and through mobile applications to enhance their awareness of our products, latest seasonal themes and sales techniques. They are trained to provide customers with personalized styling advice as well as mix-and-matching references which we believe will enhance not only our individual customer sales but also customers’ understanding of our brand philosophy.

To further promote customer loyalty, encourage repeat purchases and cross-selling, we have fully integrated our membership program, inventory management and payment systems across our omni-channel interactive platform. We believe this high degree of integration of our online and offline channels helps us maximize the performance of our omni-channel business model which in turn creates synergies and increases incremental sales.

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At the back end of our omni-channel interactive platform, we strive to implement a successful system of sharing inventory as well as profits in order to maintain a mutually beneficial relationship with our distributors and online platforms. To strengthen the cooperation between each channel, we adopt the following measures which we believe help enhance the experiences of and add value to our customers:

- *Consistent new product offerings:* We sell our new products consistently across multiple channels to ensure our customers are able to purchase any of our new products through both our online and offline channels.
- *Consistent pricing:* Retail prices are the same for the same product across our retail stores (including both self-operated and distributor-operated stores) and the online platforms we use. This policy prevents potential conflict between distributors and the online platforms we use and keeps their interests aligned. In addition, this policy allows our customers to focus their attention on finding the most suitable products, instead of hunting the best bargains.
- *Synchronized membership program:* Our integrated omni-channel interactive platform enables us to synchronize our membership program across our retail stores and social network platform on WeChat and thereby serve our members better. Regardless of where our customers choose to register as a member, they are able to enjoy the same benefits across our retail stores and social network platform on WeChat.

Our inventory sharing and allocation system enables our customers to make purchases on demand even if the particular desired item is out of stock at that store. With the help of the sales representative at the store, orders can be placed via such system which will quickly locate, order and ship the desired item directly to the customer in the shortest time frame from one of our self-operated stores or distributor-operated stores nearby that has the item in stock. Our allocations of inventory are based on the following principles:

- *Authorized territory:* When the desired product is out of stock at a particular store, we will first determine which territory, self-operated or distributor-operated, in which that store is located before arranging for the order and shipment of products to our customer. If the store is located in a self-operated territory, we will try to order and ship the desired product from another self-operated store nearest to where the customer made the purchase before retrieving the product from a logistics center. If it is located in a distributor-operated territory, then we will give priority to that distributor and the desired product will be ordered and shipped from another store operated by the same distributor.
- *Nearest store:* After we have determined the authorized territory, we order and ship the product based on physical proximity. We will deliver the product from the store nearest to where the customer made the purchase.

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Our inventory sharing and allocation system operates under the above principles, which are designed to fully utilize our omni-channel interactive platform and provide convenient, “24/7” shopping experiences to our customers while mobilizing our inventory to minimize shortages and redundancies.

Our integrated retail network as well as inventory sharing and allocation system allow us to share profits systematically among our distributors and ourselves. For example, if a customer places an order at our distributor-operated store but the desired product is out of stock at that store and needs to be shipped from the logistics center, then we sell the product to that distributor at the predetermined discounted price. As a result of our inventory sharing and allocation system, our incremental retail sales significantly increased from RMB6.0 million in Fiscal 2014 to RMB112.8 million in Fiscal 2015, and further to RMB236.3 million in Fiscal 2016, amounting to 0.3%, 4.2% and 7.3%, respectively, of total retail sales during these years.

Retail Pricing

Our headquarters sets uniform pricing for our products that applies to our self-operated and distributor-operated stores as well as online channels. We price our products based on various factors, including the following:

- results of market research and analysis (including consumption propensity of our target customers and market trends);
- costs of purchases from our OEM suppliers and raw material suppliers;
- complexity of design and manufacturing;
- purchasing power of our target customers;
- our expected profit margins; and
- product prices set by our competitors.

Our headquarters determines all product promotional discount policies and programs which are applied to both self-operated and distributor-operated stores. We conduct promotional sales based on analysis of sales data to minimize aged inventories and maximize profitability at the end of each season.

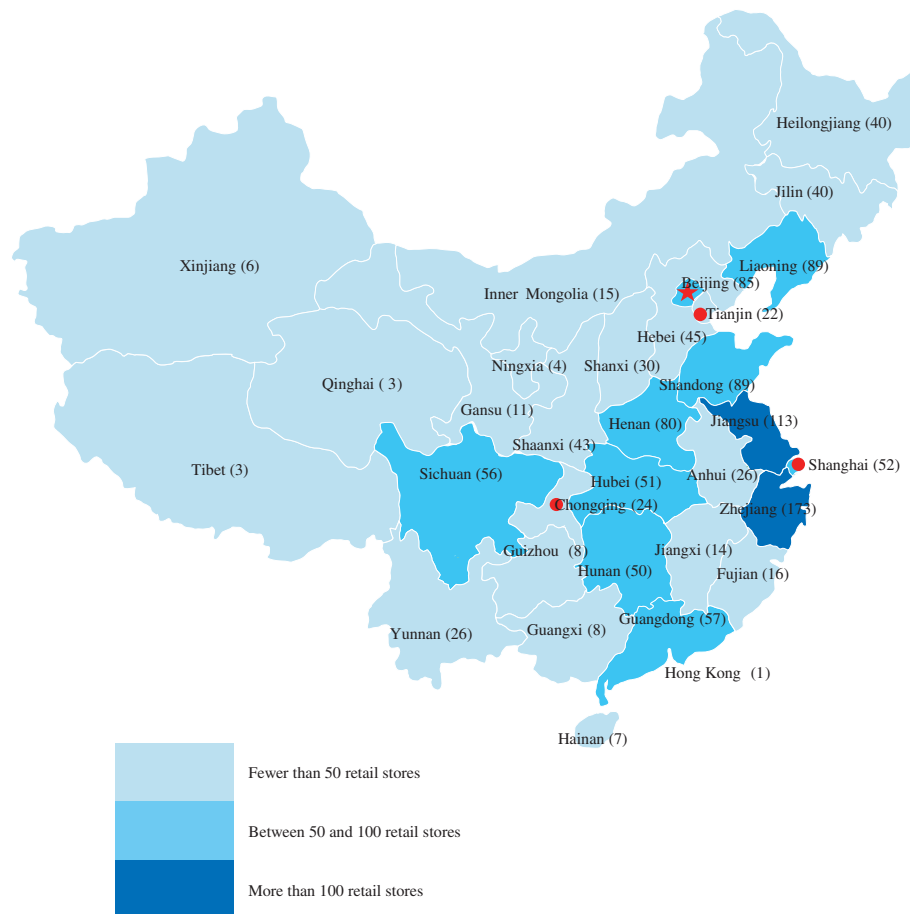
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Our Retail Stores

Our retail stores currently include (i) self-operated stores, (ii) distributor-operated stores and (iii) stores operated by overseas customers. While we operate the majority of our self-operated stores ourselves, we historically engaged a third party to manage a limited number of our self-operated stores. We terminated all such arrangements in June 2016. For more information, see “— Self-operated Stores”.

Geographic Distribution

The following map shows the geographic distribution of our retail stores (including distributor-operated and self-operated stores) across China and Hong Kong as of June 30, 2016.



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

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Eastern China ⁽¹⁾	422,872	30.6	514,347	31.9	607,486	31.9
Northern China ⁽²⁾	262,518	19.0	311,328	19.3	358,691	18.9
Northeastern China ⁽³⁾	142,573	10.3	185,303	11.5	219,200	11.5
Central China ⁽⁴⁾	123,653	8.9	152,258	9.4	204,467	10.7
Southwestern China ⁽⁵⁾	112,434	8.1	114,758	7.1	140,347	7.4
Southern China ⁽⁶⁾	117,762	8.5	119,463	7.4	130,733	6.9
Northwestern China ⁽⁷⁾	55,756	4.0	63,311	3.9	82,694	4.3
Online.....	114,695	8.3	127,158	7.9	142,842	7.5
Overseas	31,172	2.3	25,167	1.6	16,182	0.9
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Notes:

- (1) Eastern China includes Shanghai, Anhui Province, Fujian Province, Jiangsu Province, Shandong Province, Zhejiang Province and Jiangxi Province.
- (2) Northern China includes Beijing, Tianjin, Hebei Province, Inner Mongolia Autonomous Region and Shanxi Province.
- (3) Northeastern China includes Heilongjiang Province, Jilin Province and Liaoning Province.
- (4) Central China includes Henan Province, Hubei Province and Hunan Province.
- (5) Southwestern China includes Chongqing, Guizhou Province, Sichuan Province, Tibet Autonomous Region and Yunnan Province.
- (6) Southern China includes Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province.
- (7) Northwestern China includes Gansu Province, Ningxia Hui Autonomous Region, Shaanxi Province, Qinghai Province and Xinjiang Uygur Autonomous Region.

Overseas Sales

Our sales also extend to 12 countries or regions overseas. We operate a store in Hong Kong ourselves. In addition, we sell our products to third parties that operate stores in 11 other countries and regions, including Japan, Russia, Taiwan, the United Arab Emirates, Canada, Georgia, Kuwait, New Zealand, Thailand, the United States and South Korea, in order to leverage the local contacts and retail experience of these third parties. We do not follow our domestic distributorship model in these overseas markets and we sell our products to these third parties on a wholesale basis. As of June 30, 2014, 2015 and 2016, there were 34, 38 and 29 such overseas stores, respectively.

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Site Selection

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. Most of our self-operated and distributor-operated stores are located within shopping malls, department stores or commercial districts. As an additional effort to promote our brand image, we have established two lifestyle labs in Hangzhou and one concept store in Beijing, which feature our latest product design, visual and technological features for an innovative lifestyle and cultural experience. Our retail stores cover all of the Tier One Cities and substantially all of the Tier Two Cities in China. As of June 30, 2016, 12.9%, 35.5%, 32.0% and 19.6% of our retail stores were located in Tier One Cities, Tier Two Cities, Tier Three Cities and other cities in China, respectively. We are now expanding our coverage in these cities as well as strategically broadening our retail network to include additional locations.

We consider and evaluate the following factors when selecting a location to open a new store, which factors are premised upon better serving our customers:

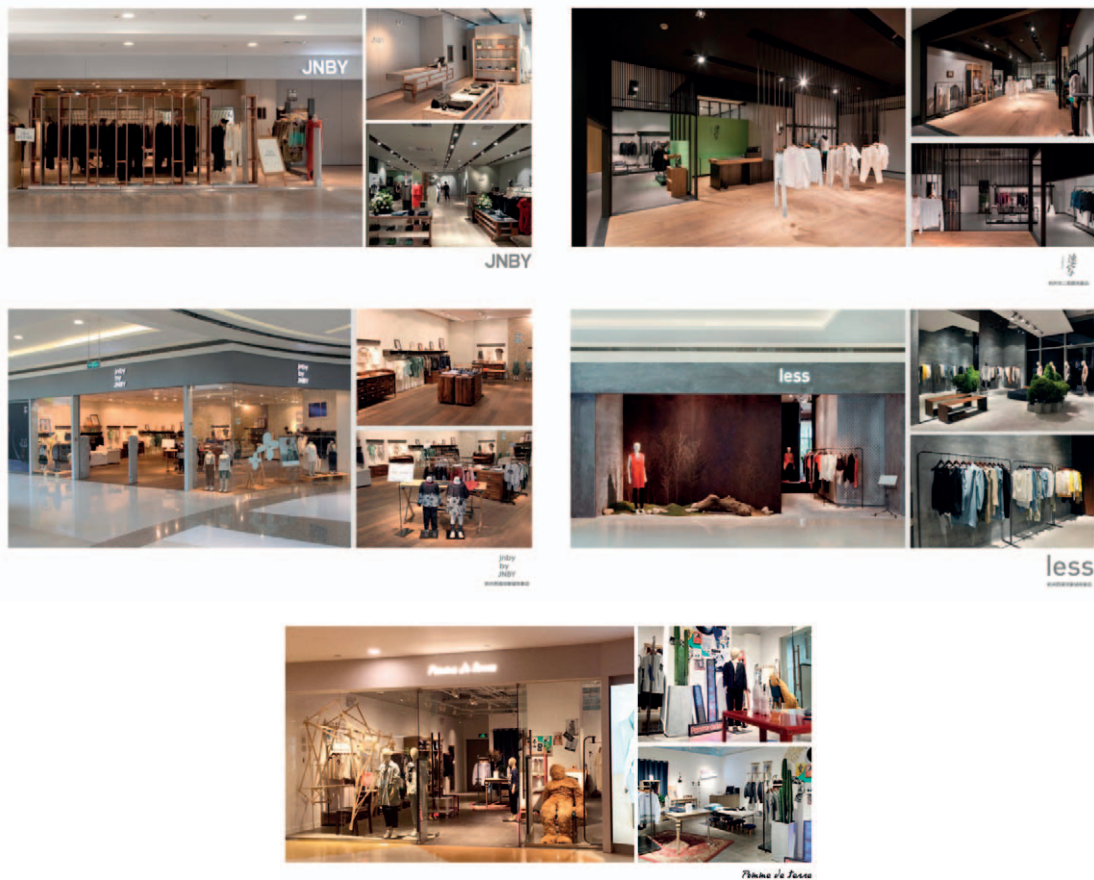
- the size and coverage of the properties developed in that area;
- the shopping patterns and purchasing power of the target consumers at the proposed location;
- geographic coverage of the location;
- estimated initial capital investment and expected return; and
- expected sales and the level of rental expenses.

Store Design and Appearance

We aim to offer consumers relaxing and comfortable shopping experiences as a result of reasonable space planning and layout. Each of our retail store designs presents a consistent image, store atmosphere and layout, particularly through the design and color of the shopfront, product displays, information displays for promotional sales, price tags, cashier counters, lighting, music and staff uniforms, as well as well-trained store staff. With the assistance of store staff, including sales representatives, our customers can select and be fitted for our apparel in a private environment. The number of staff per store depends on the size, location and type of store.

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The following pictures illustrate some examples of the appearance of our retail stores:



Distributor-operated Stores

We engage third-party distributors in different regions of the PRC to operate stores according to the same brand formats as our self-operated stores to ensure consistent brand image throughout our retail network. We believe this distributorship business model provides an asset-light and cost-effective means of quickly expanding our retail network, which in turn has contributed significantly to increases in our revenue, market share and brand recognition. Our distributorship business model is consistent with market practice in the designer brand fashion industry in China. As of June 30, 2016, we had 303 distributors operating 855 distributor-operated stores in the PRC, revenue derived from which accounted for approximately 42.4% of our total revenue in Fiscal 2016. As of June 30, 2016, these distributor-operated stores covered 30 provinces, autonomous regions and municipalities in China. To the best of our knowledge, as of the Latest Practicable Date, all of our distributors were independent third parties and none of our distributors were controlled by former employees of us.

Sales to our largest customer, which is also our distributor, accounted for 1.9%, 1.9% and 1.7%, respectively, of our total revenue in Fiscal 2014, Fiscal 2015 and Fiscal 2016, while sales to our five largest customers, which are also our distributors, in aggregate accounted for 7.1%, 7.5% and 6.5%, respectively, of our total revenue during the same years. None of our Directors or their respective

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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. To the best of our knowledge, during the Track Record Period and as of the Latest Practicable Date, all of our five largest customers were independent third parties and none of them were controlled by former employees of us.

As of June 30, 2016, we had 10 sub-distributors operating 12 stores, respectively. Although these sub-distributors sign distribution agreements with our primary distributors, they still operate stores according to the same brand formats as our self-operated stores and we exercise a certain degree of management over these stores using our information technology system. Nevertheless, we already ceased allowing our distributors to engage new sub-distributors before the commencement of the Track Record Period and do not plan on permitting the engagement of any new sub-distributors going forward.

Selection Criteria for Distributors

We select our distributors based on a number of criteria, including, among others, their local relationships and experiences, marketing capabilities, financial condition, risk management capabilities, reputation and store location.

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

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Distributors at the beginning of the year	219	237	281
Add: new distributors	34	54	52
Less: distributors terminated.....	<u>16</u>	<u>10</u>	<u>30</u>
Distributors at the end of the year	237	281	303

The table below sets forth the total numbers of our distributor-operated stores as of the dates and for the years indicated:

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Total sales at the beginning of the year	613	639	742
Add: stores opened.....	150	205	251
Less: stores closed	<u>124</u>	<u>102</u>	<u>138</u>
Total stores at the end of the year	639	742	855

During the Track Record Period, distributors were added mainly to expand the coverage of our retail network, both in terms of geographic coverage and brand portfolio. We also terminated our cooperation with distributors that fail to meet our performance targets.

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Distributor Support and Services

Leveraging their significant experiences in operating retail stores, our management team has developed a robust operational platform for our domestic operations in China. Our management team has also implemented a rigorous distributor management system that allows us to attract and retain distributors and grow rapidly, while simultaneously maintaining supervision over distributors' operations. Our well-established distributor management system not only ensures that quality services are consistently delivered to our consumers, but also helps our distributors become more integrated into our retail network quickly and seamlessly. Our system helps our distributors to achieve efficiency and receive support on each key aspect of store management, including the following:

- *Assessment of store locations:* After a distributor identifies a prospective store location, our business development team prepares a detailed store opening report analyzing factors including population density, consumer purchasing power, geographic location, competition in the surrounding area and revenue forecast, and decides whether the store location is suitable.
- *Store decoration and product display:* We provide store decoration and product display services to all distributors to ensure that each store reflects our uniform design, appearance, decoration, layout, color scheme, lighting scheme and product display specifications.
- *Information technology system development and implementation:* Our information technology system is crucial to product planning, product delivery, inventory control and financial reporting. Each distributor-operated store is equipped with our information technology system, including POS terminals and our inventory sharing and allocation system, which is connected directly to systems at our headquarters and provides us with real-time access to the sales and inventory information of our distributors.
- *Personnel and other training:* We believe that the performance of store staff (including sales representatives) is critical to the success of our retail stores. We place great emphasis on training store staff and provide in-house training programs to store staff on various retail operation matters, such as product knowledge, sales and dressing techniques, customer service and store operations.

We believe that the foregoing support and services have strengthened our relationships with the distributors. In the meantime, we are able to perform real-time sales and inventory tracking and reporting on our distributor-operated stores through the information technology systems that are installed at the distributor-operated stores and directly linked with our headquarters.

Guarantee for Short-term Financing

During the Track Record Period, we had a financing arrangement with a bank in the PRC under which certain of our distributors were allowed to take out short-term borrowings to finance purchases of our products, while we, our Controlling Shareholders and Huikang Industrial acted as guarantors of these borrowings. We decided which distributors were allowed to take out short-term borrowings on the basis of the distributors' credit history, financial condition and the length of their business

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relationship with us. The distributors’ borrowings under this arrangement could only be paid to us to settle product purchasing costs. We provided a three-year guarantee for each distributor’s loan agreement with the bank. The scope of the guarantee usually covered, among others, principal amount, interest, termination fees and damages. As we bore substantially all credit risks under this financing arrangement, for accounting purposes, the resulting short-term borrowings were deemed as short-term borrowings on our consolidated balance sheets. As these amounts were nevertheless payable by our distributors, such amounts are also recorded as accounts receivable from our distributors as of the same dates. See “Financial Information — Analysis of Selected Consolidated Balance Sheet Items — Borrowings”. We had terminated this financing arrangement and released all guarantees as of June 11, 2016. As confirmed by our PRC Legal Advisers, the provisions of the guarantee to distributors and the relevant agreements between us, the bank and the distributors were in compliance with relevant PRC laws and regulations.

Under the financing arrangement, distributors were required to have an amount on deposit with us in their individual distributor account before taking out any short-term borrowings under this arrangement. Distributors’ outstanding loan balances were not allowed to exceed the amount guaranteed by us, and each distributor each time could only draw-down up to a maximum of two times the amount on deposit with us. We were liable for interest on loans repaid within three months, and the distributors were liable for interest on loans not repaid within three months. Loans under this arrangement generally had a maturity of three months, with the longest being 12 months.

For Fiscal 2014, Fiscal 2015 and Fiscal 2016, the total financial guarantee amounted to RMB41.1 million, RMB47.1 million and RMB25.0 million, provided to 36, 45 and 51 distributors, respectively. Sales to distributors who participated in this arrangement amounted to 3.0%, 2.9% and 1.3%, respectively, of our total revenue for the same years. Outstanding loan balances under this arrangement resulted in us having short-term borrowings of RMB11.6 million, RMB11.5 million and nil as of June 30, 2014, 2015 and 2016, respectively. Three of our distributors defaulted an aggregate of RMB2.4 million loans under this arrangement during the Track Record Period.

We believe the termination of this arrangement will not have a material adverse effect on our relationship with our distributors or our results of operations and financial condition, since sales to distributors who participated in the arrangement amounted to an immaterial portion of our revenue during the Track Record Period.

Product Ordering by Distributors

We sell our products to distributors through our trade fairs which are held twice a year. In addition, we maintain a disciplined inventory replenishment policy under which we alert our distributors to replenish the inventory of popular products when their inventory reaches a prescribed level and we proactively oversee distributors’ orders to ensure the delivery of sufficient quantities of products to meet consumer demand in a timely fashion.

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Ownership of Products and Sales Returns

Products sold to distributors belong to them. We generally allow our distributors to return products under certain circumstances. The major terms of our sales return policy are summarized below:

- *Policy returns:* Our policy returns comprise base returns and supplemental returns.
- *Base returns.* Across all our brands, the mathematical average permitted return rate on base returns was 14.9% for all distributors as of the Latest Practicable Date. 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 their 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. The cut-off dates for permitted returns are March 31 for autumn and winter products and October 31 for spring and summer products. Returned products are required to be in good condition and suitable for resale, and the purchase amount is credited to the distributor.
- *Supplemental returns.* For distributors who open new stores, place order for certain of our recommended *avant-garde* products or whose product purchase as compared with the previous year exceeds a pre-determined threshold, we also generally allow such distributors to return more products up to 25% of the value of their incremental purchase amount. This supplemental return policy encourages new store openings in new locations as well as increased purchases by distributors of our new and *avant-garde* products.
- *Quality returns:* We can provide distributors with replacement products or process a sales return due to any product discovered to have a quality issue (“**quality return**”). Only in-season products are eligible for a quality return. In-season spring and summer products are deemed off-season as of October 31 of each year. In-season autumn and winter products are deemed off-season as of March 31 of each year. Distributors are only allowed to submit quality returns once per month.
- *Completion of sales returns and refunds:* We typically complete the return and refund process within three weeks. Products accepted for a sales return are refunded at the purchase price without any adjustment.
- *Termination:* We do not allow distributors to return unsold products after termination of their distribution agreements.

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The following table sets forth a breakdown of sales returns by type of return, each expressed as an absolute amount and as a percentage of gross sales, for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Policy returns	63,886	8.4	117,463	12.9	164,479	16.0
Quality returns	22,621	3.0	14,079	1.6	2,481	0.3
Total sales returns	<u>86,507</u>	<u>11.4</u>	<u>131,542</u>	<u>14.5</u>	<u>166,960</u>	<u>16.3</u>

Policy returns as a percentage of gross sales to our distributors and overseas customers amounted to 8.4%, 12.9% and 16.0% in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. These increases were primarily due to (i) our supplemental returns policy, which was introduced in 2014 and (ii) increased sales of brands such as *CROQUIS*, *jnby by JNBY* and *less*, during the Track Record Period and the launch of more *avant-garde* products in Fiscal 2016, for which we generally grant higher rates of sales returns. Our *avant-garde* products embody experimental concepts and enable us to preserve the vitality of our brand image, but market reception for such products is unpredictable. We therefore grant higher rates of sales returns to incentivize distributors' purchase of such products. Besides the launch of more *avant-garde* products, the increase of policy return rates from 12.9% in Fiscal 2015 to 16.0% in Fiscal 2016 was also due to the increase in the opening of distributor-operated stores from 205 in Fiscal 2015 to 251 in Fiscal 2016. We grant higher sales return rates to distributors who opened new stores as part of our supplemental return to incentivize new store openings. Quality returns were relatively high in Fiscal 2014, which have gradually decreased as a result of implementation of control procedures that emphasize inspection of returned products.

We estimate returns based on historical results, taking into consideration the type of distributors, the type of transactions and the specifics of the arrangements with our distributors. Sales returns are accrued and deducted against gross revenue upon recognition of sales. See “Financial Information — Critical Accounting Policies and Estimates — Right of return” for more details. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any material difference between estimated and actual sales return figures.

According to CIC, our industry generally has sales return policies averaging between 10-20%, and our sales return policy is in line with the norms of our industry.

Management of Distributor-Operated Stores

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

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As part of our distributor management system, we actively supervise the operation of distributor-operated stores in various ways described below to ensure their compliance with our retail policies and operating procedures.

- *Uniform retail pricing:* We adopt a uniform suggested retail price for each product for our distributor-operated stores in the PRC. Distributor-operated stores must follow all product promotional discount policies and programs determined by our headquarters. If the distributors violate our uniform retail pricing policy, we are entitled to ask them to pay a penalty ranging from RMB1,000 to RMB10,000, forfeit their deposits, cancel the benefits we offer to them, add another distributor to their exclusive territory of distribution or terminate the distribution agreement.
- *Avoidance of competition among distributor-operated stores, as well as among distributor-operated stores and our self-operated stores:* We grant each distributor exclusivity with respect to a specific brand in its authorized territory which does not overlap with the authorized territories of other distributors and our self-operated stores. The only exception to this approach is the *JNBY* sales network in Beijing, where we have both engaged a distributor and opened self-operated stores. Such approach has been in place because we believed there was sufficient consumer demand for our products in Beijing.
- *Unified store design and appearance:* According to the distribution agreement, the distributor-operated stores need to have consistent image, and the store staff and sales representatives at the distributor-operated stores need to wear required uniforms as at our self-operated stores.
- *Consent right over opening and closing of retail stores:* We require our distributors to obtain our consent before opening or closing any store within their authorized territory.
- *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 distributor-operated stores two to four times a year and occasional unannounced inspections of our distributor-operated stores to monitor the service quality of the sales representatives and notifies distributors of corrective measures that need to be taken with respect to those aspects that do not meet our standards.
- *Monitoring sales and inventory records on a real-time basis:* All of our distributors have installed our information technology system, which enables us to monitor sales data and inventory levels of each distributor-operated store on a real-time basis to ensure no accumulation of inventory. In addition, our distributors are required to perform monthly stock count to correct any errors in the inventory data on our information technology system, and then submit the updated inventory records to us on a monthly basis. During the Track Record Period, such errors had been immaterial. Our Directors confirm that there had been no material accumulation of inventories at the distributor level during the Track Record Period or as of the Latest Practicable Date.

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- *Performance evaluation:* We conduct periodic reviews of the performance of our 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 distribution agreement with the distributor based on the results of their performance evaluation, including whether they meet their sales target.
- *Merchandise exclusivity:* We only allow our distributors to sell our products as authorized under the distribution agreement within distributor-operated stores. Any sales of non-authorized products are prohibited.

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

- *Duration:* One year, renewable upon mutual agreement.
- *Geographic or other exclusivity:* Each of our distributors is designated a defined geographical territory (e.g. certain cities) in which it is authorized to operate distributor-operated stores under the distribution agreement. We also prohibit distributors from selling any other products that directly or indirectly compete with our products at distributor-operated stores during the terms of the applicable distribution agreements. These terms help avoid competition among distributor-operated stores and as between distributor-operated stores and our self-operated stores.
- *Use of brands:* Our 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 under all circumstances.
- *Sales and pricing policies:* We adopt a uniform retail pricing policy. Our distributors must follow all product promotional discount policies and programs determined by our headquarters.
- *Goods return arrangements:* We generally accept returns of our products from our distributors under two conditions, (i) within the permitted rate for sales return each season and (ii) quality defects in the products. Please see “— Ownership of Products and Sales Returns” for further details.
- *Sub-distributors:* During the Track Record Period, certain of our distributors engaged sub-distributors. Although these sub-distributors normally sign distribution agreements with our primary distributors, they still operate stores according to the same brand formats as those of our self-operated stores and we exercise a certain degree of management over the stores operated by these sub-distributors. Nevertheless, we ceased allowing our distributors to engage any new sub-distributors before the commencement of the Track Record Period.

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- *Payment and credit terms:* Our distributors are generally required to pay us a non-refundable deposit, approximately 15% of the total value, when placing a purchase order and are required to settle the full payment prior to delivery of the products. Subject to our management team’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. See “Financial Information — Analysis of Selected Consolidated Balance Sheet Items — Accruals and other current liabilities” for more details.
- *Limitation to authorized territory:* Our distributors are strictly prohibited from expanding their business outside their authorized territory unless otherwise approved by us.
- *Sales performance targets:* Our distributors usually agree to purchase a specified amount during the term of the distribution agreement.
- *Volume rebate:* Pursuant to certain distribution agreements, we provide sales rebates to the applicable distributors as incentives if their purchases from us (net of sales returns) reach threshold amounts. Sales rebates are typically calculated based on a percentage multiplied by a distributor’s total purchases (net of sales returns) for a particular fiscal year, including both the Autumn/Winter collection and the Spring/Summer collection. 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. Sales rebates are calculated and net-off revenue on a monthly basis and typically settled for a fiscal year after October 31 in the following fiscal year, which is the cut-off date for returns of spring and summer products purchased in the previous fiscal year. Sales rebate is credited to each applicable distributor, who will be entitled to utilize such credit when making new purchases. Sales rebates amounted to RMB18.7 million, RMB17.9 million and RMB22.7 million in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively.
- *Conditions for termination and renewal of the agreements:* The non-breaching party may terminate the agreement if there is any breach of the agreement. If the distributor would like to renew the agreement, they need to give us three months’ notice prior to the agreement’s expiration date.

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

Self-operated Stores

During the Track Record Period, the number of our self-operated stores increased from 282 as of June 30, 2014 to 332 as of June 30, 2015 and further to 432 as of June 30, 2016. As of June 30, 2016, these self-operated stores covered 20 provinces, autonomous regions and municipalities in China and Hong Kong.

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The table below sets forth the numbers of our self-operated concession and standalone stores opened and closed during the years indicated:

	As of	Fiscal 2014			Fiscal 2015			Fiscal 2016		
	July 1, 2013									
	Total	Opened	Closed	Year end	Opened	Closed	Year end	Opened	Closed	Year end
Concession stores	158	38	36	160	58	27	191	90	20	261
Standalone stores.....	114	29	21	122	30	11	141	45	15	171
Total self-operated stores ⁽¹⁾.....	272	67	57	282	88	38	332	135	35	432

Note:

(1) Including 11, 20 and 49 outlet stores as of June 30, 2014, 2015 and 2016, respectively.

During the Track Record Period, we opened new self-operated stores to expand the coverage of our retail network, both in terms of geography and brand portfolio. In the meantime, we closed self-operated stores that failed to meet our performance targets to maintain an efficient sales network.

In early years, we engaged a third party (the “**Third-party Manager**”) to manage a limited number of our self-operated stores in order to leverage the Third-party Manager’s retail management expertise and local contacts. These stores were located in Shanghai, Chengdu and Shenzhen. We paid the Third-party Manager a store management fee calculated based on the retail sales generated by these stores. The Third-party Manager was responsible for selling our products, selecting inventory to market, and paying the sales staff. As of June 30, 2014, 2015 and 2016, 44, 47 and nil of our self-operated stores were managed by the Third-party Manager, respectively. Revenue for stores managed by the Third-party Manager amounted to RMB90.1 million, RMB126.4 million and RMB117.4 million in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. We terminated all such arrangements in June 2016, as we have developed our own capabilities in developing our retail network in these cities.

The Third-party Manager provides retail management services to a number of apparel, footwear and/or accessories companies. The Third-party Manager’s business operations span eight cities in PRC, including all Tier One Cities. The Third-party Manager is an independent third party and it is not controlled by former employees of us.

Concession Stores

As of June 30, 2016, 261 out of 432 of our self-operated stores were operated in the form of concession stores. Our concession stores are typically located within department stores of high traffic areas. We enter into concession agreements with department stores for our right to occupy and use the designated spaces in the department stores. For Fiscal 2014, Fiscal 2015 and Fiscal 2016, our concession fees payable to department stores were RMB67.9 million, RMB98.4 million and RMB133.2 million, respectively.

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The location and size of a given concession store are set out in the concession agreement. 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 as a fixed percentage of our monthly sales at the store. Under our concession agreements, we are generally required to pay deposits to the department stores which is refundable upon expiration or termination of the concession agreement. We are also 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 at our concession stores are typically collected by department stores. Department stores are then required to transfer the monthly sales proceeds to us within 45 to 90 days after we issue invoices for the payments. Under certain concession agreements, department stores are entitled to terminate the concession agreements if our concession stores fail to meet specified minimum monthly sales targets for a specified period of time within one year.

Standalone Stores

As of June 30, 2016, 171 out of 432 of our self-operated 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. We operate our self-operated standalone stores as model shops to enhance our brand recognition, attract potential distributors and control strategic markets. Through our self-operated stores we can obtain market information first-hand to keep ourselves apprised of the latest market trends, preferences and consumer demands and provide better operational support to our distributor-operated stores. Among our self-operated stores, in 2015 we established two lifestyle labs in Hangzhou and one concept store in Beijing, which feature our latest product design, visual and technological features for an ultimate lifestyle and cultural experience to promote our brand image. We expect to continue to increase the number of our self-operated stores in the future.

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 Fiscal 2014, Fiscal 2015 and Fiscal 2016, our operating lease rental expenses, which primarily include rental expenses in relation to our standalone stores and offices, amounted to RMB154.1 million, RMB164.1 million and RMB180.0 million, respectively, representing 11.1%, 10.2% and 9.5%, respectively, of our revenue for the same years.

The lease agreements typically have terms of two to three years and grant us the option to renew. 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 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 agreements, which is refundable upon expiration or termination of the relevant lease agreement, as applicable.

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Outlet Stores

Our outlet stores offer us an efficient platform through which to sell off-season products. The table below sets forth the numbers of our outlet stores opened and closed during the years indicated:

	As of		Fiscal 2014		Fiscal 2015		Fiscal 2016			
	July 1,									
	2013	Year	Year	Year	Year	Year	Year	Year	Year	
	end	Opened	Closed	end	Opened	Closed	end	Opened	Closed	end
Outlet stores	9	2	0	11	9	0	20	32	3	49

Store Management and Operations

Store Staff and Service Outsourcing

Prior to April 2015, sales staff in our self-operated stores were employed directly by us. In April 2015, we outsourced the sales staff in self-operated stores to the HR Company, a third-party human resources management company, pursuant to the Service Outsourcing Contract (the “**Service Outsourcing Contract**”), dated January 1, 2015, between us and the HR Company. As a result of this arrangement, sales staff who were formerly our employees became employees of the HR Company. As of July 31, 2016, substantially all of the sales staff in our self-operated stores, comprised of approximately 2,200 sales representatives, store managers and supporting staff, were employees of the HR Company. The Service Outsourcing Contract has an initial term of two years and can be automatically renewed for subsequent one-year terms absent a written objection from either party.

We entered into this arrangement to enable our management team to continuously focus on our core missions. As our business grew, responsibilities related 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 Hangzhou, our retail network spans across China. We identified the HR Company, which together with its affiliates (collectively, the “**HR Group**”) have local offices across the country, as a suitable partner that has the requisite experience and expertise in recruiting and managing sales staff.

Certain information for the HR Group is set forth below.

- *Experience and expertise:* The HR Group was founded in 2003. Its services include, among others, personnel outsourcing, benefits management, consulting and training. The HR Group was recognized in the International Association of Outsourcing Professionals’ Global Outsourcing 100 lists in both 2010 and 2011.

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- *Resources:* The HR Group has approximately 2,000 employees who perform administrative and other functions for the HR Group and approximately one million employees who perform outsourced services for the HR Group’s clients. Given approximately 2,200 of such employees work at our self-operated stores, we believe we are not a significant client of the HR Group in terms of revenue contribution.
- *Scale of operations:* The HR Group is headquartered in Beijing and operates in over 300 cities across China.
- *Other clients of the HR Group:* The HR Group has over 11,000 corporate clients, which operate in a variety of consumer-facing industries, such as fashion, financial services, food and beverages and telecommunications.
- *Other relationships between us and the HR Group:* During the Track Record Period, the HR Company also provided administrative services related to our social insurance fund and housing provident fund and arranged medical examinations for our employees. Fees for such services amounted to an insignificant level during the same period. Affiliates of VKC hold approximately 7.3% beneficial interest of the holding company of the HR Group. In addition, Mr. Wei Zhe, who is a non-executive Director of our Company and owns 61.6% beneficial interest of VKC, is also a non-executive director of the holding company of the HR Group. Except as disclosed in this document, there is no past or present relationship between (i) our Company, its subsidiaries or any director, shareholder or other associate of our Company or its subsidiaries and (ii) the HR Group, its subsidiaries or any director, shareholder or other associate of the HR Group or its subsidiaries. The HR Group is not our connected person under the Listing Rules.

While we no longer employ the sales staff of our self-operated stores, we seek to ensure that they continue to provide high quality service to our customers. The HR Company is responsible for managing the sales staff based on specific guidelines, which we have reviewed and approved. For example, the criteria for recruiting and evaluating sales staff include, among others, appearance and temperament, experience in apparel sales, communication skills and interpersonal skills. We take the following measures to monitor the implementation of these guidelines and ensure the quality of the sales staff:

- *Monitoring of performance:* Through our information technology system, we and the HR Company are able to monitor sales data of each sales representative and evaluate such person’s performance. Personnel decisions, including promotions and replacements, are made by the HR Company, which takes our feedback into consideration.
- *Visiting stores:* Our regional sales team, including regional managers and city managers, conducts periodic inspections of each store and occasional unannounced inspections to monitor the service quality of the sales representatives, and notifies the HR Company of corrective measures that need to be taken with respect to those aspects that do not meet our standards.

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- *Training:* We provide periodic trainings to sales staff to update their knowledge on our seasonal product themes, sales techniques, product selection and fitting, fashion trends, customer service and store operations. The sales and customer service representatives are trained regularly through meetings in person at our headquarters, onsite training sessions conducted at retail stores and through mobile applications to enhance their awareness of our products, latest seasonal themes and sales techniques.

The compensation that each member of the sales staff receives from the HR Company is based in part on performance. According to the Service Outsourcing Contract, we pay service fees and other expenses to the HR Company as agreed by both parties on a monthly basis; the HR Company bears the cost of social insurance or similar employee benefits. The service fee is based on the aggregate amount of compensation that the HR Company pays to the sales staff. As we collect the sales data of each sales representative through our information technology system, we are able to evaluate whether the service fee is commensurate with the sales staff’s performance.

By closely monitoring sales staff, we believe our self-operated stores are staffed with a well-trained work force that is knowledgeable of our brand philosophy and products and attentive to our customers’ needs. As advised by our PRC Legal Advisers, the provisions of the Service Outsourcing Contract were in compliance with relevant PRC laws and regulations.

Cash and Payment Management

We accept payment by cash, credit card, Alipay and WeChat Pay at our self-operated stores.

We have adopted and implemented strict internal control procedures for handling cash, which include the following:

- each store is equipped with our information technology system, including POS terminals, which are directly connected to systems at our headquarters;
- the store manager and a designated store staff member at each store are required to check sales receipts against sales and cash proceeds each day, perform daily reconciliation of sales and actual cash proceeds and record the results in our information technology system;
- cash proceeds are kept in the store’s safe and deposited in our designated bank accounts each business day; and
- the accounting department at our headquarters verifies the reconciliation of sales and actual cash proceeds of the previous day by cross-checking the sales information recorded in our information technology system and the cash deposited in the designated bank accounts in respect of each store and after having confirmed that the two amounts are consistent, records such confirmation accordingly.

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

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Online Platforms

In addition to our retail stores, we also sell our products via online sales platforms and our social network platform on WeChat. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, revenue from sales through online channels amounted to RMB114.7 million, RMB127.2 million and RMB142.8 million, respectively, representing 8.3%, 7.9% and 7.5%, respectively, of our revenue for the same years. We believe that maintaining a strong presence on popular online platforms helps improve our brand visibility and awareness, especially in regions where we have yet to establish a physical presence through our retail stores, as well as giving our customers the convenience of “24/7” shopping on demand. Online platforms are also a cost-effective means of testing market acceptance for new products, gauging consumer feedback as well as collecting information to guide our offline expansion plans.

We sell new products across online and offline channels. We synchronize the launch of new products across all sales channels through our omni-channel interactive platform. The price of our products on the online platforms we use is the same as the offline retail price. These measures prevent potential conflicts between distributors and the online platforms we use and keep their 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 so that if a customer places an order on an online platform, the ordered product will be delivered by a retail store or logistics center for optimal delivery time and cost (i.e., located nearest to the customer’s location) and through a revenue sharing system to allocate the profit generated by the various channels. We thereby maximize our sales and minimize our inventory level requirements by selling in-season products and off-season products through different online channels.

Our contracts with online platform operators typically require an online platform operator to provide us 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 as a fixed percentage of proceeds from sales transacted through the platform. We are also required to pay an annual deposits 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.

Social Network Platform

Our social network platform plays a critical role in the growth of our “Fans Economy”, which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. We believe our customers tend to be technologically savvy and rely heavily on social media for information needs. In 2015, we started the operation of our WeChat platform, which serves as our flagship online portal, to better communicate with our customers and satisfy their needs. Through this platform, we not only provide our existing customers with another means of buying our products, but also and more importantly, through WeChat we can convey our brand philosophy to our followers and educate them about our design and lifestyle visions. We periodically publish releases of

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new seasons' products and new promotional activities as well as design and fashion updates through our brands' public accounts on WeChat. Those customers who identify with our design philosophy and lifestyle visions become our fans. As of June 30, 2016, our brands' public accounts on WeChat had accumulated over 720,000 subscribers. Our JNBY brand ranked first in terms of number of fans and readership of articles published to our WeChat Subscriptions in the first quarter of 2016 among mid-to high-end female fashion brands in the PRC, according to LADYMAX. We were attracting approximately 40,000 new subscribers to the platform each month on average since the launch of our WeChat platform. As advised by our PRC Legal Advisers, we are not required to obtain any regulatory approval for the operation of our WeChat platform.

Going forward, we plan to devote more efforts to selling our new products through our online channels as well as optimizing the integration of online and offline channels in order to give our customers a better shopping experience. We seek to maintain a balanced mix of offline and online channels on our omni-channel interactive platform to serve consumers with different shopping preferences.

MARKETING AND PROMOTION

We continually invest in our brands to further raise brand recognition and acceptance. We believe that our broad range of product offering and brand portfolio, which target primarily fashion-conscious consumers, will become increasingly important to our success. To enhance customer loyalty, we have established our membership program. Our members can enjoy different levels of discounts for their purchases and are entitled to participate in periodic, member-only promotion campaigns. We also actively leverage our social network platform on WeChat, as WeChat is an increasingly important means of interacting with our customers. We routinely share our design philosophy with subscribers to our brands' public accounts on WeChat and provide information on various topics such as our artistic and lifestyle visions and mixing-and-matching clothes. We believe that we are able to nurture our loyal base of existing customers through these interactions. Together with our fully integrated omni-channel interactive platform and our continuous efforts to promote our brands, the number of our Active Members increased rapidly from over 86,000 as of June 30, 2014 to over 115,000 as of June 30, 2015 and further to over 190,000 as of June 30, 2016.

We market our products to distributors mainly through our trade fairs and we advertise our products to consumers through both print media, such as fashion magazines, and online media. We attend domestic and international fashion shows as well as fashion weeks in Tokyo, Toronto and Beijing in order to convey our design essence and brand philosophy worldwide. We also take part in certain artistic and cultural events that we deem appropriate and could positively influence our brand image. As of July 31, 2016, our marketing team was comprised of 72 experienced members who are primarily responsible for, among others, product promotion, organizing trade fairs, fashion shows and store image design.

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In addition, we regard each of our retail stores as a unique point of sales and strive to leverage various online and offline measures to expand the catchment area of each store to attract additional customers to our overall store network. Our online and offline channels allow us to collectively gather and analyze important customer data across these platforms in order to implement coordinated marketing and cross-selling activities to drive offline customer traffic to our online channels and vice versa.

In our retail stores we currently grant coupons which customers can use to enjoy a discount on purchases made online. Going forward, we will continually leverage our online sales platform to market our products, by (i) expanding our VIP membership base and increasing VIP member sales through various interactive communication and promotional mediums and (ii) launching purchase incentive programs for our online customers, for example, by offering discount coupons online which need to be redeemed at an retail store.

Our total promotion and marketing expenses amounted to RMB42.9 million, RMB45.7 million and RMB65.0 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016, representing approximately 3.1%, 2.8% and 3.4%, respectively, of our total revenue during the same years.

OUR 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 enterprise resource planning 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 have engaged Huikang Industrial, our connected person in which Mr. Wu and Ms. Li indirectly hold 100% of its equity interests, to provide warehousing and logistics services to us. The facility provided by Huikang Industrial is located in Xiaoshan, Zhejiang Province (the “**Huikang Facility**”). The Huikang Facility is generally responsible for sorting and distributing our products to our retail stores. It currently has a capacity to sort and distribute approximately 8.25 million pieces of products annually. Through the Huikang Facility, we sorted and distributed approximately 5.78 million pieces of products in Fiscal 2016.

In response to the anticipated growth of our business, we are building a new warehousing and logistics facility, also in Xiaoshan District, Zhejiang Province, which is expected to commence construction in the second half of 2016 and be completed in June 2019 (the “**New Xiaoshan Facility**”). It is designed to occupy approximately 36,084 square meters of land with a total gross floor area of approximately 90,000 square meters. We plan to equip the New Xiaoshan Facility with innovative technologies to better accommodate increasing sales of our products and an increasing number of brands. We plan to install 407 automated barcode sorting lines and 2,000 semi-automated barcode sorting lines. We also expect to install additional sorting lines to support sales through our

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omni-channel interactive platform. The New Xiaoshan Facility is expected to have the capacity to sort and distribute approximately 12.8 million pieces of products annually. We believe that the New Xiaoshan Facility will have sufficient capacity to fulfill our business requirements for at least five years after its completion.

To establish the New Xiaoshan Facility, we expect to incur total capital expenditure of approximately RMB319.0 million, of which approximately RMB290.5 million will be incurred after June 30, 2016. The table below sets forth further details of the estimated costs to us in relation to the establishment of this new facility. For more information, see “— Properties — Owned Properties”.

	Audited cost amount	Estimated cost amount			Total
	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Land premium.....	27,892	—	—	—	27,892
Pre-construction fee	574	5,685	—	—	6,259
Construction.....	—	34,000	70,000	120,000	224,000
Purchase of fixed asset	—	300	9,700	45,000	55,000
Administration expenses.....	—	1,800	2,000	2,000	5,800
Total	<u>28,466</u>	<u>41,785</u>	<u>81,700</u>	<u>167,000</u>	<u>318,951</u>

We estimate that the service fee we pay to Huikang Industrial will increase to approximately RMB26.8 million in Fiscal 2020 as a result of increased scale to sort and distribute more products at the Huikang Facility in order to support our continued business expansion. When the New Xiaoshan Facility is completed in June 2019, we will commence using this facility and expect to incur operating costs of approximately RMB37.0 million per year, taking into account depreciation cost of approximately RMB15.9 million per year and administrative expenses of approximately RMB21.1 million. We therefore expect to incur additional costs of approximately RMB10.2 million per year from operating the New Xiaoshan Facility.

Transportation and Logistics

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

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

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As a result of our strong supply chain and logistics management capabilities and our adaptable and responsive supply chain management, products can be delivered to the majority of our stores in as few as three to five business days after receiving an order.

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 that we offer is coded under a barcode system for identification in our POS, which in turn is linked to a warehouse management system. Through scanning the barcode, sales information from each of our store’s POS terminals is collated and uploaded to our information management system on a real-time basis which enables our headquarters to timely analyze and record sales details and track inventory.

In March 2014, we launched the “inventory sharing and allocation system”, which is designed to enhance consumers’ shopping experiences by optimizing product replenishment, shipment coordination and inventory control. Through this system, we closely monitor real-time 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.

To effectively gauge market trends and customers’ preferences, members of our sales team closely monitor our sales data and consumer feedback and communicate regularly with our design teams. Our design teams take consumer feedback into consideration when designing new products. In the meantime, we encourage our designers to leverage their experiences and pursue their artistic vision, rather than following and simply reacting to the latest trends.

We also maintain a disciplined inventory replenishment policy under which we alert our distributors to replenish the inventory of popular products when their inventory level reaches a prescribed level and proactively monitor distributors’ orders to ensure the delivery of sufficient quantities of products to meet consumer demand in a timely fashion. We also undertake other measures to prevent inventory surplus. For example, 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. 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 over-stocking. Apart from selling off-season products through our outlet stores, we also utilize online channels.

QUALITY CONTROL

We have established a quality control center and devoted significant resources to quality management of our products. Our quality control center is responsible for, among other things, (i) establishing quality control standards and procedures for inspection of our raw materials and products, (ii) reviewing standards for our raw materials and OEM suppliers and (iii) ensuring compliance with applicable laws as well as both domestic and international standards.

BUSINESS

We have attained international quality control certifications. We are ISO 9001:2008 certified, which means that our design and development, manufacturing and sales of men, women and children’s clothing conforms to relevant international standards set by the ISO.

We also participated in designing four sets of apparel industry standards, among which two sets of standards have received industry standard drafting certificates, and we have proprietary knowledge regarding these standards. These standards help apparel manufacturers to ensure acceptable characteristics for proper end uses of apparel products.

We emphasize quality control in all aspects of our business and strive to ensure that our products meet all our internal benchmarks and specifications. From sourcing of raw materials, OEM production to packaging and inventory storage, we implement strict quality control standards for our operations:

- *Raw materials.* We have undertaken various measures to ensure the quality of raw materials. For the raw materials our OEM suppliers source on their own, we require them to purchase raw materials from designated raw material suppliers in accordance with our designs and specifications. For the raw materials we provide to our OEM suppliers, we arrange our quality control staff to carry out inspections of such raw materials. In addition, we typically request samples of raw materials for testing prior to placing orders with our suppliers.
- *Production and warehousing.* At each stage of the manufacturing process, we arrange for our quality control staff members to conduct on-site inspections of all raw materials used in the production process and semi-finished products and parts at our OEM suppliers’ production facilities. We proactively communicate with our OEM suppliers to clarify our requirements and address their concerns, and provide them with periodic feedback. We inspect every batch of products manufactured by our OEM suppliers to assess their quality and functionality before the products are delivered to us. Huikang Industrial has a specialized inspection team that performs warehouse inspections in accordance with domestic quality standards, which includes conducting sample tests according to our requirements.
- *Distributor and consumer feedback.* We relay feedback from distributors and consumers on product quality issues to our quality control staff, which implements corrective measures in our quality control procedures when necessary.

We did not incur any warranty expenses during the Track Record Period.

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 fines, product recall orders or other penalties from the PRC government or other regulatory bodies, (ii) receive any material product return request from our customers or (iii) receive any material complaints from consumers.

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INFORMATION TECHNOLOGY SYSTEMS

We have developed strong information technology capabilities. Our advanced information technology platform seamlessly integrates an enterprise resource planning system, customer relationship management system, information management system, including POS terminals and warehouse management system. Our information technology systems enable us to quickly and efficiently retrieve and analyze our operational data and information including procurement, sales, inventory, logistics, consumer and membership data and financial data on a real time basis, as well as to provide information technology support to all of our self-operated and distributor-operated 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.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to operations of our self-operated and distributor-operated 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.

BUSINESS ACTIVITIES IN A SANCTIONED COUNTRY

The U.S. and other jurisdictions, including the EU, Australia and the United Nations, have comprehensive or broad economic sanctions targeting Sanctioned Countries.

Business Activities in Russia

During the Track Record Period, we had product sales to one customer in Russia, a Sanctioned Country. The amount of total revenue generated from sales to this customer in Russia in Fiscal 2014, Fiscal 2015 and Fiscal 2016 represented approximately 0.5%, 0.4% and 0.1% of our revenue for the same years, respectively. The U.S., the EU, Australia and the United Nations have not imposed comprehensive country-based sanctions on Russia. The International Sanctions targeting Russia are narrowly defined in their scope and prohibit: (i) doing business with specific entities and persons, (ii) conducting specific commercial activities, and (iii) the sale, supply, export or transfer of specific items to Russia or for use in Russia. Our sole customer in Russia is not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the U.S., the United Nations or Australia and therefore is not a target of International Sanctions. As advised by DLA Piper UK LLP, our legal adviser as to International Sanctions laws, our historical sales in Russia during the Track Record Period do not implicate the applicability of International Sanctions on our Group, our Shareholders or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and HKSCC Nominees.

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In providing their advice, DLA Piper UK LLP:

- (a) reviewed documents provided by us that evidence our sales transactions to our customer in Russia during the Track Record Period;
- (b) reviewed the name of our sole customer in Russia to whom such sales of products have been made during the Track Record Period against the lists of persons and organizations subject to International Sanctions, and confirmed that our customer is not on such lists; and
- (c) received written confirmation from us that neither our Group nor any of our affiliates has conducted any other business dealings during the Track Record Period in or with any other countries or persons that are the subject of International Sanctions.

We confirm that, save as disclosed, our Group has not had, during the Track Record Period and up to the Latest Practicable Date, any other business activities in connection with any countries, governments, entities or individuals sanctioned by the U.S., the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC administered sanctions. In relation to our sales in Russia during the Track Record Period, we have not been notified that any sanctions will be imposed on us.

Our undertakings and internal control procedures

We undertake to the [REDACTED] that we will not use the proceeds from the [REDACTED], as well as any other funds raised through the [REDACTED], to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of Russia, or any other government, individual or entity sanctioned by the U.S., the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. In addition, we have no present intention to undertake any future business that would cause us, the Stock Exchange, [REDACTED], [REDACTED] or our Shareholders to violate or become a target of sanctions laws of the U.S., the EU, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions our Group entered into in Russia would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Sanctioned Countries and our business intention relating to Sanctioned Countries. If we were in breach of such undertakings to the [REDACTED], we risk the possible [REDACTED] of our [REDACTED] on the Stock Exchange.

We will continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders. The following measures have been fully implemented as of the date of this document.

We will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Sanctioned Countries and/or with Sanctioned Persons. According to our internal control procedures, our Board needs to review and approve all relevant business transaction

BUSINESS

documentation from customers or potential customers from Sanctioned Countries and/or with Sanctioned Persons. In particular, our Board will review the information (such as identity, nature of business, etc.) relating to the counterparty to the contract along with the draft business transaction documentation.

Our Board will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in any of the Sanctioned Countries or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in international sanctions law matters. In order to ensure our compliance with those undertakings to the [REDACTED], our Directors will continuously monitor the use of proceeds from the [REDACTED], as well as any other funds raised through the [REDACTED], to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of Sanctioned Countries or Sanctioned Persons.

Our Board will periodically review our internal control policies and procedures with respect to sanctions law matters. As and when the Board considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions law matters for recommendations and advice.

If necessary, external international legal counsel will provide training programs relating to the sanctions laws to our Directors, our senior management, our legal department and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Sanctioned Countries and Sanctioned Persons and entities to our legal department, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

COMPETITION

We operate in a highly competitive and relatively fragmented industry. We compete with a broad range of designer brand fashion houses. According to CIC, there were over 300 market players in the designer brand fashion industry in the PRC, with the top five players accounting for 29.3% of market share in terms of retail sales, including online and offline sales, in 2015. According to CIC, the key barriers to entry in the designer brand fashion industry in China include, among others, brand awareness and recognition, design capability, efficient supply chain management, well-established distribution networks and management competency.

We believe we have several competitive strengths. For more information, see “— Our Strengths”. Our competitors include domestic designer brand fashion companies in China. According to CIC, we had the largest market share of 9.6% in the PRC designer brand fashion industry and had a market share of 0.2% in the PRC apparel industry, each as measured by total retail sales in 2015.

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PROPERTIES

Owned Properties

As of the Latest Practicable Date, we held two parcels of land with an aggregate site areas of approximately 89,396 square meters for the construction of our logistic center.

In order to build our own state-of-the-art warehousing and logistics facility to meet our growing needs, Liancheng Huazhuo, our wholly-owned subsidiary, acquired a parcel of land with an area of 53,312 square meters in Xiaoshan District, Hangzhou (the “**First Parcel of Land**”) in 2014. Liancheng Huazhuo entered into a State-Owned Land Use Rights Transfer Contract with the Xiaoshan Bureau of the PRC Ministry of Land & Resources (“**Xiaoshan Land Bureau**”) on February 19, 2014, pursuant to which we agreed to pay land use rights transfer fees in an aggregate amount of approximately RMB23.1 million, which was fully paid on March 3, 2014. We agreed to commence construction of the First Parcel of Land by November 19, 2014. Pursuant to the *PRC Urban Real Estate Law*, we are required to commence development within one year from the agreed construction commencement date, failing which we may be charged an idle land fee of up to 20% of the land premium, and if we fail to commence construction within two years, we may be deprived of the land use right without compensation, except where the delay in commencement is due to force majeure, actions of government or relevant government departments, or preliminary works necessary for the commencement of construction.

However, a redistricting by the Hangzhou Government in August 2014 resulted in the area in which the First Parcel of Land is situated being re-zoned from Xiaoshan District, Hangzhou to, and subject to the jurisdiction of, Greater Jiangdong District, Hangzhou. Following the redistricting, we wanted to remain under the jurisdiction of Xiaoshan District, Hangzhou, and therefore identified another parcel of land with a land area of 36,084 square meters and a total gross floor area of approximately 90,000 square meters (the “**Second Parcel of Land**”) in the same district, which is opposite the existing Xiaoshan Facility owned by Huikang Industrial, our connected person, and at the intersection of two major expressways, but which was not available at the time we acquired the First Parcel of Land. Accordingly, Liancheng Huazhuo entered into a State-Owned Land Use Rights Transfer Contract with Xiaoshan Land Bureau on January 21, 2016, pursuant to which we agreed to pay land use rights transfer fees in an aggregate amount of approximately RMB27.1 million for the Second Parcel of Land, which had been fully paid as of the Latest Practicable Date.

As the Second Parcel of Land is more suitable for our purposes, we decided not to proceed with construction works for the First Parcel of Land and entered into discussions with the relevant authorities in Greater Jiangdong District for the return of the First Parcel of Land and submitted a formal application for the return of land on November 19, 2015. We had paid a deposit of RMB2.3 million to the relevant authorities in connection with the First Parcel of Land. Because we have decided not to proceed with construction works for the First Parcel of Land, we do not expect to recover such deposit. On the other hand, we expect to fully recover the land use rights transfer fee of RMB23.1 million upon the return of the First Parcel of Land to the government. Pending our discussions with the relevant authorities, we may be required to pay the idle land fee of RMB4.6 million. We made a provision for the loss of the deposit and the idle land fee in the aggregate of approximately RMB6.9 million.

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As of the Latest Practicable Date, we had not received any notice to pay the idle land fee. For more information, see “Risk Factors — Risks Relating to Our Business and Industries — Failure to commence development of land that we have been granted right to use within the required timeframe may subject us to default liabilities under land use right grant contracts and cause us to lose such land use rights”.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all of our Company’s interests in land or buildings. This is because as of June 30, 2016, each of our properties had a carrying amount that was less than 15% of our consolidated total assets.

Leased Properties

As of the Latest Practicable Date, we leased 207 properties with an aggregate gross floor area of approximately 48,591 square meters from third parties to support our business activities and operations in the PRC. All of these leased properties are used as retail stores, offices or storage facilities.

As of the Latest Practicable Date, 63 properties with a total gross floor area of approximately 9,163 square meters were leased from lessors who were unable to provide sufficient or valid ownership certificates or other ownership documents. As of the Latest Practicable Date, these leased properties accounted for approximately 18.9% of our leased properties by gross floor area. These leased properties are being used as our self-operated stores. 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 self-operated stores that are located on these leased properties, we estimate that the average relocation costs would be approximately RMB150,000 for each self-operated store. We believe that generally it would take us less than one month to relocate a self-operated 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. As advised by our PRC Legal Advisers, in case any such lease is deemed void and we are required to relocate, we are entitled to demand the applicable lessor to return prepaid rent and indemnify us for damages caused by the title defect. 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 — Some of our leased properties in the PRC may be subject to legal risks and may cause business disruptions”.

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Concession and Lease Expiry Profile of Self-operated Stores

Our self-operated stores can be divided into two types, concession stores and standalone stores. We enter into concession agreements with department stores for our right to occupy and use the designated spaces in the department stores, and we enter into lease agreements with shopping malls and other lessors for our rights to open and operate our standalone stores on leased properties. The table below sets forth the term of these agreements and approximate gross floor area of all self-operated stores as of August 31, 2016.

<u>Expiry Date of the Contracts</u>	<u>Number of Contracts</u>	<u>Approximate Gross Floor Area (square meters)</u>
Within three months.....	123	11,040
Between three months and one year	189	17,947
Between one year and two years	77	10,620
Between two years and three years	49	6,161
More than three years	<u>3</u>	<u>420</u>
Total.....	<u>441</u>	<u>46,188</u>

As of August 31, 2016, 123 and 189 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 the stores, we do not anticipate any material difficulties in the relocation of such stores or identification of new store locations for continuous operation. Based on information currently available to us, if we were required to relocate our self-operated stores that are located on these properties, we estimate that the average relocation costs would be approximately RMB150,000 for each self-operated store. We believe that generally it would take us less than one month to relocate a self-operated store to a new location.

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 128 trademarks registered in China and six trademarks registered in other countries or regions. As of the same date, we also had 17 and one pending applications to register trademarks in the PRC and other countries or regions, respectively. In addition, as of the Latest Practicable Date, we had a total of 14 registered patents in China, including two invention patents and 12 utility model patents, and we also had one pending patent application in the PRC. As of the same date, we had 24 registered domain names and two registered software copyrights.

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We entered into the Master Trademark Licensing Agreement on October 13, 2016 with Hangzhou JNBY, pursuant to which Hangzhou JNBY agreed to grant to our Group an irrevocable right to use certain trademarks for the *JNBY* and *jnby by JNBY* brands registered under its name for use in our core business and the related brand name of the products sold by our Group on an exclusive and royalty-free basis. For more information, see “Connected Transactions — Fully Exempted Continuing Connected Transaction — Master Trademark Licensing Agreement”.

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.

INSURANCE

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

Our Directors believe that our Group’s insurance policies are consistent with common industry practice in the PRC. During the Track Record Period and as of the Latest Practicable Date, we had not made any material claims on any insurance policy maintained by us.

EMPLOYEES

As of July 31, 2016, we had 800 full-time employees, respectively. Most of our employees are located in Zhejiang Province, China. A breakdown of our employees by function as of July 31, 2016 is set forth below.

	<u>Number of Employees</u>	<u>Percentage of Total</u>
Sales and Marketing.....	400	50.0%
Supply Chain Management.....	135	16.9%
Accounting and Finance.....	93	11.6%
Product Design, Research and Development.....	68	8.5%
Human Resources.....	63	7.9%
Information Technology.....	23	2.9%
Administration.....	18	2.2%
Total.....	<u>800⁽¹⁾</u>	<u>100.0%</u>

(1) The number does not include part-time workers.

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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 a 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 expense related to the RSU Scheme for Fiscal 2014, Fiscal 2015 and Fiscal 2016 was nil, RMB11.6 million and RMB11.0 million, respectively. We also contribute to 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.

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.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations including the *Environmental Protection Law* of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under PRC environmental laws and regulations.

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.

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OCCUPATIONAL, HEALTH AND SAFETY

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.

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.

CERTIFICATES, LICENSES, PERMITS AND APPROVALS

Our Directors, as advised by our PRC Legal Advisers, confirm that during the Track Record Period and as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our operations in China.

LEGAL AND COMPLIANCE

We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business. During the Track Record Period and as of the Latest Practicable Date, there was no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group’s financial condition or results of operations.

Non-compliance

Except for the matters disclosed below and in “— Properties”, we are advised by our PRC Legal Advisers that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material respects. Upon identification of the matters disclosed in this section of the document, we have taken steps to enhance our internal control measures to prevent recurrence of such non-compliance.

BUSINESS

We set out below the non-compliance incidents relating to us during the Track Record Period:

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<i>Social insurance fund and housing provident fund</i>			
<p>During the Track Record Period, we failed to make full contribution to the social insurance fund and housing provident fund for our employees of certain subsidiaries of our Group.</p>	<p>Such non-compliance incidents were mainly caused by inadvertent oversight of the relevant PRC laws and regulations, the implementation of which vary from city to city. Our staff who were formerly in charge of this matter did not fully understand the different regulatory requirements in cities where we operated.</p>	<p>According to relevant PRC laws and regulations, (a) in respect of outstanding social insurance contributions, the relevant PRC authorities may demand us to pay the outstanding social insurance contributions within a stipulated deadline and we may be liable to 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 to a fine of one to three times the amount of the outstanding contributions; and (b) in respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period.</p>	<p>As of June 30, 2014, 2015 and 2016, the carrying amount of our provisions for social insurance fund contributions and housing provident fund contributions amounted to RMB9.1 million, RMB16.8 million and RMB19.4 million, respectively.</p> <p>A majority of our PRC subsidiaries have obtained confirmations from local social insurance authorities and housing provident fund authorities, each stating that no administrative penalty had been imposed and/or the relevant subsidiary was in compliance with relevant laws and regulations. We are advised by our PRC Legal Advisers that the relevant local authorities from which we obtained the confirmations are competent to give such confirmations.</p> <p>Furthermore, as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance fund and housing provident fund, and demanding payment of the same before a stipulated deadline.</p>

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Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
			<p>In the event that we receive requests from the relevant authorities, we intend to immediately pay the outstanding social insurance fund and housing provident fund contributions accordingly.</p>
			<p>We have provided our rectification plan to local regulatory authorities and have been making full contributions in accordance with relevant laws and regulations starting from August 2016.</p>
			<p>We have established an internal control policy that requires full compliance with the relevant laws and regulations on social insurance fund and housing provident fund and have started implementing such internal control policy in June 2016. In accordance with such internal control policy, our human resources department will prepare monthly reports of employee salary and contribution amount and our finance department and Board Secretary will review such report to enforce the policy and avoid future non-compliance.</p>
			<p>Our Directors are of the opinion that this incident will not have a material adverse impact on us for the following reasons: (i) the written confirmations obtained from the relevant competent local authorities described above; (ii) the advice from our PRC Legal Advisers that the chance of a fine being imposed is remote if outstanding social insurance contributions are repaid on time when required by the relevant authorities; and (iii) we have made provisions in connection with this non-compliance for relevant periods.</p>

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Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<i>Inter-company loans</i>			
<p>During the Track Record Period, we extended loans to a related company (the “Loans”), Huikang Industrial, which were not compliant with certain PRC laws and regulations. These Loans were non-trade in nature and unsecured with a pre-agreed annual interest rate of 9%. The Loans were made for the purposes of (i) meeting the general working capital needs of Huikang Industrial and (ii) meeting capital expenditure needs for construction of self-operated properties.</p>	<p>Such non-compliance incidents were mainly caused by inadvertent oversight of the relevant PRC law and regulations, which applies to all companies rather than only financial institutions in the PRC.</p>	<p>According to relevant PRC laws and regulations, we may be subject to penalties equivalent to one to five times of the income generated (being interests charged) from the Loans.</p> <p>The Loans may be prohibited. However, according to the <i>Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases</i> (《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》), promulgated on May 23, 2015 and effective on September 1, 2015, loans among companies are legal if extended for purposes of financing production or business operations.</p>	<p>The amounts due from Huikang Industrial in respect of the Loans had been fully repaid as of May 31, 2016 and we had not received any notice of claim or penalty relating to the Loans up to the Latest Practicable Date. We are advised by our PRC Legal Advisers that the possibility that the PBOC could impose a penalty on us in respect of the Loans we extended to related companies is remote.</p> <p>We have established an internal control policy which prohibits inter-company loans and have started implementing such internal control policy in July 2016. In accordance with such internal control policy, we will not approve any lending to any third parties or related companies going forward. We will conduct regular internal trainings in respect of our internal control policies on a regular basis to ensure that, among other things, no lending to third parties or related companies will occur again in the future. Our audit committee and Board Secretary will monitor and assess the effectiveness of the internal control measures implemented by us on a regular basis to prevent the recurrence of similar non-compliance incidents.</p>
<p>In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we recognized interest income of RMB9.3 million, RMB12.5 million and RMB5.6 million, respectively, amounting to approximately RMB27.4 million during the Track Record Period.</p>			

BUSINESS

Our Board Secretary, Mr. Zhang Li, is responsible for implementing and reviewing our internal control and compliance policies. For information on Mr. Zhang’s qualification and experience, see “Directors and Senior Management — Senior Management”. Mr. Zhang is currently assisted with a dedicated team of three professionals, each with experience in internal control and/or compliance. One team member is the manager of internal control and compliance, who recently joined us and has gained relevant experience by working as consultant for approximately four years at a leading international audit firm and as finance manager for approximately two years at the PRC subsidiary of a global nutrition company.

Our Controlling Shareholders have undertaken to indemnify us if we were to incur any losses as a result of such non-compliance. See “Statutory and General Information — E. Other Information — 1. Estate duty and Deed of Indemnity” in Appendix IV.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), Mr. Wu and Ms. Li, through various trusts, will be entitled to control the exercise of voting rights of approximately [REDACTED]% of the issued share capital of our Company. Accordingly, Mr. Wu and Ms. Li and their close associates are our Controlling Shareholders.

Non-Core Businesses and Delineation

The core business of our Group focuses on design, promotion and sale of contemporary apparel, footwear and accessories for women, men, children and teenagers. Apart from our business, our Founders, Mr. Wu and Ms. Li, do not have any interest in a business which competes with, or is likely to compete with our business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

Our Founders have interests in certain (1) warehousing and logistics and (2) apparel manufacturing facilities (the “**Other Businesses**”), which are operated through companies owned and/or controlled by them. These companies do not form part of our Group as they are not part of our core business, notwithstanding that they are ancillary to our core business. Details of the Other Businesses are as follows:

- **Warehousing and Logistics Facilities:** Our Founders, through Huikang Industrial, own a warehousing and logistics facility, the Huikang Facility, in Hangzhou. We use this warehousing and logistics facility for sorting and distribution of our products, but such warehousing and logistics business was not included in our Group because it is not part of our core business. As the size and facilities of the warehouse are limited, (a) the existing facility does not have the infrastructure and technology capable of being upgraded to meet anticipated expansion needs, particularly for our number of brands, increasing online sales and our need for advanced storage and processing for our separate brands, and (b) the space of the warehouse cannot be expanded from its current location to offer us a single, large-scale warehousing and logistics hub. Accordingly, our Founders agreed with VKC at the time of VKC’s investment in the Exchangeable Notes that the existing facility would not be included in our Group following our Reorganization. In anticipation of our future requirements, we acquired a parcel of land in Hangzhou to build a much larger, state-of-the-art warehousing and logistics facility. The new warehousing and logistics facility is currently under construction, and we will continue to lease the existing facility from our Founders pending the completion of construction of the new logistics and warehousing facility. See “Connected Transactions” for further details.
- **Manufacturing and Sample Apparel Facilities:** Our Founders, through Shangwei Apparel and Hangzhou JNBY, own certain manufacturing and sample apparel facilities, respectively. We made a strategic decision in 2012 at the time of our Reorganization that we would focus on the design, retail management and branding aspects of our business, in our pursuit to become a leading designer brand fashion house in China. This decision resulted in us gradually ceasing all in-house manufacturing and sample apparel production functions. Accordingly, the manufacturing facilities held by Shangwei Group and the

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

sample apparel facilities held by Hangzhou JNBY were not included in our Group. We have entered into a Framework Apparel Manufacturing Agreement and a Framework Sample Apparel Agreement with Shangwei Apparel and Hangzhou JNBY, respectively, as our contract suppliers. See “Connected Transactions” for further details.

In connection with our Reorganization, our Founders and VKC agreed that Huikang Industrial would retain approximately RMB217.1 million of inventories and act as a product supplier for such inventories. Such inventories consisted of off-season products. See “Financial Information — Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details. Our Controlling Shareholders confirmed that they would procure Huikang Industrial to dispose the entire remaining inventory (approximately RMB6.2 million as of June 30, 2016) as scrap as soon as practicable. We have ceased to purchase such off-season inventories from Huikang Industrial since June 2016.

In view of the above, and the fact that we do not currently engage in any of the Other Businesses, our Directors are of the view that there is a clear delineation between the Other Businesses and our business and that there is clear commercial rationale for not including the Other Businesses in our Group.

NON-COMPETITION UNDERTAKING

To safeguard our Group from any potential competition, each of Ms. Li and Mr. Wu (the “**Covenantors**”) has entered into a deed of non-competition (the “**Deed of Non-Competition**”) in favor of our Company on October 13, 2016 pursuant to which the Covenantors have unconditionally, irrevocably and jointly and severally undertaken with our Group that they shall not (except through the Group and any investment or interests held through the Group), and shall procure that his/her close associates (other than any member of our Group) not to, during the Restricted Period (as defined below), directly or indirectly (including through nominees), either on his/her 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 described in this document (the “**Design Business**”).

The non-competition undertaking does not apply to the holding of securities in a company that is engaged in the Design Business, provided that the Covenantors or their respective close associates 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 of such company 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 [REDACTED] Date and ending on the earlier of (1) the Shares being canceled or ceased to be [REDACTED] on the Stock Exchange; or (2) the Convenantors and/or their respective close associates (except for any members of the Group) ceasing to be entitled to exercise or control the exercise of 30% or more in aggregate of the voting power at general meetings of our Company and have no power to control the composition of the majority of the members of the Board; or (3) the Covenantors no longer being recognized as our controlling shareholders under any applicable rules and regulations (the “**Restricted Period**”).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Option for New Business Opportunities

The Covenantors have undertaken that, during the Restricted Period, if the Covenantors or their respective close associates (except for any members of our Group) become aware of, notice, are recommended or provided with a new business opportunity which will directly or indirectly compete or is likely to compete with the Design Business, including but not limited to the opportunities which are the same with or similar to the Design Business (the “**New Business Opportunities**”), the Covenantors shall and shall procure their respective 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 Covenantors or their respective close associates (except for any members of our Group) shall as soon as reasonably practicable provide us with a written notification which includes all reasonable and necessary information known by the Covenantors or their respective 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 constitute competition or potential competition to the Design 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 respond to the Covenantors or their respective close associates (except for any members of our Group) within 30 days upon receipt of the Offer Notice. If we fail to reply within the above period, we shall be deemed to have abandoned such New Business Opportunities. If we determine to take up the New Business Opportunities, the Covenantors or their respective close associates (except for any members of our Group) would be obligated to offer such New Business Opportunities to us.

Further Undertaking

Each of the Covenantors has further undertaken that:

- (a) upon our request, he/she shall and shall procure his/her close associates (except for any members of our Group) to provide us all necessary information for the implementation of the undertakings contained in the Deed of Non-Competition;
- (b) he/she would 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 Covenantors or their respective close associates (except for any members of our Group) have complied with the undertakings contained in the Deed of Non-Competition; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) he/she would ensure that within 10 days of receipt of our written request, necessary confirmation shall be made in writing as to the performance by the Covenantors or their respective close associates (except for any members of our Group) under the undertakings contained in the Deed of Non-Competition and the Covenantors or their respective close associates (except for any members of our Group) shall allow such confirmation to be included into our annual reports.

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 our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

The Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Wu and Ms. Li are also our Controlling Shareholders. Our day-to-day management and operational decisions are made by our executive Directors and senior management, most of whom have served us 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.

Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close 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

Our Controlling Shareholders will retain a controlling interest in our Company after the [REDACTED]. We have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through our subsidiaries) holds or is entitled to 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.

We outsource all of our manufacturing needs to contract suppliers. Shangwei Apparel, an associate of our Controlling Shareholders, is one of our contract suppliers, pursuant to a Framework Apparel Manufacturing Agreement entered into with Shangwei Apparel. Hangzhou JNBY, an associate of our Controlling Shareholders, also provides sample apparel for our designs. See “Connected Transactions” for further details. For the years ended June 30, 2014, 2015 and 2016, purchases from Shangwei Apparel (and New Shangwei Finery, a wholly-owned subsidiary of Shangwei Apparel)

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

accounted for approximately 4.9%, 4.4% and 5.0%, respectively, of our total purchase cost. In addition, we also lease certain premises (office space and retail shops) from our Controlling Shareholders. These premises are leased at market rents and, given their nature, none of them are individually or collectively crucial to our business. In addition, these premises are readily available from independent third parties at market rates.

We have also entered into a Master Trademark License Agreement with Hangzhou JNBY, details of which are set out in “Connected Transactions”. Pursuant to such trademark licensing agreements, Hangzhou JNBY agreed to license various trademarks to us on a long-term, exclusive and royalty-free basis. Since the licensing agreements are on a long-term, exclusive and royalty-free basis and in view of the time and expense involved in transferring the trademarks to us, our Directors consider that the arrangement is beneficial to our Group as a whole and we are not reliant on 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.

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, accounting and finance department independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs.

In addition, we have independent access to third-party financing and our Group does not rely on our Controlling Shareholders and/or their close associates by virtue of their provision of financial assistance. As of the Latest Practicable Date, all loans, advances and balances due to our Controlling Shareholders have been fully repaid. 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 close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that it/he/she fully comprehends its/his/her obligations to act as our Shareholders’ and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) the independent non-executive Directors will review, at least on an annual basis, the compliance by our Controlling Shareholders with the Deed of Non-competition;
- (b) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (c) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and abstain from voting at the board meetings on matters in which such Director or his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (d) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management — Directors — Independent Non-executive Directors” in this document;
- (e) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between the Group on the one hand and the Controlling Shareholders and/or the Directors on the other, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and the Company shall disclose the decisions of the independent non-executive Directors (including why business opportunities referred to it by the Controlling Shareholders were not taken up and whether any breach and enforcement of the Deed of Non-Competition) either through its annual report or by way of announcements; and
- (f) we have appointed First Shanghai Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

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 [REDACTED] 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 [REDACTED]:

- Mr. Wu, an executive Director and a substantial Shareholder, hence our connected person;
- Ms. Li, an executive Director and a substantial Shareholder, hence our connected person;
- Huikang Industrial, a limited company incorporated in the PRC and indirectly wholly-owned by Mr. Wu and Ms. Li, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Wu and Ms. Li and our connected person;
- Shangwei Apparel, a limited company incorporated in the PRC and indirectly wholly-owned by Mr. Wu, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Wu and our connected person;
- Hangzhou JNBY, a limited company incorporated in the PRC, with Mr. Wu and Ms. Li holding 47.76% and 51.74% of its issued share capital shares, hence an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Wu and Ms. Li and our connected person.

FULLY EXEMPTED CONTINUING CONNECTED TRANSACTION

We set out below details of the continuing connected transaction which is exempt from the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules as (i) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 0.1% or (ii) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules is expected to be less than 5% and the total consideration is expected to be less than HK\$3,000,000, in each case on an annual basis.

Master Trademark Licensing Agreement

We have entered into Master Trademark Licensing Agreement on October 13, 2016 with Hangzhou JNBY, pursuant to which Hangzhou JNBY agreed to grant to our Group an irrevocable right to use certain trademarks for the *JNBY* and *jnby by JNBY* brands registered under its name for use in our core business and the related brand name of the products sold by our Group on an exclusive and royalty-free basis.

CONNECTED TRANSACTIONS

The term of the Master Trademark Licensing Agreement is for a period of 20 years, subject to automatic renewal and is not unilaterally terminable by Hangzhou JNBY. We have the sole discretion to decide whether to require Hangzhou JNBY to renew and maintain the registration of relevant trademarks upon expiry. Our Directors and the Sole Sponsor are of the view that entering into the Master Trademark Licensing Agreement for a period of more than three years promote stability and continuity in operations and is beneficial to our Shareholders as a whole. For further details of these licensed trademarks which we consider to be or may be material to our business, please refer to “Statutory and General Information — B. Further Information About Our Business — 2. Intellectual Property Rights of our Group — (a) Trademarks” in Appendix IV to this document.

Since each of the relevant percentage ratios (other than the profits ratio) under the Listing Rules in respect of the license fee payable under the trademark licensing agreement is expected to be less than 0.1%, the transactions under the Master Trademark Licensing 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).

Lease of Office Equipment with Huikang Industrial

Huikang Industrial entered into a lease agreement with JNBY Finery, under which Huikang Industrial agreed to lease to us various office equipment such as furniture, fixtures and fittings in the headquarter of our Group. The parties thereto have amended the term of the agreements on October 13, 2016 for a term of less than three years commencing from the [REDACTED] and ending on June 30, 2019 at a fixed annual fee of RMB2,315,446.15. Pursuant to the agreement with Huikang Industrial, we have options (i) to renew the terms of the agreement every three years with the similar terms and (ii) to terminate the agreement with Huikang Industrial if required under regulatory requirements. Other major terms of the agreement with Huikang Industrial are listed below:

<u>Date of Agreement</u>	<u>Nature</u>	<u>Payment Schedule</u>	<u>Fees per annum</u>
			<i>(RMB)</i>
December 25, 2015, as amended on October 13, 2016	office equipment such as furniture, fixtures and fittings in the headquarters of the Group	annually in advance	2,315,446.15

We leased relevant office equipment from Huikang industrial for our headquarters prior to the Reorganization, following the Reorganization, our headquarters remained at the same site and we continued to lease such office equipment from Huikang Industrial. For each of the Fiscal 2014, Fiscal 2015 and Fiscal 2016, the total annual fees for leasing the above office equipment with Huikang Industrial amounted to RMB3,307,780.12, RMB3,307,780.12 and RMB2,811,613.14, respectively. Our Directors estimate that the maximum annual fee payable by us in relation to the agreement for each of the three years ending on June 30, 2019 will not exceed RMB2,315,446.15, RMB2,315,446.15 and RMB2,315,446.15, respectively. In determining the above annual caps for leasing the office equipment for the headquarters of the Group, our Directors have considered the historical figures calculated with reference to the cost of such office equipment and the relevant depreciation cost and do not expect any changes in pricing during the term of the lease. The Directors confirm that the annual fees payable is determined on normal commercial terms.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Leases of Offices and Retail Stores with our Founders or entities controlled by our Founders (together with Founders, the “Founders Entities”)

We, as tenants, entered into various leases with our Founders or entities controlled by our Founders (the “Leases with Founders Entities”). Pursuant to the Leases with Founders Entities, the Founders Entities, as landlord, agreed to lease to us the premises in Hangzhou for offices or retail stores purpose. In relation to the Leases with Founders Entities (except (d) below), the parties thereto have amended the term of the leases on June 29, 2016 for a term of less than three years commencing from the [REDACTED] and ending on June 30, 2019. The term of (d) below is for three years commencing from July 1, 2016 and ending on June 30, 2019. Other major terms of the Leases with Founders Entities are listed below:

	<u>Date of Agreement</u>	<u>Landlord</u>	<u>Tenant</u>	<u>Size</u>	<u>Use</u>	<u>Payment Schedule</u>	<u>Rent per annum</u>
				<i>(sqm)</i>			<i>(RMB)</i>
a)	December 25, 2015, as amended on June 29, 2016	Hangzhou JNBY	JNBY Finery	383.01	retail store	annually in advance	1,680,000.00
b)	December 25, 2015, as amended on June 29, 2016	Founders	JNBY Finery	415.55	retail store	annually in advance	315,000.00
c)	December 25, 2015, as amended on June 29, 2016	Founders	JNBY Finery	478.13	office	annually in advance	344,431.50
d)	July 1, 2016	Founders	JNBY Finery	275.63	retail store	annually in advance	367,500.00
e)	December 25, 2015, as amended on June 29, 2016	Huikang Industrial	JNBY Finery	8,883.97	office	annually in advance	5,179,115.00
f)	December 1, 2012, as amended on June 29, 2016	Huikang Industrial	JNBY Finery	1,067.62	office	annually in advance	1,422,043.91
g)	December 25, 2015, as amended on June 29, 2016	Huikang Industrial	JNBY Finery	505.49	office	annually in advance	505,419.60
h)	December 25, 2015, as amended on June 29, 2016	Huikang Industrial	JNBY Finery	590.96	office	annually in advance	588,862.00
i)	December 25, 2015, as amended on June 29, 2016	Huikang Industrial	Liancheng Huazhuo	347.00	office	annually in advance	39,340.00
j)	December 25, 2015, as amended on June 29, 2016	Huikang Industrial	Huikang Huazhuo	1,388.89	office	annually in advance	157,500.00

CONNECTED TRANSACTIONS

For each of the Fiscal 2014, Fiscal 2015 and Fiscal 2016, the total annual rent for leasing the above premises amounted to RMB9,189,912.82, RMB9,661,857.32 and RMB9,918,747.51, respectively. The proposed annual caps for leasing arrangements under the Leases with Founders Entities for each of the three years ending June 30, 2019 will be RMB10,855,004.84, RMB11,397,755.08 and RMB11,967,642.84, respectively. In determining the above annual caps for leasing the properties under the Leases with Founders Entities, our Directors have considered the historical figures, adjustments for expected inflation of 5% and the pricing terms of the lease agreements. Our Directors confirm that the annual rent payable is determined on normal commercial terms and with reference to market price.

Provision of Logistics and Warehousing Services by Huikang Industrial

Huikang Industrial entered into an agreement with Liancheng Huazhuo and JNBY Finery, under which Huikang Industrial agreed to provide to us logistics and warehousing services. Please refer to “Business — Our Logistics and Inventory Management System — Warehousing and Logistics Facility and Product Delivery” of this document. In order to streamline our business functions, Huikang Industrial and Liancheng Huazhuo renewed the agreement on December 25, 2015. The parties thereto further amended the term of the agreements on October 13, 2016 for a term of less than three years commencing from the [REDACTED] and ending on June 30, 2019 at an annual fee of RMB2.64/piece for the first year. Pursuant to the agreement with Huikang Industrial, we have options (i) to renew the terms of the agreement with Huikang Industrial every three years with the similar terms and (ii) to terminate the agreement with Huikang Industrial if required under regulatory requirements. Other major terms of the agreements with Huikang Industrial are listed below:

<u>Date of Agreement</u>	<u>Nature</u>	<u>Payment Schedule</u>	<u>Fees per annum</u> <i>(RMB)</i>
December 25, 2015, as amended on October 13, 2016	logistics and warehousing services	prepayment of RMB3,500,000 at the beginning of each quarter, with the outstanding amount settled every six months	2.64/piece of products sort, storage and distribution

Our Directors are of the view that the prepayment of RMB3.5 million at the beginning of each quarter for logistics and warehousing services was commercially reasonable given the large warehousing space that Huikang Industrial is committed to provide. Our Directors have been advised by CIC that prepayment terms vary based on the size of warehousing space, with larger warehousing space generally requiring longer prepayment period. According to CIC, it is common for providers of logistics and warehousing services to require customers to make prepayments on a monthly, quarterly or semi-annual basis for large warehousing space (i.e., space in excess of 1,000 square meters) and in some instances, on an annual basis. The Huikang Facility has a total gross floor area of over 30,000 square meters and is being used exclusively by us. While our Directors are of the view that the prepayment made at the beginning of 2016 was commercially reasonable, we will make prepayments on a quarterly basis after December 31, 2016 in light of prepayment schedules followed by other industry participants.

CONNECTED TRANSACTIONS

Based on the above, the Sole Sponsor concurs with the Directors’ view that the prepayment made at the beginning of 2016 was commercially reasonable, and given the large gross floor area of Huikang Facility, it is of the view that the terms of such prepayment were not uncommon.

For each of the Fiscal 2014, Fiscal 2015 and Fiscal 2016, the total annual fees for the above logistic and warehousing services amounted to approximately RMB10,432,000, RMB10,883,000 and RMB14,025,000, respectively. While we recorded a steady increase in our annual fees for the logistic and warehousing services in Fiscal 2014 and Fiscal 2015, our total annual fees for the logistic and warehousing services increased significantly in Fiscal 2016 as a result of the increase in our sales in Fiscal 2016, which led to (i) the increase in the amount of products handled by Huikang Industrial by 19% as compared with the amount in Fiscal 2015 which led to a further increase in man power required to handle such increase in the handling volume and (ii) it in turn led to the increase in the unit price as compared with the unit price in Fiscal 2015. The proposed annual caps for the agreement with Huikang Industrial for each of the three years ending June 30, 2019 will be RMB16,144,000, RMB19,123,000 and RMB22,651,000, respectively. In determining the above annual caps for the logistic and warehousing services, our Directors have considered (i) the historical transaction amount for such services; (ii) the expected increase in sales volume due to our business expansion plan which will cause increase in logistics and warehousing services required; (iii) the increase in logistics and warehousing costs per unit of products processed by the logistic center as a result of inflation; (iv) the expected increase in salary of labor in the warehouse due to rising salary levels; and (v) the positive outlook of the Group’s integration of online and offline business segments, which is expected to increase the business and transaction volume. Our Directors confirm that the annual fees payable is determined on normal commercial terms and with reference to market price.

Framework Apparel Manufacturing Agreement with Shangwei Apparel

- Parties:** Liancheng Huazhuo and JNBY Finery (as the customer); and Shangwei Apparel (as the supplier)
- Principal terms:** We entered into a framework apparel manufacturing agreement with Shangwei Apparel, pursuant to which Shangwei Apparel, together with its subsidiary (the “**Shangwei Group**”), manufacture apparel products for us. The term of the apparel manufacturing agreement is from the [REDACTED] to June 30, 2019.
- Pricing policy:** Under the apparel manufacturing agreement, the manufacturing prices for each item manufactured are determined with reference to the cost of material and production cost negotiated between us and the suppliers (including independent third-party suppliers and Shangwei Apparel). Our Directors are of the view that the transactions will be conducted on normal commercial terms and not less favorable than those offered by independent third-party suppliers.

CONNECTED TRANSACTIONS

Reasons for the transaction: Shangwei Group has been a long term and reliable supplier of the Group.

Historical figures: The historical figures of the supply by Shangwei Group are set out below:

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount.....	32,279	28,189	36,948

The fluctuations in the historical amounts incurred under the framework apparel manufacturing agreement with Shangwei Group were primarily a result of our adjustments to the production amount assigned to Shangwei Group after taking in to consideration of the customers' orders for products that normally require the specialized production capabilities of Shangwei Group for woven fabrics, its capacity, production schedule and quoted unit price.

Annual Caps: The maximum aggregate annual supply amount by Shangwei Group for the years ending June 30, 2017, 2018 and 2019 respectively shall not exceed the caps set out below:

Proposed Annual Cap for the Year ending June 30

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount.....	40,000	44,000	48,000

Basis of Caps: In determining the above annual caps, our Directors have considered the historical figures and the potential increase in procurement volume due to our business expansion plan as well as potential increase in labor costs. As our intention is to diversify our supplier base, such increment in annual cap is not expected to result in any increase in percentage of purchase of products supplied from Shangwei Apparel as a portion of our total purchase amount.

CONNECTED TRANSACTIONS

Framework Sample Apparel Agreement

Parties: Liancheng Huazhuo (as the customer); and Hangzhou JNBY (as the supplier)

Principal terms: We entered into a framework sample apparel agreement with Hangzhou JNBY, pursuant to which Hangzhou JNBY manufactures and provides sample apparel for our designs. The term of the sample apparel agreement is from the [REDACTED] to June 30, 2019.

Pricing policy: Under the framework sample apparel agreement, the manufacturing prices shall be determined with reference to the cost-plus basis of plus a mark up of not more than 5%. The parties will sign individual contract orders for each order with the relevant prices negotiated individually for each contract order. Our Directors are of the view that the transactions will be conducted on normal commercial terms and not less favourable than those offered by independent third-party suppliers.

Reasons for the transaction: Following our Reorganization and the strategic decision to focus on design, retail management and branding aspects of our business, we gradually ceased all in-house sample apparel production function.

Historical figures: The historical figures of the supply by Hangzhou JNBY are set out below:

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount	Nil	Nil	18,619

Annual Caps: The maximum aggregate annual supply amount by Hangzhou JNBY for the years ending June 30, 2017, 2018 and 2019:

	Proposed Annual Cap for the Year ending June 30		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount.....	18,630	19,562	20,540

Basis of Caps: In determining the above annual caps, our Directors have considered the historical figures and the potential increase in procurement volume due to our business expansion plan.

CONNECTED TRANSACTIONS

THE DIRECTORS’ VIEWS

The duration of the Master Trademark Licensing Agreement is for a term of 20 years. Our Directors are of the view that it is normal business practice for trademark licensing agreements to be of a similar or longer duration to that of the Master Trademark Licensing Agreement. Given that the licensing of various trademarks underlying the Master Trademark Licensing Agreement is important to our Group’s business operation, it is in our interest for the Master Trademark Licensing Agreement to be of a duration longer than three years. Considering that the 20 years duration of a trademark license agreement of this nature is (a) within normal business practice for agreements of this type to be of such duration; (b) the strategic importance for our Group to exclusively use such trademarks; and (c) such 20-year term is sufficiently long to provide better protection to our Group considering the nature of our licensed trademarks, our Directors are of the view that it is normal business practice for the Master Trademark Licensing Agreement to have such a duration. In the view of our 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 [REDACTED], and that all these transactions are conducted on normal commercial terms, were 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 our 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 our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions described above, and for which waivers have been sought, have been 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 our Shareholders as a whole; and (ii) considering (a) the significance of the trademarks licensed under the Master Trademark Licensing Agreement to our Group’s business and financial position, (b) the fact that such licensed trademarks were accredited as “China Well-Known Trademark” and our Group’s decision not to acquire the Licensed Trademarks due to practical difficulties, including the time and expense involved, (c) the strategic importance for our Group to exclusively use such trademarks in our core business and the related brand name of the products sold by our Group, and (d) the long term stability that is expected to be brought to the business of our Group by the Master Trademark Licensing Agreement, the Sole Sponsor is not aware of any matter which indicates that the longer term provided for under the Master Trademark Licensing Agreement is unreasonable. Based on the information and reasoning above, the Sole Sponsor is of the view that it is the normal business practice for agreements of this type to be of such duration.

APPLICATION FOR WAIVER

In respect of the transactions described in “— Non-Exempt Continuing Connected Transaction” above, as the Directors currently expect, (i) the highest relevant “percentage ratio” (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be, on an annual basis, more than 0.1% but less than 5% and (ii) the total consideration on an annual basis is more than

CONNECTED TRANSACTIONS

HK\$3,000,000. The transactions will be exempt from the circular 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 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 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 Rules 14A.35 of the Listing Rules in respect of the transactions described in “— Non-Exempt Continuing Connected Transaction”.

We will, however, comply at all times with the applicable provisions under 14A.34, 14A.49, 14A.51, 14A.59, and 14A.71 of the Listing Rules in respect of these non-exempt continuing connected transactions, as well as the proposed annual caps as disclosed in this section.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this document 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 [REDACTED]:

Authorized share capital

Shares	Description	Nominal Value	Total nominal value
1,000,000,000	As of the Latest Practicable Date and immediately following the completion of the [REDACTED]	HK\$0.01	HK\$10,000,000

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 [REDACTED]:

Issued share capital

As of the Latest Practicable Date:

Shares	Nominal Value	Total nominal value
1,950,000	HK\$0.01	HK\$19,500

Immediately after the completion of the Capitalization Issue and the [REDACTED] and before any exercise of the [REDACTED]:

Shares	Description of Shares	Nominal Value	Total nominal value
[REDACTED]	Shares in issue	HK\$0.01	HK\$[REDACTED]
[REDACTED]	Shares to be issued pursuant to the Capitalization Issue	HK\$0.01	HK\$[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED] [REDACTED]	HK\$0.01	HK\$[REDACTED]
[REDACTED]	Total	—	HK\$[REDACTED]

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the Shares are issued pursuant to the [REDACTED]. The above does not take into account any shares which may be issued pursuant to the exercise of the [REDACTED] or 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 document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary shareholders’ resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into 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 reduce or redeem its share capital by shareholders’ special resolution. For more details, please see “Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (c) Alteration of capital” in Appendix III.

Pursuant to the Cayman Companies Law and the terms of our 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 more details, please see “Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — (d) Variation of rights of existing shares or classes of shares” in Appendix III.

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.

SHARE CAPITAL

For further details of these general mandate, please see “Statutory and General Information — A. Further Information About Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on October 13, 2016” in Appendix IV to this document.

RSU SCHEME

We have adopted the RSU Scheme under which certain persons were granted RSUs prior to the [REDACTED]. The principal terms of the RSU Scheme are summarized in “Statutory and General Information — D. Share Incentive Scheme” in Appendix IV to this document.

CORNERSTONE INVESTOR

[REDACTED]

CORNERSTONE INVESTOR

[REDACTED]

CORNERSTONE INVESTOR

[REDACTED]

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the [REDACTED] and assuming that the [REDACTED] 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 [REDACTED] (assuming the [REDACTED] is not exercised) ⁽¹⁾	
		Number of Shares ⁽²⁾	Percentage
Credit Suisse Trust Limited	Trustee of a trust	[REDACTED]	[REDACTED]
	Trustee of a trust	[REDACTED]	[REDACTED]
Seletar Limited ⁽³⁾⁽⁴⁾	Nominee for another person	[REDACTED]	[REDACTED]
	Nominee for another person	[REDACTED]	[REDACTED]
Serangoon Limited ⁽³⁾⁽⁴⁾	Founder of a discretionary trust	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Mr. Wu ⁽³⁾	Interests of spouse	[REDACTED]	[REDACTED]
	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Ahead Global.....	Nominee for another person	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Ninth Capital	Founder of a discretionary trust	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Ms. Li ⁽⁴⁾	Interests of spouse	[REDACTED]	[REDACTED]
	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Puheng Limited	Nominee for another person	[REDACTED]	[REDACTED]
	Beneficial Owner	[REDACTED]	[REDACTED]
Ninth Investment	Trustee of a trust ⁽⁵⁾	[REDACTED]	[REDACTED]
	Beneficial owner	[REDACTED]	[REDACTED]
Core Trust	Interests of spouse	[REDACTED]	[REDACTED]
	Nominee for another person	[REDACTED]	[REDACTED]
Li Personal Trust Nominee ⁽⁵⁾	Beneficial owner	[REDACTED]	[REDACTED]
	Trustee of a trust ⁽⁵⁾	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) The calculation is based on the total number of [REDACTED] Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised).
- (2) All interests stated are long positions.
- (3) Credit Suisse Trust Limited, as the trustee of the Wu Family Trust (through its nominee companies Seletar Limited and Serangoon Limited), holds the entire issued share capital of Wu Family Limited. Wu Family Limited holds the entire issued share capital of Ahead Global. Ahead Global in turn holds the entire issued share capital of Ninth Capital. Ninth Capital holds [REDACTED] Shares. The Wu Family Trust is a discretionary trust established by Mr. Wu (as the settlor) and the discretionary beneficiaries of which are Mr. Wu, Ms. Li, their children and W&L Trust. The W&L Trust is a discretionary trust established by Mr. Wu and Ms. Li (as settlors) and the discretionary beneficiaries are Mr. Wu, Ms. Li and their children. Accordingly, each of Mr. Wu and Credit Suisse Trust Limited is deemed to be interested in the number of [REDACTED] Shares held by Ninth Capital. Under the SFO, Mr. Wu, as the spouse of Ms. Li, is deemed to be interested in the same number of Shares in which Ms. Li is interested.
- (4) Credit Suisse Trust Limited, as the trustee of the Li Family Trust (through its nominee companies Seletar Limited and Serangoon Limited), holds the entire issued share capital of Li Family Limited. Li Family Limited holds the entire issued share capital of Puheng Limited. Puheng Limited in turn hold the entire issued share capital of Ninth Investment. Ninth Investment holds [REDACTED] Shares. The Li Family Trust is a discretionary trust established by Ms. Li (as the settlor) and the discretionary beneficiaries of which are Ms. Li, Mr. Wu, their children and W&L Trust. The W&L Trust is a discretionary trust established by Mr. Wu and Ms. Li (as settlors) and the discretionary beneficiaries are Mr. Wu, Ms. Li and their children. Accordingly, each of Ms. Li and Credit Suisse Trust Limited is deemed to be interested in the number of [REDACTED] Shares held by Ninth Investment. Under the SFO, Ms. Li, as the spouse of Mr. Wu, is deemed to be interested in the same number of Shares in which Mr. Wu is interested.
- (5) Core Trust, being the trustee of the Li Personal Trust, directly holds the entire issued share capital of the Li Personal Trust Nominee, which then holds [REDACTED] Shares of the Company.

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 document, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the [REDACTED] and assuming that the [REDACTED] 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/senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
<i>Directors</i>						
WU Jian (吳健)	48	Chairman of the Board, chief executive officer and executive Director	November 26, 2012	September 4, 1997	Formulating the overall development strategies and overseeing the operation of our Group	Husband of Ms. Li, and brother of Ms. Wu Liwen
LI Lin (李琳)	45	Executive Director and Chief Creative Officer	November 26, 2012	September 4, 1997	Design and innovation of our apparel business	Wife of Mr. Wu, and sister of Mr. Li Ming
LI Ming (李明)	42	Executive Director, designer in Group’s brand department	June 29, 2016	March 28, 2005	Market research and brand planning	Brother of Ms. Li
WEI Zhe (衛哲)	45	Non-executive Director	June 24, 2013	June 24, 2013	Providing strategic advice on the business development of our Group	N/A
ZHANG Beili (張倍力)	58	Non-executive Director	June 29, 2016	June 29, 2016	Providing artistic design advice on our products	N/A
LAM Yiu Por (林曉波)	40	Independent Non-executive Director	October 13, 2016	October 13, 2016	Providing independent advice and judgment to our Board	N/A
HAN Min (韓敏)	42	Independent Non-executive Director	October 13, 2016	October 13, 2016	Providing independent advice and judgment to our Board	N/A
HU Huanxin (胡煥新)	48	Independent Non-executive Director	October 13, 2016	October 13, 2016	Providing independent advice and judgment to our Board	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment as Director/senior management	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
<i>Senior Management</i>						
ZHU Qian (朱乾)	35	Chief Financial Officer	November 5, 2013	November 5, 2013	Business strategy, planning and development and overall operation, as well as financial management	N/A
ZHANG Li (張立)	32	Board Secretary and joint company secretary	July 23, 2014	July 23, 2014	Coordination of board affairs, investors' relationship management, internal audit, internal control and compliance	N/A
FAN Yongkui (範永奎)	32	Financial Director	September 14, 2015	September 14, 2015	Accounting and financial management	N/A
NIE Yanlu (聶延路)	45	General Manager of JNBY Brand & Croquis Brand Business Department	June 21, 2011	August 22, 2002	Distribution and operation of our JNBY brand and Croquis brand products.	N/A
SHEN Chenxi (申晨曦)	49	Vice President for retail operation	November 20, 2014	November 20, 2014	Direct sale business management for three of our brands: <i>JNBY</i> , <i>Croquis</i> and <i>less</i>	N/A
WU Liwen (吳立文)	53	General Manager of Production and Purchase Center	October 19, 2012	July 23, 2004	Overseeing manufacturing and purchasing affairs for our business operation	Sister of Mr. Wu

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of 8 Directors, comprising 3 executive Directors, 2 non-executive Directors and 3 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, and all applicable laws and regulations, including the Listing Rules.

Executive Directors

Mr. Wu Jian (吳健), aged 48, is the co-founder of our Group and an executive Director of our Company. Mr. Wu is also the Chairman and chief executive officer who is primarily responsible for formulating the overall development strategies and overseeing the operation of our Group. Since late 1994, Mr. Wu has been devoted to retailing of Ms. Li’s apparel designs and the establishment and development of our Group. With over 20 years of experiences of business operation in the apparel industry, Mr. Wu has been the key driver of our business strategies and achievements to date and continues to oversee the management of our operations and business. For further information regarding the relationship of Mr. Wu and our Group, please see “Our History and Development”.

Mr. Wu graduated from Zhejiang University (浙江大學), Hangzhou, with a bachelor’s degree in refrigeration equipment and cryogenic technology in July 1990. Currently he studies part time in Business School of City University of Hong Kong, Hong Kong, for an executive master of business administration degree. Mr. Wu is the husband of Ms. Li, our executive Director and chief designer, and brother of Ms. Wu Liwen, the general manager of Production and Purchase Center of our Group.

Ms. Li Lin (李琳), aged 45, is the co-founder of our Group and an executive Director and chief creative officer of our Group. With over 20 years of experience in the apparel designing and retailing business, Ms. Li is primarily responsible for the design and innovation of our apparel business. In late 1994, Ms. Li began selling womenswear in Hangzhou, and gradually created and developed her own designs. Ms. Li and Mr. Wu opened their first retail store offering Ms. Li’s own designs in 1996, and established Hangzhou JNBY in 1997. For further information regarding the relationship of Ms. Li and our Group, please see “Our History and Development”.

Ms. Li has served as a board member of Beijing Ullens Center for Contemporary Art (UCCA) since November 2013, and a board member of Institute of Asian Art of Vancouver Art Gallery since October 2015. Ms. Li graduated from Zhejiang University (浙江大學), Hangzhou, with a bachelor’s degree in chemistry in July 1992. Ms. Li is the wife of Mr. Wu, the Chairman, chief executive officer and executive Director of our Group, and sister of Mr. Li Ming, an executive Director of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Ming (李明), aged 42, was appointed as our executive Director on June 29, 2016. Mr. Li joined our Group on March 28, 2005, serving as the chief designer of JNBY brand department in Hangzhou JNBY, where he was mainly responsible for the image designing of JNBY-brand stores. Mr. Li has been taking a leading role in the designing and development of *Croquis*-brand props since July 2007. Since August 2011, Mr. Li has served as a designer in the brand department of our Group. Mr. Li has been responsible for the market research and brand planning for our houseware business since November 2013. Mr. Li graduated from Zhejiang University of Media and Communications (浙江傳媒學院), Hangzhou, majoring in art and literature in July 1996. Mr. Li is the brother of Ms. Li, an executive Director of our Group.

Non-executive Directors

Mr. Wei Zhe (衛哲), aged 45, joined our Group on June 24, 2013 when he was appointed as a non-executive Director of our Company. He is mainly responsible for providing strategic advice on the business development of our Group. Mr. Wei has over 20 years of experience in both investment and operational management in the PRC. Prior to joining our Group, Mr. Wei served as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998, and as managing director and head of investment banking at Orient Securities Company Limited from 1998 to 2000. Mr. Wei was a vice chairman, from 2002 to 2006, and a consultant, from 2007 to 2011, of China Chain Store & Franchise Association (中國連鎖經營協會). From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher’s China sourcing office, Kingfisher Asia Ltd.. Mr. Wei joined Alibaba Group and served as senior vice president of the B2B Division from November 2006 to January 2007, and president of the B2B Division and executive vice-president of Alibaba Group, from February 2007 to February 2011. He was the chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company once listed on the Stock Exchange (Stock Code: 01688 and delisted in June 2012) from October 2007 to February 2011. He was voted as one of “China’s Best CEOs” by FinanceAsia magazine in 2010. He has served as a director of Vision Knight Capital General Partners Ltd., a private equity investment fund since June 2011. Mr. Wei graduated from Shanghai International Studies College (上海外國語學院), Shanghai, with a bachelor’s degree in international business management in July 1993. He also completed the EMBA corporate finance evening program at London Business School, London, United Kingdom in June 1998.

Currently, Mr. Wei has served as an a non-executive director of PCCW Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00008) since May 2012. Prior to this, he was an independent non-executive director of PCCW Limited from November 2011 to May 2012. Mr. Wei served as independent director of 500.com Limited, a company listed on the New York Stock Exchange (Stock Code: WBAI) from October 2013 to November 2015. Mr. Wei has also served as non-executive director in Zhong Ao Home Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 01538) since April 2015. Mr. Wei has been an independent director of three public listed companies, including Leju Holdings Limited since April 2014, a company listed on the New York Stock Exchange (Stock Code: LEJU); Shanghai M&G Stationery Inc. since June 2014, a company listed on the Shanghai Stock Exchange (Stock Code: 603899), and Zall Development Group Ltd. since April 2016, a company listed on the Main Board of the Stock Exchange (Stock Code: 02098).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Beili (張倍力, formerly known as Zhang Peili (張培力)), aged 58, was appointed as our non-executive Director on June 29, 2016. He is mainly responsible for providing advice on our products from the artistic design aspect. Mr. Zhang has been a professor in China Academy of Art (中國美術學院, formerly known as Zhejiang Academy of Art (浙江美術學院)) since 2010. Mr. Zhang is the executive curator of Shanghai Branch of OCT Contemporary Art Terminal (“OCAT” OCT當代藝術中心) and a member of the academic committee of OCAT. Mr. Zhang received the Artist of the Year Award of the ninth Award of Art China (第九屆AAC藝術中國年度藝術家大獎) granted by Artron.Net in May 2015. The retrospective exhibition called “Certain Pleasure (確切的快感)”, which collects Mr. Zhang’s major works of art, was held at the Minsheng Contemporary Art Museum (民生現代美術館) from July 16 to August 14, 2011.

Mr. Zhang graduated from China Academy of Art, Hangzhou, in July 1984 with a bachelor’s degree majoring in oil painting. Mr. Zhang obtained the qualification for teaching in institutions of higher education (高等學校教師資格) granted by Department of Education of Zhejiang Province (浙江省教育廳) in December 2010.

Independent Non-executive Directors

Mr. Lam Yiu Por (林曉波), aged 40, is an independent non-executive Director of our Company. He is primarily responsible for providing independent advice and judgment to our Board, and supervising operations of our Group. He joined our Group on October 13, 2016 when he was appointed as an independent non-executive Director. The following table sets forth the summary of Mr. Lam’s working experience prior to joining our Group:

Period of Services	Name of the Companies	Principal Business Activities	Position	Responsibilities
Since November 2013	L’sea Resources International Holdings Limited (listed on the Stock Exchange, Stock Code: 00195)	Mining and sales of tin metal	Vice president and chief financial officer	Accounting, compliance matters and investor relations
Since April 2015	Zhong Ao Home Group Limited (listed on the Stock Exchange, Stock Code: 01538)	Provision of property management services	Non-executive director	Providing advice and judgment to the board
Since November 2015	DeNOx Environmental & Technology Holdings Limited (listed on the Stock Exchange, Stock Code: 01452)	Manufacturing of plate-type DeNOx catalyst	Independent non-executive director	Providing independent advice and judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Period of Services	Name of the Companies	Principal Business Activities	Position	Responsibilities
July 2004 to December 2005	Zhongtian International Limited (listed on the Stock Exchange, Stock Code: 02379)	Property holding and sale of intelligent electronic products	Qualified accountant and financial controller	Financial reporting and investor relations
December 2005 to May 2008	SSY Group limited (formerly known as Lijun International Pharmaceutical (Holding) Co., Ltd., listed on the Stock Exchange, Stock Code: 02005)	Research, development, manufacturing and sale of finished medicines and pharmaceutical products	Qualified accountant, chief financial officer and company secretary	Company secretarial matters and financial reporting
June 2012 to February 2014	GR Properties Limited (formerly known as Buildmore International Limited, listed on the Stock Exchange, Stock Code: 00108)	Property investment, hotel management and manufacture and sales of dye-sublimation printed products	Independent non-executive director, chairman of the audit committee	Providing independent advice and judgment to our Board
December 2014 to March 2016	Yat Sing Holdings Limited (listed on the Stock Exchange, Stock Code: 03708)	Provision of building maintenance and renovation services	Independent non-executive director	Providing independent advice and judgment to our Board

Mr. Lam received his bachelor degree of arts in accountancy from the Hong Kong Polytechnic University (香港理工大學), Hong Kong, in November 1997. Mr. Lam has been a member of the Hong Kong Institute of Certified Public Accountants, an associate of the Institute of Chartered Secretaries and Administrators, an associate of the Hong Kong Institute of Chartered Secretaries, a chartered financial analyst of the CFA Institute and a fellow of the Association of Chartered Certified Accountants since October 2004, March 2006, March 2006, September 2006 and November 2007, respectively.

Mr. Lam was a director of Yiu Seng International Company Limited (彥生國際有限公司), a company incorporated in Hong Kong and primarily engaged in trading business prior to its dissolution on 23 March 2007. This company was dissolved by way of deregistration under section 291AA of the Predecessor Companies Ordinance because it ceased to carry on any business or operation. Mr. Lam confirmed that there is no wrongful act on his part leading to the dissolution and is not aware of any actual or potential claim has been or will be made against him as a result of the dissolution, and that his involvement in the above company was part and parcel of his services as a director of this company and that no misconduct or misfeasance had been involved in the dissolution of this company.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Han Min (韓敏), aged 42, is an independent non-executive Director of our Company. She is primarily responsible for providing independent advice and judgment to our Board, and supervising operations of our Group. She joined our Group on October 13, 2016 when she was appointed as an independent non-executive Director. Ms. Han has been working at Alipay (China) Information Technology Co., Ltd. (支付寶(中國)信息技術有限公司) (“**Alipay**”) since January 2006. She served in a number of positions in Alipay from her joining in January 2006, including the director of the marketing operation department, the general manager of the merchants business department, the general manager of the consumers business department. Ms. Han worked at Alibaba (China) Network Technology Co., Ltd.(阿里巴巴(中國)網絡技術有限公司) from September 1999 to December 2005, during which she served various positions in the company, including director of the operation department, director of the international cooperation and development department, and director of the marketing department. Ms. Han graduated from Hangzhou Dianzi University (杭州電子科技大學) (formerly known as Hangzhou Dianzi Industrial College (杭州電子工業學院)), Hangzhou, with a bachelor’s degree majoring in foreign trade in July 1997. In November 2008, she graduated from the University of Bath, U.K., with a master’s degree of business administration.

Mr. Hu Huanxin (胡煥新), aged 48, is an independent non-executive Director of our Company. He is primarily responsible for providing independent advice and judgment to our Board, and supervising operations of our Group. Mr. Hu joined our Group on October 13, 2016 when he was appointed as an independent non-executive Director. Prior to joining our Group, Mr. Hu served in various roles with Cadbury, including general manager of Great China supply chain. From 2008 to 2009, Mr. Hu was employed by Vivalis, a cosmetics company based in the United Kingdom. Mr. Hu also served as the chief operating officer of Daphne International Holdings Limited, a company listed on the Stock Exchange (Stock Code 00210) from 2010 to 2015. Since March 2015, Mr. Hu has served as the chief operating officer of Yango Holdings Company Limited, the parent company of Yango Group Co., Ltd, a company listed on the Shenzhen Stock Exchange (Stock Code: 000671).

Mr. Hu graduated from Sun Yet-Sun University (中山大學), Guangzhou, with a bachelor’s degree in international economics and trade in July 1990. Mr. Hu has served as a director of the board of Lingnan (University) College of Sun Yet-Sun University and as president of the Shanghai alumni association of Lingnan University since September 2014.

Save as disclosed above, none of our Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document. Please refer to the section headed “Statutory and General Information” in Appendix IV to this document 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 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 that need to be brought to the attention of our shareholders.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

Mr. Zhu Qian (朱乾), aged 35, was appointed as chief financial officer when he joined our Group in November 2013. He is primarily responsible for business strategy, planning, development and overall operation, as well as financial management of our Group, and has been in charge of the distribution business of our *JNBY*, *CROQUIS*, *jnby by JNBY* and *less* brand products in our Group, and the direct sale business of *jnby by JNBY* brand products since November 2014.

Mr. Zhu has over 13 years of working experience in the auditing and financial industry. Prior to joining our Group, Mr. Zhu worked at PriceWaterhouseCoopers LLP from August 2003 to November 2013, where he last served as a senior manager and was primarily responsible for assurance business.

Mr. Zhu was granted with the qualification of Certified Public Accountant issued by Shanghai Institute of Certified Public Accountants in August 2006. Mr. Zhu received a certificate for successfully completing the SHICPA-SNAI TOPCPA executive development program (上海市註冊會計師協會行業優秀人才培養項目) jointly issued by Shanghai Institute of Certified Public Accountant and Shanghai National Accounting Institute in August 2013. Mr. Zhu graduated from Shanghai University of Finance and Economics (上海財經大學), Shanghai, in July 2003 with a bachelor degree of economics majoring in public finance (asset management and evaluation) and a dual degree of management majoring in accounting.

Mr. Zhang Li (張立), aged 32, joined our Group in July 2014 as financial director and was appointed as board secretary of our Company in September 2015. He is primarily responsible for coordination of board affairs, investors' relationship management, internal audit, internal control and compliance of our Group. Prior to this, he served as financial director of JNBY Finery from July 2014 to September 2015, and has served as supervisor in a number of our subsidiaries. Mr. Zhang has served as director of JNBY Zhengzhou.

Mr. Zhang has approximately 10 years of working experience in the auditing and financial industry. Prior to joining our Group, Mr. Zhang worked at Ernst & Young Hua Ming LLP Shanghai Branch from October 2006 to April 2014, where he last served as an auditing manager.

Mr. Zhang was granted with the qualification of Certified Public Accountant issued by Shanghai Institution of Certified Public Accountants in February 2012. He graduated from Soochow University (蘇州大學), Suzhou, in June 2006 with a bachelor's degree majoring in international economics and trade.

Mr. Fan Yongkui (範永奎), aged 32, was appointed as the financial director of our Group when he joined our Group in September 2015. He is primarily responsible for accounting and financial management of our Group. Since joining our Group, Mr. Fan has served as supervisor in a number of our subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan has approximately 10 years of working experience in the accounting and financial industry. Prior to joining our Group, Mr. Fan worked at Zhejiang Zhongcheng Accounting Firm (浙江中誠會計師事務所) as an auditor from September 2006 to April 2008. He also worked as project manager at Lixin Accounting Firm (立信會計師事務所) from May 2008 to June 2010, mainly responsible for projects of initial public offering in Shanghai Stock Exchange and Shenzhen Stock Exchange. From July 2010 to September 2015, he served as financial analysis manager of Zhejiang Dahua Technology Co., Ltd. (浙江大華技術股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002236) and engaged in the design, manufacturing, development of computer software and electronics.

Mr. Fan was granted with the qualification of Certified Public Accountant issued by Zhejiang Province Institute of Certified Public Accountants in April 2009. He also received a certificate for Certified Public Valuer from Zhejiang Province Ministry of Human Resources and Social Security in December, 2011. He was granted with the qualification of Registered Tax Agent issued by Zhejiang Province Ministry of Human Resources and Social Security in June 2013. Mr. Fan graduated from Zhejiang University (浙江大學), Hangzhou, with a bachelor’s degree in landscape architecture in June, 2006.

Mr. Nie Yanlu (聶延路), aged 45, joined our Group in August 2002. Mr. Nie has over 15 years of working experience in operating and marketing. Since he joined our Group, he served in various positions in Huikang Industrial responsible for marketing of *JNBY* brand, including marketing director and general manager of business department from August 2002 to June 2011. Mr. Nie has also served as legal representative and general manager in a number of our subsidiaries. Mr. Nie joined *JNBY* Finery in June 2011, and served as general manager of *JNBY* Brand Business Center. He was appointed as the general manager of *JNBY* Brand & *CROQUIS* Brand Business Department of our Group in August 2015. He is primarily responsible for the distribution and operation of our *JNBY* brand and *CROQUIS* brand products.

Prior to joining our Group, Mr. Nie worked in Zhuhai Special Economic Zone Philips Household Appliance Co., Ltd. (珠海經濟特區飛利浦家庭電器有限公司), a household appliance manufacturing company engaging in the research and development, as well as manufacturing and sales of household appliances. He had also worked at Maybelline (Suzhou) Cosmetics Co., Ltd. (美寶蓮(蘇州)化妝品有限公司), a company engaged in the manufacturing and sales of cosmetics products and later acquired by L’Oreal China Co., Ltd..

Mr. Nie graduated from Harbin Radio & TV University (哈爾濱廣播電視大學), Harbin, in July 1995, majoring in management of industrial enterprise. Currently he studies part time in Guanghua School of Management, Peking University (北京大學光華管理學院), Beijing, for an executive master of business administration degree.

Mr. Shen Chenxi (申晨曦), aged 49, has been the Vice President for retail operation of our Group since joining our Group in November 2014. He is primarily responsible for direct sale business management for three of our brands, including *JNBY* brand, *CROQUIS* brand and *less* brand. Mr. Shen has also served as general manager in a number of our subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shen has over 20 years of working experience in the retail business and operation. Prior to joining our Group, Mr. Shen worked at Walmart China Investment Co., Ltd. (沃爾瑪中國投資有限公司), a retail corporation that runs a chain of supermarkets, as a general manager of shopping center from December 1995 to December 2002, during which period he was primarily responsible for overall operation management. He worked at B&Q China Decoration and Building Materials Co., Ltd. (百安居中國裝飾建材有限公司) from January 2003 to January 2011, a company focused on retails of household building materials, during which period he served as vice president for operation and was primarily responsible for retail operations. He also worked as general manager of Xi’an Area Business Operation Company at Dalian Wanda Commercial Real Estate Co., Ltd. (大連萬達商業地產股份有限公司), a commercial real estate development and management company, from April 2011 to August 2013, and his responsibilities included operation management of Wanda Plaza in the Northern part of China, as well as attracting investments for and property management of Wanda Plaza in Xi’an Area.

Mr. Shen received a certificate for completing junior college courses majoring in English in Self-taught Higher Education Examinations issued by Shanxi Province Self-taught Higher Education Examinations Commission in June, 1989.

Ms. Wu Liwen (吳立文), aged 53, was appointed as the General Manager of Production and Purchase Center of our Group since joining our Group on July 23, 2004. She is primarily responsible for overseeing manufacturing and purchasing affairs for our business operation. She has served as director in a number of our subsidiaries. Ms. Wu has over 10 years of working experience in the apparel manufacturing business. From July 2004 to October 2012, Ms. Wu served as the general manager of production and purchase center of Huikang Industrial. Ms. Wu worked in Shenyang No.9 People’s Hospital (瀋陽市第九人民醫院) from July 1987 to July 2004, where she last served as the director of ultra-sonographic section.

Ms. Wu has been the vice chairman of the Second Branch of Taiwan Democratic Self-Government League (臺灣民主自治聯盟) since November 2011, and a member of the 10th Zhejiang Hangzhou Committee of the Chinese People’s Political Consultative Conference (CPPCC) since April 2012. She graduated from China Medical University (中國醫科大學), Shenyang, in July 1987 with a bachelor’s degree of medical science majoring in hygiene, and in June 2004 with a master’s degree of medical science majoring in medical imaging and nuclear medicine. Ms. Wu is the sister of Mr. Wu, Chairman of the Board, and chief executive officer and executive Director of our Group.

JOINT COMPANY SECRETARIES

Mr. Zhang Li (張立), aged 32, joined our Group in July 2014 and was appointed as our joint company secretary on October 13, 2016, conditional upon [REDACTED]. He was appointed as board secretary of our Company in September 2015. He is primarily responsible for coordination of board affairs, investors’ relationship management, internal audit, internal control and compliance of our Group. Prior to this, he served as financial director of JNBY Finery from July 2014 to September 2015, and has served as supervisor in a number of our subsidiaries. For details of his biography, see “—Senior Management”.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ng Sau Mei (伍秀薇), aged 39, was appointed as our joint company secretary on October 13, 2016, conditional upon [REDACTED]. Ms. Ng is a senior manager of the listing services department of TMF Hong Kong Limited, a company engaged in the business of providing corporate services. Ms. Ng has over 15 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 is 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 Beijing Digital Telecom Co., Ltd., China Shipping Container Lines Company Limited, Niraku GC Holdings, Inc. and Nirvana Asia Ltd.

BOARD COMMITTEES

Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Lam Yiu Por, Mr. Hu Huanxin and Ms. Han Min, our independent non-executive Directors. Mr. Lam Yiu Por has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process, review and oversee the existing and potential risks of the Group and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

The Company established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Mr. Hu Huanxin, our Independent non-executive Director, Mr. Wu Jian, our Executive Director and Mr. Lam Yiu Por, our Independent non-executive Director. Mr. Hu Huanxin, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

The Company established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of Mr. Wu Jian, our executive Director, and Mr. Hu Huanxin and Ms. Han Min, our independent non-executive Directors. Mr. Wu Jian is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

DIRECTORS AND SENIOR MANAGEMENT

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration our Directors have been offered (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for Fiscal 2014, Fiscal 2015 and Fiscal 2016 was approximately RMB5.3 million, RMB4.8 million and RMB5.3 million, respectively.

The aggregate amount of fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind offered to our five highest paid individuals of our Company, including Directors, during each of Fiscal 2014, Fiscal 2015 and Fiscal 2016, was approximately RMB11.3 million, RMB13.6 million and RMB14.3 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for Fiscal 2017 is estimated to be approximately RMB7.0 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 Fiscal 2014, Fiscal 2015 and Fiscal 2016. 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 Fiscal 2014, Fiscal 2015 and Fiscal 2016 by our Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the [REDACTED], 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.

COMPLIANCE ADVISER

We have appointed First Shanghai Capital Limited as our compliance adviser (the “**Compliance Adviser**”) upon [REDACTED] 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 Adviser 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 [REDACTED] in a manner different from that detailed in this document or where its business activities, developments or results deviate from any forecast, estimate, or other information in this document; and

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- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the [REDACTED] of our Company.

The term of the appointment shall commence on the [REDACTED] 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 [REDACTED] and this appointment may be subject to extension by mutual agreement.

FINANCIAL INFORMATION

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 June 30, 2014, 2015 and 2016 and for Fiscal 2014, Fiscal 2015 and Fiscal 2016, and the accompanying notes included in the Accountant’s Report set out in Appendix I to this document. The Accountant’s Report has been prepared in accordance with HKFRSs. Potential investors should read the Accountant’s Report set out in Appendix I to this document 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 designer brand fashion house based in China. According to CIC, we had the largest market share of 9.6% in the PRC designer brand fashion industry and had a market share of 0.2% in the PRC apparel industry, each as measured by total retail sales in 2015. We design, promote and sell contemporary apparel, footwear and accessories for women, men, children and teenagers. Our brand portfolio currently comprises five brands — (i) *JNBY*, (ii) *CROQUIS*, (iii) *jnby by JNBY*, (iv) *less* and (v) *Pomme de terre*, each targeting a distinct customer segment and having a uniquely defined design identity based on our Group’s universal brand philosophy — “Just Naturally Be Yourself”.

Our products target middle- and upper-income customers who seek to express their individuality through fashionable clothing. Our broad range of product offering and brand portfolio create a lifestyle ecosystem that enables us to address our customers’ needs at different stages of their lives, which in turn allows us to build a large and loyal customer base. We started our business in 1994 by selling women’s apparel. Our trademark for our flagship brand, *JNBY*, was registered in 1999. According to a survey conducted by CIC, our *JNBY* brand is considered the most unique and recognizable women’s apparel designer brand in China, ranked first in terms of brand awareness and enjoys the highest brand loyalty in terms of customer number with repeated purchases among top 10 women’s apparel designer brands in China. We further expanded our brand portfolio between 2005 and 2011 to include *CROQUIS*, *jnby by JNBY* and *less*. These brands were able to generate significant revenue growth, with *CROQUIS*, *jnby by JNBY* and *less* growing by CAGRs of 26.3%, 120.8% and 28.4%, respectively, from Fiscal 2014 to Fiscal 2016. We recently launched *Pomme de terre*, for children and teenagers between six and 14 years of age, to enhance our brand portfolio and enable us to serve consumers of most age groups. Going forward, our goal is to further develop our comprehensive design-driven platform and expand and diversify our product offering and brand portfolio to include designer household products and furniture based on our Group’s universal brand philosophy, so as to achieve sustainable long-term growth.

We have built an omni-channel interactive platform with the goal of nurturing a “Fans Economy”, which is based on a community of fans whose purchases are driven by their affinity to the lifestyle we aim to promote. The platform takes into account our customers’ purchasing patterns and information needs and consists of three components, (i) retail stores, (ii) online platforms and (iii) our social network platform on WeChat. Each component plays a critical role in transforming our customers into loyal fans. Our membership accounts increased from over 360,000 as of June 30, 2014

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to over 1.2 million as of June 30, 2016, and the number of Active Members¹ rapidly increased from over 86,000 as of June 30, 2014 to over 190,000 as of June 30, 2016. Since the launch of our social network platform on WeChat in 2015, we had accumulated over 720,000 subscribers as of June 30, 2016. The retail sales contributed by our members as a percentage of our total retail sales increased from 40.2% in Fiscal 2014 to 46.0% in Fiscal 2015 and further to 56.7% in Fiscal 2016. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our retail stores achieved Same Store Sales Growth of 0.1%, 7.1% and 8.3%, respectively.

Our business experienced robust growth during the Track Record Period. Our revenue increased from RMB1,383.4 million in Fiscal 2014 to RMB1,902.6 million in Fiscal 2016, representing a CAGR of 17.3% from Fiscal 2014 to Fiscal 2016. Our net profit increased from RMB149.9 million in Fiscal 2014 to RMB239.3 million in Fiscal 2016, representing a CAGR of 26.3% from Fiscal 2014 to Fiscal 2016.

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;
- geographic coverage of our offline retail network;
- business growth of our existing stores and online channels;
- product mix;
- channel mix;
- operating costs and operational efficiency;
- economic growth, urbanization and consumer spending in the PRC; and
- retention of inventory by Huikang Industrial.

Brand recognition

Brand recognition is a key factor in consumers’ purchase decisions in the designer brand fashion 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 consumer groups

¹ Active Members are membership accounts associated with at least two purchases in any 180-day period within the last 360 days.

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in China’s designer brand fashion industry, we market and sell our products under our five different brands to appeal to consumer groups of different age ranges, genders and consumption propensities. 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. According to a survey conducted by CIC, our *JNBY* brand is considered the most unique and recognizable women’s apparel designer brand in China, ranked first in terms of brand awareness and enjoys the highest brand loyalty in terms of customer number with repeated purchases among top 10 women’s apparel designer brands in China. 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.

We market our brands across a wide variety of media, ranging from traditional channels such as fashion magazines, to promotional events, fashion shows, and various sponsorships. With the growing prevalence of social media in recent years, we focus on building a “Fans Economy” which enables us to develop, invest in and nurture a fan community that drives purchases through lifestyle affinity. Through our online store and public accounts with WeChat, we convey our brand philosophy to our followers and educate them about our design philosophy and lifestyle vision. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our promotion and marketing expenses amounted to RMB42.9 million, RMB45.7 million and RMB65.0 million, respectively, representing 3.1%, 2.8% and 3.4%, respectively, of our total revenue for these years. In the future we plan to allocate more resources to our marketing activities and expand our marketing efforts through online media and social network platforms in order to develop our community of fans, grow our membership base, promote our designs to our existing customers and attract new consumers to our brands. We also plan to open different types of retail stores including those with multiple collections of our brands and so-called “lifestyle labs” that feature unique store designs that can further convey our brand philosophy to our customers. We believe that these efforts will enable us to solidify the image of our leading brands and further grow our business. Our marketing expenses and the effectiveness of our various marketing activities will significantly impact our future revenue and profitability.

Geographic coverage of our offline retail network

The geographic coverage of our offline retail network has affected, and will continue to affect, our business and results of operations. Revenue for our offline retail network amounted to 91.7%, 92.1% and 92.5%, respectively, of our total revenue for Fiscal 2014, Fiscal 2015 and Fiscal 2016. As of June 30, 2016, our offline retail network consisted of 1,316 retail stores across China and 12 other countries or regions including 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers. Our self-operated stores and distributor-operated stores cover all of the Tier One Cities and substantially all of the Tier Two Cities in China. As of June 30, 2016, 12.9%, 35.5%, 32.0% and 19.6% of our retail stores were located in Tier One Cities, Tier Two Cities, Tier Three Cities and other cities in China, respectively. During the Track Record Period, increases in

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revenue from sales of our products were due in part to the expansion of our offline retail network. The table below sets forth our retail stores by store type as of the dates indicated.

Store types	As of June 30,		
	<i>2014</i>	<i>2015</i>	<i>2016</i>
Self-operated stores ⁽¹⁾	282	332	432
Concession stores	160	191	261
Standalone stores	122	141	171
Distributor-operated stores	639	742	855
Others ⁽²⁾	34	38	29
Total	955	1,112	1,316

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”.
- (2) Consists of stores operated by overseas customers.

In order to further broaden our customer base and expand our market share, we plan to continue to expand the geographic coverage of our retail network in the PRC and globally. We plan to further increase numbers of retail stores, and in particular for *CROQUIS*, *jnby by JNBY* and *Pomme de terre* brands. We expect our ability to continue the expansion of our retail network will significantly impact our future business growth.

Business growth of our existing stores and online channels

Our results of operations have been and will continue to be affected by the performance of our retail network. In addition to rapidly expanding our geographic coverage, we maintained robust sales growth for our existing stores during the Track Record Period. We have fully integrated our membership program, inventory sharing and allocation system and payment system across our omni-channel interactive platform.

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Same Store Sales Growth rates of our retail stores were 0.1%, 7.1% and 8.3%, respectively, for Fiscal 2014, Fiscal 2015 and Fiscal 2016. We believe the increase in Same Store Sales Growth rates during the Track Record Period was a result of (i) the launch of our inventory sharing and allocation system in early 2014, as such system enabled the effective and efficient replenishment of our inventories and has helped us better meet customers’ needs, even when desired sizes or colors are out of stock at particular locations; and (ii) the launch of our social network platform on WeChat in April 2015, which drove the growth of our “Fans Economy” and has facilitated interaction between our brands’ public accounts on WeChat and our subscribers.

The table below sets forth the number of same stores and Same Store Sales Growth by brand of our self-operated stores during the Track Record Period.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>	<i>Number of Same Stores</i>	<i>Same Store Sales Growth</i>
<i>JNBY</i>	139	10.0%	150	4.5%	171	8.8%
<i>CROQUIS</i>	42	0.8%	39	14.7%	48	13.8%
<i>jnby by JNBY</i>	10	50.5%	23	34.4%	45	6.4%
<i>less</i> ⁽¹⁾	23	(8.3%)	22	14.5%	28	22.7%
Self-operated stores	<u>214</u>	6.8%	<u>234</u>	8.3%	<u>292</u>	10.6%

Note:

- (1) We acquired *less* in 2011. In Fiscal 2014, we re-positioned the brand to better align it with our design philosophy. The changes in style led to a temporary decrease in same store sales in Fiscal 2014, but the brand experienced robust Same Store Sales Growth in Fiscal 2015 and Fiscal 2016 partly due to the successful re-positioning.

Same Store Sales Growth rates of our distributor-operated stores were (2.9%), 6.4% and 7.0%, respectively, for Fiscal 2014, Fiscal 2015 and Fiscal 2016. The temporary decrease in same store sales of distributor-operated stores in Fiscal 2014 was primarily due to market conditions, particularly the competitive pressure from e-commerce platforms on physical stores. The increase in Same Store Sales Growth in Fiscal 2015 and Fiscal 2016 was a result of (i) the launch of our inventory sharing and allocation system and (ii) the launch of our social network platform on WeChat, as described above.

We plan to continue to enhance the performance of our existing stores by taking measures such as improving store design and appearance, improving the service quality of the store personnel, enhancing value-added experiences for our customers, enhancing our information management system and devoting greater efforts to maximize synergies. In addition, we plan to devote more efforts to selling our new products through our online channels. We expect our ability to continue the business growth of our retail network will continue to be a critical factor to our success.

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Product mix

As of the Latest Practicable Date, we offered five different brands. Each of these brands has its own brand concept and positioning, targets the needs of different consumers and commands different selling prices. Our products include apparel for women, men, children and teenagers and a broad range of accessories and footwear. Our product mix affects our financial performance as different product lines, and different products within the same product line, have different prices, sales volume and gross profit margins, depending on factors such as consumer demand and preferences, market competition, the cost of raw materials, production costs, product positioning, pricing and marketing strategies. If the sales mix of our product lines or brands changes, our revenue and profitability will be affected. Over the Track Record Period, we had streamlined the number of distinct product stock keeping units (SKUs) while increasing the diversity of our product collections for effective cost control, greater efficiency and to improve our gross profit margins. We believe that our product offerings enable us to capitalize on changing market trends and consumer preferences in China.

The table below sets forth the numbers of our retail stores operated globally during the Track Record Period:

	As of June 30,		
	2014	2015	2016
<i>JNBY</i>	675	696	712
<i>jnby by JNBY</i>	77	182	300
<i>CROQUIS</i>	143	166	211
<i>less</i>	60	68	93
Total	955	1,112	1,316

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.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
<i>JNBY</i>	1,029,632	74.4	1,110,500	68.8	1,197,610	62.9
<i>CROQUIS</i>	237,781	17.2	298,058	18.5	379,595	20.0
<i>jnby by JNBY</i>	41,596	3.0	114,273	7.1	202,752	10.7
<i>less</i>	74,426	5.4	90,262	5.6	122,685	6.4
<i>Pomme de terre</i>	—	—	—	—	—	—
Total revenue	1,383,435	100.0	1,613,093	100.0	1,902,642	100.0

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The following table sets forth a breakdown of the gross profit and gross profit margin of each of our five different brands for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit		Gross Profit		Gross Profit	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
<i>JNBY</i>	579,373	56.3	665,309	59.9	727,430	60.7
<i>CROQUIS</i>	156,599	65.9	201,847	67.7	259,396	68.3
<i>jnby by JNBY</i>	22,814	54.8	68,697	60.1	124,647	61.5
<i>less</i>	44,190	59.4	54,698	60.6	78,986	64.4
<i>Pomme de terre</i>	—	—	—	—	—	—
Total	<u>802,976</u>	58.0	<u>990,551</u>	61.4	<u>1,190,459</u>	62.6

Changes in product mix in the past have affected, and are expected to continue to affect, our revenue and results of operations. We have adjusted our product mix within specific product lines from time to time during the Track Record Period to increase our overall gross profit margin and maximize our gross profit. Our overall gross profit margin amounted to 58.0% in Fiscal 2014, 61.4% in Fiscal 2015 and 62.6% in Fiscal 2016, which increase was due in part to our having increased the sales of products of *CROQUIS*, *jnby by JNBY* and *less* brands during the Track Record Period, which generally have higher gross profit margins. In addition, we plan to explore brand synergies and cross-selling opportunities among our brands by leveraging our market-leading position in China’s designer brand fashion industry. For example, we plan to introduce designer household and furniture products to provide consumers with a full-fledged lifestyle concept.

Channel mix

Our overall gross profit margin is 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 June 30, 2016, our offline channels consisted of 432 self-operated stores, 855 distributor-operated stores and 29 stores operated by overseas customers. Through our self-operated stores, we sell our products to consumers at retail prices while bearing the costs of leases for our standalone stores and concession fees for our concession stores, which costs are included in our selling expenses. For distributor-operated stores, we sell our products to distributors at wholesale prices, but do not bear the operating expense of distributor-operated stores. As a result, our self-operated stores had higher gross profit margins than the gross profit margins of our distributor-operated stores.

Changes in channel mix have in the past affected, and are expected to continue to affect, our revenue and results of operations. During the Track Record Period, the increase in our revenue and overall gross profit margin was partly attributable to the increased proportion of our self-operated stores. For more information during the Track Record Period, see “— Geographic coverage of our offline retail network” above.

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

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Offline channels	1,268,740	91.7	1,485,935	92.1	1,759,800	92.5
Self-operated stores ⁽¹⁾	617,717	44.7	732,803	45.4	940,759	49.4
Distributor-operated stores	619,851	44.8	730,577	45.3	806,531	42.4
Others ⁽²⁾	31,172	2.2	22,555	1.4	12,510	0.7
Online channels	114,695	8.3	127,158	7.9	142,842	7.5
Total revenue	1,383,435	100.0	1,613,093	100.0	1,902,642	100.0

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”.
- (2) Consists of stores operated by overseas customers.

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

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit		Gross Profit		Gross Profit	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Offline channels	761,672	60.0	951,401	64.0	1,135,261	64.5
Self-operated stores	427,750	69.2	530,841	72.4	679,833	72.3
Distributor-operated stores	317,251	51.2	405,906	55.6	448,658	55.6
Others	16,671	53.5	14,654	65.0	6,770	54.1
Online channels⁽¹⁾	41,304	36.0	39,150	30.8	55,198	38.6
Total	802,976	58.0	990,551	61.4	1,190,459	62.6

Note:

- (1) During the Track Record Period, a significant portion of products sold through online channels comprised off-season products offered at discounts. As a result, the gross profit margin for online channels is significantly lower than the gross profit margin for offline channels during the Track Record Period.

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Operating costs and operational efficiency

We incur various types of operating expenses, such as cost of sales, selling and marketing expenses, and administrative expenses.

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our cost of sales was RMB580.5 million, RMB622.5 million and RMB712.2 million, respectively. Cost of sales primarily consists of finished goods purchased, costs of raw materials and cost of processing. During the Track Record Period, we outsourced substantially all of production to OEM suppliers, which consist of two types: (i) finished product suppliers, which process raw materials purchased by themselves and provide us with the finished products; and (ii) processing suppliers, which process raw materials provided by us and provide us with the processed products. We bear the cost of raw materials indirectly in the former case as part of costs of finished goods and directly in the latter case. We pay processing suppliers cost of processing.

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our selling and marketing expenses were RMB501.4 million, RMB581.6 million and RMB712.4 million, respectively. Selling and marketing expenses primarily consist of operating lease rental, concession fees, service outsourcing fees and employee benefit expenses. We pay rents to shopping malls and individual landlords for our standalone stores, and we pay concession fees to department stores for our concession stores. Service outsourcing fees consist of fees we pay to the HR Company, a third-party human resources management company, that has employed sales staff in our self-operated stores since April 2015. Our service outsourcing fees increased from RMB18.7 million in Fiscal 2015 to RMB138.7 million in Fiscal 2016. See “Business — Sales and Distribution — Our Retail Stores — Store Management and Operations — Store Staff and Service Outsourcing”. As a result of this arrangement, employee benefit expenses decreased from RMB132.6 million in Fiscal 2015 to RMB62.1 million in Fiscal 2016.

We improved our operational efficiency during the Track Record Period by streamlining our SKUs, particularly with respect to the *JNBY* brand. As a result of our focus on operational efficiency, our gross profit margin increased from 58.0% for Fiscal 2014 to 61.4% for Fiscal 2015 and further to 62.6% for Fiscal 2016.

Economic growth, urbanization and consumer spending in the PRC

Substantially all of our business operations are in the PRC, and substantially all of our revenues are derived from our operations in the PRC. 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. In addition, economic growth in the PRC has driven greater urbanization and increased per capita urban household 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.

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According to CIC, per capita annual disposable income of urban households and total retail value of consumer goods in the PRC increased at CAGRs of 9.4% and 13.1%, respectively, from 2011 to 2015. Driven by growth in per capita disposable income of urban households, the designer brand fashion market in China’s apparel industry increased at a CAGR of 26.2% from 2011 to 2015, according to CIC. We expect that our results of operations will continue to be affected by changes in the PRC economy and per capita disposable income, as well as consumer spending, particularly in urban areas.

Retention of inventory by Huikang Industrial

As part of the agreement between our Founders and VKC under the VKC Note Purchase Agreement in connection with the Reorganization, certain off-season inventory (amounting to approximately RMB217.1 million) was retained and assumed by Huikang Industrial, which then entered into cooperation agreements with the Group for subsequent sales. All of our off-season inventory was assumed by Huikang Industrial upon the Reorganization, which was completed prior to the Track Record Period in 2013. Our Founders and VKC agreed that Huikang Industrial would act as a product supplier for such off-season inventory. We sell these products through our online platforms and outlets based on our promotional discount policies and programs, and we purchased products from Huikang Industrial based on consumers’ orders for sales through our online channels and on a monthly basis for sales at our outlets. We agreed to purchase the inventory at a price generally slightly above the original cost in order to compensate Huikang Industrial for storing and handling the inventory. During the Track Record Period, we purchased inventory from Huikang Industrial at a purchase price totaling RMB173.4 million, of which RMB171.1 million was finished goods and there was an insignificant amount of other goods of RMB2.3 million. For the finished goods we purchased from Huikang Industrial, the relevant cost of such inventory recorded by Huikang Industrial was RMB 145.1 million and Huikang Industrial realized an overall gross margin of 15.2% with these transactions. In addition, starting from Fiscal 2015, Huikang Industrial disposed a total of RMB51.4 million of long aged inventory as scrap at no or minimal value. As of June 30, 2016, the amount of inventory retained by Huikang Industrial had decreased to approximately RMB6.2 million. For more information, see “Our History and Development — Development of Our Group Structure — Our Onshore Reorganization”. These transactions are reflected in our results of operations and financial condition in several ways during the Track Record Period. Purchase of goods from Huikang Industrial amounted to RMB98.6 million, RMB51.5 million and RMB23.4 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. The gross profit/(loss) margin for the sale of such goods amounted to 41.2%, 18.3% and (9.9%), respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. The retention of inventory by Huikang Industrial reduced the opening balances of inventory and provision for inventory impairment of Fiscal 2014, which in turn caused the inventory turnover days and provision to gross inventory ratio of Fiscal 2014 to be relatively lower when compared to such ratios of Fiscal 2015. Going forward, we do not expect further impact of these transactions on our results of operations, as we have ceased the purchases of Huikang Industrial’s inventories since June 2016.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The summary of our significant accounting policies are set forth in Note 2 to the Accountant’s Report in Appendix I. Critical accounting estimates and judgments are set forth in Note 4 to the Accountant’s Report in Appendix I. Critical accounting estimates and judgments are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgements 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 is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. We recognize revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group’s activities, as described below. We base our estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Sales of goods — distributors*

A significant part of our products are sold to distributors, which 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, the risks of obsolescence and loss have been transferred to the distributors, and acceptance by distributors occurs. Acceptance refers to either of the situations that distributors 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’ acceptance of the products.

We offer volume rebates to distributors as agreed in the sales contracts. Distributors are also offered with right of return within the limit as agreed in the sales contracts. Revenue is adjusted for estimated rebates and expected returns based on historical pattern.

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(b) *Sales of products — retail*

We sell our products to end customers via retail stores or through online platforms such as Tmall.com. 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 platform. Revenue is adjusted for the value of expected returns.

We operate a loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognized as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognized as deferred revenue at their fair value. Revenue from the reward points is recognized when the points are redeemed or expired.

Net realizable value of inventories

Net realizable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling and marketing expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Our management reassesses these estimates at each balance sheet date.

Income taxes and deferred income tax

We are subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when our management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

Right of return

We offer right of return to distributors and end customers. Our management estimates the amount of returns associated with sales in a specific period, which are deducted from the total revenue arising from such sales. We estimate returns based on historical results, taking into consideration the type of

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distributors, the type of transactions and the specifics of the arrangements with our distributors. Our management believes that we have processed sufficient historical experience and patterns to estimate sales returns based on different customer profiles, e.g. distributors, offline retail customers, online retail customers, etc. Such estimates are performed on a periodic basis taking into account the competitive landscape (including sales return levels offered by our competitors and our market position), fashion trend (the proportion of *avant-garde* products in our product mix), and geographical locations of new distributor-operated stores.

Volume rebates

We offer volume rebates to distributors as agreed in the sales contracts. Revenue is adjusted for estimated rebates in the respective period. Pursuant to certain distribution agreements, rebates are offered to applicable distributors upon reaching minimum sales thresholds for a specified period and are calculated based on a percentage multiplied by the applicable distributor’s total purchases (net of sales returns) for the period. Both the percentage and the threshold amount vary among distributors. Volume rebates are reasonably estimated based on our past experience regarding sales returns from distributors and sales forecasts, which are the basis for assessing whether the minimum sales thresholds would be satisfied.

Membership-based customer loyalty program

We offer a membership-based customer loyalty program, under which customers who joined the membership are able to accumulate reward points through purchases of goods and could redeem these reward points for vouchers entitling discount on a subsequent purchase. We accrue for deferred revenue as members accumulate points on the consideration of the proportion of vouchers expected to be redeemed. When members redeem awards, the accrued liability is reduced correspondingly.

Fair value of share-based compensation expenses

We awarded restricted share units under the restricted share units (“RSUs”) scheme to eligible senior management and employees, and used the fair value of underlying ordinary shares to determine the total fair value of the RSUs awarded.

We have used the discounted cash flow method to determine the fair value of the underlying equity of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary shares. The discounted cash flow analysis is based on projected cash flow using management’s best estimate as of the valuation date. The determination of the fair value of RSUs requires complex and subjective judgments to be made regarding projected financial and operating results, business risks, the liquidity of shares and operating history and prospects at the time of valuation. The major assumptions used in calculating the fair value of ordinary shares include discount rates, comparable companies and discount for lack of marketability.

The fair values of RSUs granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, we are required to estimate the expected percentage of grantees that will remain in employment with us. We only recognize an expense for those RSUs expected to vest over the vesting period during which the grantees become unconditionally entitled to

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these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the RSUs and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The total expense is recognized over the vesting period over which all of specified vesting conditions are to be satisfied. Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting would be met, the corresponding share-based compensation expenses recognized by us in respect of their services rendered for the years ended June 30, 2014, 2015 and 2016, were nil, RMB11.6 million and RMB11.0 million, respectively.

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 comprehensive income

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Revenue	1,383,435	100.0	1,613,093	100.0	1,902,642	100.0
Cost of sales	(580,459)	(42.0)	(622,542)	(38.6)	(712,183)	(37.4)
Gross profit	802,976	58.0	990,551	61.4	1,190,459	62.6
Selling and marketing expenses	(501,352)	(36.2)	(581,609)	(36.1)	(712,381)	(37.4)
Administrative expenses	(102,705)	(7.4)	(131,204)	(8.1)	(157,409)	(8.3)
Other income and gains, net	27,771	2.0	18,627	1.2	22,335	1.2
Operating profit	226,690	16.4	296,365	18.4	343,004	18.0
Finance income	796	0.1	2,406	0.1	1,437	0.1
Finance costs	(16,878)	(1.2)	(16,413)	(1.0)	(2,535)	(0.1)
Finance costs, net	(16,082)	(1.2)	(14,007)	(0.9)	(1,098)	(0.1)
Profit before income tax	210,608	15.2	282,358	17.5	341,906	18.0
Income tax expense	(60,692)	(4.4)	(85,406)	(5.3)	(102,570)	(5.4)
Profit for the year	149,916	10.8	196,952	12.2	239,336	12.6
Non-HKFRSs Measure						
Share-based compensation expenses....	—	—	11,579	0.7	10,958	0.6
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (unaudited)⁽¹⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note:

- (1) We derive adjusted net profit from profit for the year by (i) adding share-based compensation expenses and (ii) adding [REDACTED] expenses. Please refer to the section headed “Financial Information — Non-HKFRSs Measure”.

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We derive our revenue primarily from sales of our products to distributors and to end-customers in our self-operated stores and through online channels. Our revenue is stated net of sales rebate, sales returns and value added taxes.

We generally allow our distributors to return products under certain circumstances, including, among other things, (i) certain percentages 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, see “Business — Sales and Distribution — Our Retail Stores — Distributor-operated Stores — Ownership of Products and Sales Returns”. For our end customers, we generally allow exchange or return of products with quality issues within 30 days after purchase.

Revenue by product segment and brand

The following table sets forth a breakdown of our revenue by product segment (women, men, children and teenagers) and by brand, each expressed in the absolute amount and as a percentage of our total revenue, for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Women	1,104,058	79.8	1,200,762	74.4	1,320,295	69.3
<i>JNBY</i>	1,029,632	74.4	1,110,500	68.8	1,197,610	62.9
<i>less</i>	74,426	5.4	90,262	5.6	122,685	6.4
Men	237,781	17.2	298,058	18.5	379,595	20.0
<i>CROQUIS</i>	237,781	17.2	298,058	18.5	379,595	20.0
Children	41,596	3.0	114,273	7.1	202,752	10.7
<i>jnby by JNBY</i>	41,596	3.0	114,273	7.1	202,752	10.7
<i>Pomme de terre</i> ⁽¹⁾	—	—	—	—	—	—
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Note:

- (1) We introduced *Pomme de terre* in March 2016, opened the first *Pomme de terre* store in July 2016, and did not record any revenue under this brand during the Track Record Period.

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During the Track Record Period, revenue generated from sales of products of *JNBY* brand continued to increase. Revenue generated from sales of products of *JNBY* brand as a percentage of our total revenue decreased from 74.4% in Fiscal 2014 to 68.8% in Fiscal 2015, and further to 62.9% in Fiscal 2016, primarily due to the significant increase in revenue generated from sales of products of our *CROQUIS* and *jnby by JNBY* brands, which were successfully launched in 2005 and 2011, respectively. The success was due to increasing acceptance of these two brands in the market. During the Track Record Period, revenue generated from sales of products of brands such as *CROQUIS*, *jnby by JNBY* and *less* continued to increase in both the absolute amount and as a percentage of our total revenue.

Revenue by sales channel

We sell our products through an extensive network of offline retail stores consisting of self-operated stores, distributor-operated stores and stores operated by overseas customers as well as online channels. The following table sets out 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.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Offline channels	1,268,740	91.7	1,485,935	92.1	1,759,800	92.5
Self-operated stores ⁽¹⁾	617,717	44.7	732,803	45.4	940,759	49.4
Distributor-operated stores	619,851	44.8	730,577	45.3	806,531	42.4
Others ⁽²⁾	31,172	2.2	22,555	1.4	12,510	0.7
Online channels	114,695	8.3	127,158	7.9	142,842	7.5
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”.
- (2) Consists of stores operated by overseas customers.

During the Track Record Period, absolute amounts of revenue generated from sales through our offline channels and online channels continued to increase. As a percentage of our total revenue, revenue generated from sales through our offline and online channels have remained generally stable with offline channels representing between 91.7% and 92.5%, and online channels representing between 7.5% and 8.3%, of our total revenue.

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Revenue by geographic location

The following table sets out a breakdown of our revenue by geographic region, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Eastern China ⁽¹⁾	422,872	30.6	514,347	31.9	607,486	31.9
Northern China ⁽²⁾	262,518	19.0	311,328	19.3	358,691	18.9
Northeastern China ⁽³⁾	142,573	10.3	185,303	11.5	219,200	11.5
Central China ⁽⁴⁾	123,653	8.9	152,258	9.4	204,467	10.7
Southwestern China ⁽⁵⁾	112,434	8.1	114,758	7.1	140,347	7.4
Southern China ⁽⁶⁾	117,762	8.5	119,463	7.4	130,733	6.9
Northwestern China ⁽⁷⁾	55,756	4.0	63,311	3.9	82,694	4.3
Online.....	114,695	8.3	127,158	7.9	142,842	7.5
Overseas	31,172	2.3	25,167	1.6	16,182	0.9
Total revenue	<u>1,383,435</u>	<u>100.0</u>	<u>1,613,093</u>	<u>100.0</u>	<u>1,902,642</u>	<u>100.0</u>

Notes:

- (1) Eastern China includes Shanghai City, Anhui Province, Fujian Province, Jiangsu Province, Shandong Province, Zhejiang Province and Jiangxi Province.
- (2) Northern China includes Beijing City, Tianjin City, Hebei Province, Inner Mongolia Autonomous Region and Shanxi Province.
- (3) Northeastern China includes Heilongjiang Province, Jilin Province and Liaoning Province.
- (4) Central China includes Henan Province, Hubei Province and Hunan Province.
- (5) Southwestern China includes Chongqing City, Guizhou Province, Sichuan Province, Tibet Autonomous Region and Yunnan Province.
- (6) Southern China includes Guangdong Province, Guangxi Zhuang Autonomous Region and Hainan Province.
- (7) Northwestern China includes Gansu Province, Ningxia Hui Autonomous Region, Shaanxi Province, Qinghai Province and Xinjiang Uyghur Autonomous Region.

Eastern China and Northern China have been the two regional markets that have generated the largest portions of our revenue, contributing in the aggregate approximately 49.6%, 51.2% and 50.8% of our total revenue in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively.

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Cost of sales

Cost of sales primarily consists of finished goods purchased, costs of raw materials and cost of processing. Our OEM suppliers consist of two types: (i) finished product suppliers, which process raw materials purchased by themselves and provide us with the finished products; and (ii) processing suppliers, which process raw materials provided by us and provide us with the processed products. We bear the cost of raw materials indirectly in the former case as part of finished goods purchased and directly in the latter case. We pay processing suppliers cost of processing.

Our finished goods purchased decreased as a percentage of our total cost of sales during the Track Record Period, which was primarily due to the decrease in purchase of inventory retained by Huikang Industrial. See “— Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial”. For a similar reason, our cost of raw materials and our cost of processing increased as percentages of our total cost of sales during the Track Record Period. Our provision for inventories increased significantly as a percentage of total cost of sales from Fiscal 2015 to Fiscal 2016 primarily due to the launch of more *avant-garde* products, for which we generally grant higher rates of sales returns. 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.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Finished goods purchased ⁽¹⁾	359,334	61.9	289,789	46.5	298,604	41.9
Cost of raw materials.....	117,352	20.2	175,933	28.3	212,082	29.8
Cost of processing	58,222	10.0	102,471	16.5	127,820	17.9
Provision for inventories.....	23,086	4.0	33,582	5.4	51,093	7.2
Sales tax and other surcharges	15,287	2.6	13,288	2.1	21,876	3.1
Production expenses ⁽²⁾	7,178	1.3	7,480	1.2	708	0.1
Total cost of sales	<u>580,459</u>	<u>100.0</u>	<u>622,542</u>	<u>100.0</u>	<u>712,183</u>	<u>100.0</u>

Notes:

- (1) Includes finished goods inventories purchased from Huikang Industrial in the amount of RMB98.6 million, RMB51.5 million and RMB23.4 million in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively.
- (2) Includes production-related utilities, depreciation and workforce expenses. We produced an insignificant amount of products in-house during the Track Record Period. Since July 2015, we have outsourced the production of all our products to selected domestic OEM suppliers.

Our cost of sales increased as an absolute amount during the Track Record Period primarily due to increases in the volumes of products sold.

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The following table sets forth the sensitivity analysis on the impact of changes in cost of outsourced production, including finished goods purchased, cost of raw materials and cost of processing, on our cost of sales, gross profit and net profit during the Track Record Period. The sensitivity analysis below is in line with historical fluctuations of our cost of sales, gross profit and net profit due to fluctuations of the above during the Track Record Period.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Change in the cost of sales if cost of outsourced production increase/(decrease) by 10%	+53,491	+56,819	+63,851
Change in the gross profit if cost of outsourced production increase/(decrease) by 10%	-53,491	-56,819	-63,851
Change in the net profit if cost of outsourced production increase/(decrease) by 10%	-40,118	-42,614	-47,888

Gross profit and gross profit margin

As a result of the foregoing, in Fiscal 2014, Fiscal 2015 and Fiscal 2016, our gross profit was RMB803.0 million, RMB990.6 million and RMB1,190.5 million, respectively. Our overall gross profit margin was 58.0%, 61.4% and 62.6%, respectively, in the same years.

The following table sets forth a breakdown of the gross profit and gross profit margin of each of our five different brands for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Women	623,563	56.5	720,007	60.0	806,416	61.1
<i>JNBY</i>	579,373	56.3	665,309	59.9	727,430	60.7
<i>less</i>	44,190	59.4	54,698	60.6	78,986	64.4
Men	156,599	65.9	201,847	67.7	259,396	68.3
<i>CROQUIS</i>	156,599	65.9	201,847	67.7	259,396	68.3
Children	22,814	54.8	68,697	60.1	124,647	61.5
<i>jnby by JNBY</i>	22,814	54.8	68,697	60.1	124,647	61.5
<i>Pomme de terre</i> ⁽¹⁾	—	—	—	—	—	—
Total	<u>802,976</u>	58.0	<u>990,551</u>	61.4	<u>1,190,459</u>	62.6

Note:

- (1) We introduced *Pomme de terre* in March 2016, opened the first *Pomme de terre* store in July 2016, and did not record any revenue under this brand during the Track Record Period.

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Our self-operated stores generally have higher gross profit margins than distributor-operated stores. Our offline channels generally have higher gross profit margins than our online channels. Our gross profit margin for online channels fluctuated during the Track Record Period due to the mix of products sold, with older products generally having lower gross profit margin compared to newer products. Since August 2015, we have started selling in-season products through online channels with consistent pricing as offline channels, which contributed to the increase of gross profit margin for online channels from 30.8% for Fiscal 2015 to 38.6% for Fiscal 2016. The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	Gross Profit		Gross Profit		Gross Profit	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Offline channels	761,672	60.0	951,401	64.0	1,135,261	64.5
Self-operated stores ⁽¹⁾	427,750	69.2	530,841	72.4	679,833	72.3
Distributor-operated stores	317,251	51.2	405,906	55.6	448,658	55.6
Others ⁽²⁾	16,671	53.5	14,654	65.0	6,770	54.1
Online channels	41,304	36.0	39,150	30.8	55,198	38.6
Total	<u>802,976</u>	58.0	<u>990,551</u>	61.4	<u>1,190,459</u>	62.6

Notes:

- (1) Historically, a small number of our self-operated stores were managed by the Third-party Manager. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”.
- (2) Consists of wholesales to customers who operate overseas stores.

We purchased certain off-season products from Huikang Industrial during the Track Record Period and sold these products through our online platforms and outlets based on our promotional discount policies and programs. See “— Factors Affecting our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details. Our gross profit/(loss) margin for the sale of such finished goods amounted to 41.2%, 18.3% and (9.9%), respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. In Fiscal 2016, our revenue for such finished goods amounted to RMB19.9 million and the purchase price for such finished goods from Huikang Industrial amounted to RMB21.9 million, resulting in a gross loss of RMB2.0 million. The relevant cost of these inventory recorded by Huikang Industrial was RMB22.0 million and Huikang Industrial recorded a gross loss of (0.7)% by selling such inventory to us in Fiscal 2016 due to the fact that the inventory was long aged. We sold these off-season products at insignificant gross loss in order to facilitate certain promotional activities in our online platforms and outlets. By selling these products at particularly attractive prices, we aimed to draw customers’ attention and stimulate the purchase of more new products along with these off-season products, and increase the overall gross profit margin of the online channels. For the gross profit margin Huikang Industrial realized for its sales of off-season products to us, see “— Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial”.

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Selling and marketing expenses

Our selling and marketing expenses primarily consist of (i) operating lease rental in connection with leases of our self-operated stores and offices, (ii) concession fees payable to department stores, (iii) service outsourcing fees and (iv) employee benefits expenses. Concession fees payable to department stores increased as a percentage of our selling and marketing expenses during the Track Record Period. Operating lease rental decreased as a percentage of our selling and marketing expenses during the same period. This corresponds with the increased proportion of concession stores among our self-operated stores to take advantage of consumer traffic in department stores. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our operating lease rental as a percentage of our total selling and marketing expenses was 28.8%, 27.3% and 24.0%, respectively. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our concession fees payable to department stores as a percentage of our total selling and marketing expenses were 13.5%, 16.9% and 18.7%, respectively.

Service outsourcing fees consist of fees we pay to the HR Company, a third-party human resources management company that has employed sales staff in our self-operated stores since April, 2015. See “Business — Sales and Distribution — Our Retail Stores — Store Management and Operations — Store Staff and Service Outsourcing”. As a result of this arrangement, employee benefit expenses decreased from RMB132.6 million in Fiscal 2015 to RMB62.1 million in Fiscal 2016, while service outsourcing fees increased from RMB18.7 million in Fiscal 2015 to RMB138.7 million in Fiscal 2016. The aggregate amount of service outsourcing fees and employee benefits expenses increased from RMB151.3 million in Fiscal 2015 to RMB200.8 million in Fiscal 2016, which was primarily due to the net increase of 100 self-operated stores in Fiscal 2016. During the Track Record Period, we paid store management fees to the Third-party Manager, which managed a small number of self-operated stores. We terminated such arrangements in June 2016. For more information, see “Business — Sales and Distribution — Our Retail Stores — Self-operated stores”. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our selling and marketing expenses were RMB501.4 million, RMB581.6 million and RMB712.4 million, respectively. The following table sets forth a breakdown of the key components of our selling and marketing expenses, each expressed as an absolute amount and as a percentage of our total selling and marketing expenses, for the years indicated.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Operating lease rental.....	144,591	28.7	158,786	27.3	171,325	24.0
Concession fees payable to department stores.....	67,883	13.5	98,361	16.9	133,160	18.7
Service outsourcing fees.....	2,867	0.6	18,740	3.2	138,667	19.5
Advertising and promotion expenses.....	42,874	8.6	45,745	7.9	65,019	9.1
Employee benefit expenses.....	131,247	26.2	132,615	22.8	62,109	8.7
Share-based compensation expenses.....	—	—	3,934	0.7	4,282	0.6
Store management fees.....	26,486	5.3	29,746	5.1	36,401	5.1
Transportation and warehouse expenses.....	19,033	3.8	20,275	3.5	27,603	3.9
Utilities charges and office expenses.....	22,212	4.4	22,843	3.9	23,701	3.3
Depreciation and amortization.....	21,817	4.4	24,824	4.3	26,063	3.7
Commission expenses.....	8,529	1.7	13,573	2.3	13,515	1.9
Others ⁽¹⁾	13,813	2.8	12,167	2.1	10,536	1.5
Total	501,352	100.0	581,609	100.0	712,381	100.0

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Note:

- (1) Includes entertainment and traveling expenses, professional service expenses, miscellaneous store expenses and meeting expenses.

Our selling and marketing expenses increased as an absolute amount during the Track Record Period primarily due to the expansion of our business generally and in particular the increase in the number of our self-operated stores.

Administrative expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, including director’s emoluments, (ii) product development outsourcing fees and (iii) professional service expenses, which were related to the [REDACTED]. Since July 2015, we have engaged Hangzhou JNBY for production of sample apparel, for which we pay product development outsourcing fees. As of a result of this arrangement, employee benefit expenses decreased from RMB77.1 million in Fiscal 2015 to RMB63.1 million in Fiscal 2016, and product development outsourcing fees increased from RMB1.5 million in Fiscal 2015 to RMB20.7 million in Fiscal 2016. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our administrative expenses were RMB102.7 million, RMB131.2 million and RMB157.4 million, respectively. 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.

	Fiscal 2014		Fiscal 2015		Fiscal 2016	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
Employee benefit expenses, including						
director’s emoluments	60,072	58.3	77,063	58.7	63,101	40.1
Product development outsourcing	873	0.9	1,473	1.1	20,746	13.2
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other professional service	3,395	3.3	3,699	2.8	5,433	3.5
Share-based compensation expenses	—	—	7,645	5.8	6,676	4.2
Operating lease rental	9,521	9.3	5,336	4.1	8,726	5.5
Apparel design consumables	8,271	8.1	7,569	5.8	9,514	6.0
Banking fees	2,216	2.2	3,008	2.3	5,978	3.8
Utilities charges and office expenses	4,695	4.6	6,997	5.3	6,922	4.4
Stamp duty, property tax and other						
surcharges	2,647	2.6	4,391	3.3	3,786	2.4
Depreciation and amortization	4,431	4.3	4,449	3.4	4,244	2.7
Others ⁽¹⁾	6,584	6.4	9,574	7.4	6,760	4.3
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Note:

- (1) Includes entertainment and traveling expenses, allowance for account receivable and transportation expenses, recruiting fees and meeting expenses.

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Our administrative expenses increased as an absolute amount during the Track Record Period primarily due to the expansion of our business.

Other income and gains, net

Our other net income and gains consist of government grants, interest income of loans to a related party, foreign exchange gains/(losses), losses on disposal of property, plant and equipment and others, investment income and provision for loss in association with idle land. Loans to a related party represent our loans extended to Huikang Industrial in the total amount of RMB145.0 million, which bore an interest rate at 9% per annum and had been fully repaid as of June 30, 2016. See “— Related Party Transactions and Balances” of this section. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, government grants primarily comprised financial subsidies received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to such income. Investment income primarily represents interest income on money market funds invested by the Group. We recorded provision of RMB6.9 million related to idle land for Fiscal 2016. For more information, see “Business — Properties — Owned Properties”. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we had total other net income and gains of RMB27.8 million, RMB18.6 million and RMB22.3 million, respectively.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	17,860	3,273	22,726
Interest income on loans to a related party	9,304	12,497	5,553
Investment income.....	604	1,592	538
Foreign exchange gains/(losses).....	474	809	(238)
Provision for loss in association with idle land	—	—	(6,915)
Losses on disposal of property, plant and equipment	(13)	(4)	(165)
Others	(458)	460	836
Total	<u>27,771</u>	<u>18,627</u>	<u>22,335</u>

Our government grants amounted to RMB17.9 million, RMB3.3 million and RMB22.7 million, or 11.9%, 1.7% and 9.5% of our net profit, for Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. Government grants fluctuated during the Track Record Period because such grants were subject to the sole discretion of the relevant government authorities. Our government grants include financial subsidies and financial awards from various local governments in the PRC.

- *Financial subsidies.* Financial subsidies were granted to reimburse the costs of qualified projects. There were no specific conditions attached to such reimbursements. We applied for financial subsidies in each fiscal year during the Track Record Period based on guidelines published by the relevant authorities. While we plan to continue to apply for financial subsidies in the future, there can be no assurance that we will receive significant amounts of financial subsidies, or at all.

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- *Financial awards.* Financial awards were granted primarily to recognize and incentivize successful businesses. There were no specific conditions attached to the awards. While we received financial awards in each fiscal year during the Track Record Period, there can be no assurance that we will receive similar awards in the future.

The table below sets forth a breakdown of government grants by type for the Track Record Period.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants:			
Financial subsidies	17,346	2,887	22,089
Financial awards.....	514	386	637
Total	17,860	3,273	22,726

Finance income

Our finance income represents interest income on cash and cash equivalents and restricted cash. Restricted cash mainly represents deposits pledged for bills payables as collaterals. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we had finance income of RMB0.8 million, RMB2.4 million and RMB1.4 million, respectively.

Finance costs

Our finance costs represent interest expenses on bank borrowings. In Fiscal 2014, Fiscal 2015, and Fiscal 2016, we had finance costs of RMB16.9 million, RMB16.4 million and RMB2.5 million, respectively.

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 25.00% and paid by our PRC subsidiaries on their taxable income. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our effective tax rates were 28.82%, 30.25% and 30.00%, respectively, which were higher than the PRC statutory income tax rate of 25%. These elevated effective tax rates were mainly attributable to withholding tax made for the profit distribution of the PRC subsidiaries and amounted to RMB7.2 million, RMB10.4 million and RMB11.7 million, respectively, in Fiscal 2014, Fiscal 2015 and Fiscal 2016. Our subsidiaries incorporated in Hong Kong were subject to a profit tax at the rate of 16.5% during the Track Record Period. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. In Fiscal 2014, Fiscal 2015 and Fiscal 2016, our income tax expense amounted to RMB60.7 million, RMB85.4 million and RMB102.6 million, respectively.

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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-HKFRSs MEASURE

To supplement our consolidated financial statements which are presented in accordance with HKFRSs, 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-HKFRSs 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 (Unaudited)

We derive adjusted net profit from profit for the year by (i) adding share-based compensation expenses and (ii) adding [REDACTED] expenses. The term of adjusted net profit is not defined under HKFRSs. 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-HKFRSs 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 calculated in accordance with HKFRSs. In addition, because this non-HKFRSs 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 HKFRSs, which is profit for the years indicated:

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	149,916	196,952	239,336
Share-based compensation expenses:			
Selling and marketing expenses	—	3,934	4,282
Administrative expenses	—	7,645	6,676
[REDACTED] expenses:			
Administrative expenses	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (unaudited)	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

FINANCIAL INFORMATION

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATION

Fiscal 2016 compared to Fiscal 2015

Revenue

Our revenue increased by 17.9% from RMB1,613.1 million in Fiscal 2015 to RMB1,902.6 million in Fiscal 2016. The increase in our revenue was primarily due to increased retail sales and Same Store Sales Growth. Increased retail sales were driven mainly by an increase in the number of our retail stores, and also by continued growth in sales of products of our *CROQUIS*, *jnby by JNBY* and *less* brands.

The number of our self-operated stores increased from 332 as of June 30, 2015 to 432 as of June 30, 2016. The number of distributor-operated stores increased from 742 as of June 30, 2015 to 855 as of June 30, 2016. Our Same Store Sales Growth was 7.1% in Fiscal 2015 and 8.3% in Fiscal 2016. Such increase in Same Store Sales Growth was partly achieved by (i) the higher utilization of inventory sharing and allocation system in Fiscal 2016 and (ii) the launch of our social network platform on WeChat in April 2015. The social network platform has enabled us to enhance customer loyalty, as reflected by our members with annual purchases totaling over RMB5,000 having increased from approximately 59,000 to approximately 90,000 from Fiscal 2015 to Fiscal 2016, thereby contributing retail sales which increased from RMB722.1 million to RMB1,078.1 million from Fiscal 2015 to Fiscal 2016.

Among our brands, revenue from sales of products of *jnby by JNBY* brand increased by 77.4% from RMB114.3 million in Fiscal 2015 to RMB202.8 million in Fiscal 2016. Revenue from sales of products of *less* brand increased by 35.9% from RMB90.3 million in Fiscal 2015 to RMB122.7 million in Fiscal 2016. Revenue from sales of products of *CROQUIS* brand increased by 27.4% from RMB298.1 million in Fiscal 2015 to RMB379.6 million in Fiscal 2016.

Cost of sales

Our cost of sales increased by 14.4% from RMB622.5 million in Fiscal 2015 to RMB712.2 million in Fiscal 2016, primarily due to increased retail sales that led to increases in both cost of raw materials and cost of processing.

Gross profit

As a result of the foregoing, our gross profit increased by 20.2% from RMB990.6 million in Fiscal 2015 to RMB1,190.5 million in Fiscal 2016. Our overall gross profit margin increased from 61.4% in Fiscal 2015 to 62.6% in Fiscal 2016, primarily due to (i) an increase by 23.6% in the average number of products manufactured per SKU from Fiscal 2015 to Fiscal 2016, which allowed us to control production costs through economies of scale, (ii) increased retail sales of *CROQUIS*, *jnby by JNBY* and *less* brands as a proportion of our total sales, which generally have higher gross profit margins than our flagship brand, *JNBY*, and (iii) changes in our channel mix involving increased retail sales through our self-operated stores as a proportion of our total sales, which generally have a higher gross profit margin than that of distributor sales.

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Other income and gains, net

Our other net income and gains increased from RMB18.6 million in Fiscal 2015 to RMB22.3 million in Fiscal 2016. The increase was primarily attributable to a net effect of an increase of RMB19.5 million in government grants in Fiscal 2016. The increase was partially offset by (i) a provision related to idle land of RMB6.9 million and (ii) a decrease of RMB6.9 million in interest income on loans to Huikang Industrial, a related party, as a result of the repayment of loans to us.

Selling and marketing expenses

Our selling and marketing expenses increased by 22.5% from RMB581.6 million in Fiscal 2015 to RMB712.4 million in Fiscal 2016 primarily due to a 35.4% increase in our concession fees payable to department stores from RMB98.4 million in Fiscal 2015 to RMB133.2 million in Fiscal 2016, as a result of an increase in the number of our concession stores. Our concession stores increased from 191 as of June 30, 2015 and to 261 as of June 30, 2016. As a result of our arrangement with the HR Company, service outsourcing fees increased from RMB18.7 million in Fiscal 2015 to RMB138.7 million in Fiscal 2016. Correspondingly, employee benefit expenses decreased from RMB132.6 million in Fiscal 2015 to RMB62.1 million in Fiscal 2016. The aggregate amount of service outsourcing fees and employee benefits expenses increased from RMB151.3 million in Fiscal 2015 to RMB200.8 million in Fiscal 2016, which was primarily due to the net increase of 100 self-operated stores in Fiscal 2016.

Administrative expenses

Our administrative expenses increased by 20.0% from RMB131.2 million in Fiscal 2015 to RMB157.4 million in Fiscal 2016, primarily due to an increase in our product development outsourcing fees paid to Hangzhou JNBY and our [REDACTED] expenses, which were RMB[REDACTED] million in Fiscal 2016, and partially offset by a decrease in employee benefit expenses. Our administrative expenses as a percentage of our total revenue increased from 8.1% in Fiscal 2015 to 8.3% in Fiscal 2016.

Finance income

Our finance income decreased by 40.3% from RMB2.4 million in Fiscal 2015 to RMB1.4 million in Fiscal 2016, primarily due to a decrease in average balances of bank deposits over the year.

Finance costs

Our finance costs decreased by 84.6% from RMB16.4 million in Fiscal 2015 to RMB2.5 million in Fiscal 2016, primarily due to repayment of our bank borrowings.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 21.1% from RMB282.4 million in Fiscal 2015 to RMB341.9 million in Fiscal 2016.

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Income tax expense

Our income tax expense increased by 20.1% from RMB85.4 million in Fiscal 2015 to RMB102.6 million in Fiscal 2016, primarily as the result of an increase in our taxable income. Additionally, in Fiscal 2016, our effective tax rate was 30.0%, which is higher than the PRC statutory income tax rate of 25%. This elevated effective tax rate is attributable to withholding tax for profit distributions of our PRC subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased from RMB197.0 million in Fiscal 2015 to RMB239.3 million in Fiscal 2016. Our net profit margin slightly increased from 12.2% in Fiscal 2015 to 12.6% in Fiscal 2016.

Fiscal 2015 compared to Fiscal 2014

Revenue

Our revenue increased by 16.6% from RMB1,383.4 million in Fiscal 2014 to RMB1,613.1 million in Fiscal 2015. The increase in our revenue was primarily due to increased retail sales and Same Store Sales Growth. The number of our self-operated stores increased from 282 as of June 30, 2014 to 332 as of June 30, 2015. The number of distributor-operated stores increased from 639 as of June 30, 2014 to 742 as of June 30, 2015. Increased retail sales were driven mainly by an increase in the number of both self-operated and distributor-operated retail stores, and also by steady growth in sales of products of our newer brands such as *CROQUIS*, *jnby by JNBY* and *less*.

Our Same Store Sales Growth was 0.1% and 7.1% in Fiscal 2014 and Fiscal 2015, respectively, due in part to the effectiveness of our inventory sharing and allocation system.

Among our brands, revenue from sales of products of *jnby by JNBY* brand increased by 174.7% from RMB41.6 million in Fiscal 2014 to RMB114.3 million in Fiscal 2015. Revenue from sales of products of *CROQUIS* brand increased by 25.4% from RMB237.8 million in Fiscal 2014 to RMB298.1 million in Fiscal 2015. Revenue from sales of products of *less* brand increased by 21.4% from RMB74.4 million in Fiscal 2014 to RMB90.3 million in Fiscal 2015.

Cost of sales

Our cost of sales increased by 7.3% from RMB580.5 million in Fiscal 2014 to RMB622.5 million in Fiscal 2015, primarily due to increased retail sales that led to increases in both cost of raw materials and cost of processing.

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Gross profit

As a result of the foregoing, our gross profit increased by 23.4% from RMB803.0 million in Fiscal 2014 to RMB990.6 million in Fiscal 2015. Our overall gross profit margin increased from 58.0% in Fiscal 2014 to 61.4% in Fiscal 2015, primarily because (i) the proportion of sales of products of *CROQUIS* brand, which generally have higher gross profit margins, increased in Fiscal 2015, and (ii) an increase by 8.2% in the average number of products manufactured per SKU from Fiscal 2014 to Fiscal 2015, which allowed us to control production costs through economies of scale.

Other income and gains, net

Our other net income and gains significantly decreased by 33.1% from RMB27.8 million in Fiscal 2014 to RMB18.6 million in Fiscal 2015 primarily due to a decrease of RMB14.6 million in government grants in Fiscal 2015. The decrease was partially offset by an increase of RMB3.2 million in interest income of loans to a related party, Huikang Industrial, due to an increase in the balance of our loans to this related party. These loans had been fully repaid as of June 30, 2016.

Selling and marketing expenses

Our selling and marketing expenses increased by 16.0% from RMB501.4 million in Fiscal 2014 to RMB581.6 million in Fiscal 2015. The increase was primarily attributable to (i) a 44.9% increase in our concession fees payable to department stores from RMB67.9 million in Fiscal 2014 to RMB98.4 million in Fiscal 2015, primarily due to an increase in the number of our concession stores, (ii) a 9.8% increase in our operating lease rental from RMB144.6 million in Fiscal 2014 to RMB158.8 million in Fiscal 2015, primarily due to an increase in the number of our standalone self-operated stores, and (iii) an increase of RMB15.9 million in our service outsourcing fees due to our service outsourcing arrangement with the HR Company in 2015. Our standalone self-operated stores increased from 122 as of June 30, 2014 to 141 as of June 30, 2015. Our concession stores increased from 160 as of June 30, 2014 to 191 as of June 30, 2015. Our selling and marketing expenses as a percentage of our total revenue remained stable at 36.2% and 36.1%, respectively, in Fiscal 2014 and Fiscal 2015 as our sales revenue simultaneously increased.

Administrative expenses

Our administrative expenses increased by 27.8% from RMB102.7 million in Fiscal 2014 to RMB131.2 million in Fiscal 2015. The increase was primarily attributable to an increase in employee benefit expenses of RMB24.6 million, primarily due to an increase in salaries, bonus and other welfares. Our administrative expenses as a percentage of our total revenue increased from 7.4% in Fiscal 2014 to 8.1% in Fiscal 2015 due to the recruitment of several management members to support the expansion of our business operations, which increased the average wage rate of our employees.

Finance income

Our finance income increased from RMB0.8 million in Fiscal 2014 to RMB2.4 million in Fiscal 2015 primarily due to an increase in average balances of bank deposits over the period.

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Finance costs

Our finance costs decreased by 2.8% from RMB16.9 million in Fiscal 2014 to RMB16.4 million in Fiscal 2015 primarily due to the decrease in interest expenses on bank borrowings as a result of our repayment of part of our bank borrowings in Fiscal 2015.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 34.1% from RMB210.6 million in Fiscal 2014 to RMB282.4 million in Fiscal 2015.

Income tax expense

Our income tax expense increased by 40.7% from RMB60.7 million in Fiscal 2014 to RMB85.4 million in Fiscal 2015, primarily as the result of an increase in taxable income. Additionally, in Fiscal 2014 and Fiscal 2015, our effective tax rate was 28.82% and 30.25%, respectively, both of which are higher than the PRC statutory income tax rate of 25%. These elevated effective tax rates are attributable to withholding tax for profit distributions of our PRC subsidiaries.

Profit for the year

As a result of the foregoing, our profit for the year increased from RMB149.9 million in Fiscal 2014 to RMB197.0 million in Fiscal 2015. Our net margin increased from 10.8% in Fiscal 2014 to 12.2% in Fiscal 2015.

ANALYSIS OF SELECTED CONSOLIDATED BALANCE SHEET ITEMS

The following table sets forth our consolidated balance sheets as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	25,974	27,220	33,649
Land use rights.....	23,584	23,109	50,386
Intangible assets	4,358	4,399	5,003
Prepayments, deposits and other receivables	2,337	2,004	5,795
Deferred income tax assets	<u>23,714</u>	<u>40,202</u>	<u>61,505</u>
Total non-current assets.....	<u>79,967</u>	<u>96,934</u>	<u>156,338</u>
Current assets			
Inventories.....	341,070	393,502	438,686
Trade receivables.....	82,645	70,957	77,801

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	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments, deposits and other receivables	120,000	107,155	132,486
Amounts due from related parties	242,224	209,595	14,008
Restricted cash	10,415	4,314	7,671
Cash and cash equivalents	<u>85,203</u>	<u>154,981</u>	<u>167,523</u>
Total current assets	<u>881,557</u>	<u>940,504</u>	<u>838,175</u>
Total assets	<u><u>961,524</u></u>	<u><u>1,037,438</u></u>	<u><u>994,513</u></u>

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Share capital	16	16	16
Other reserves	34,946	54,614	96,984
Retained earnings.....	<u>267,749</u>	<u>444,824</u>	<u>190,942</u>
Equity attributable to owners of the Company.....	302,711	499,454	287,942
Non-controlling interests.....	<u>3,834</u>	<u>—</u>	<u>—</u>
Total equity	<u><u>306,545</u></u>	<u><u>499,454</u></u>	<u><u>287,942</u></u>

LIABILITIES

Non-current liabilities

Borrowings	13,650	106,900	—
Deferred income tax liabilities	<u>8,281</u>	<u>13,925</u>	<u>8,500</u>
	<u><u>21,931</u></u>	<u><u>120,825</u></u>	<u><u>8,500</u></u>

Current liabilities

Trade and bills payables	71,350	85,441	110,663
Deferred revenue	2,143	6,404	14,090
Accruals and other current liabilities.....	229,835	255,317	327,519
Amounts due to related parties.....	62,233	36,686	9,294
Current income tax liabilities.....	2,048	12,951	6,505
Borrowings	265,439	20,360	—
Dividend payables.....	<u>—</u>	<u>—</u>	<u>230,000</u>
Total current liabilities	<u><u>633,048</u></u>	<u><u>417,159</u></u>	<u><u>698,071</u></u>
Total liabilities	<u><u>654,979</u></u>	<u><u>537,984</u></u>	<u><u>706,571</u></u>
Total equity and liabilities	<u><u>961,524</u></u>	<u><u>1,037,438</u></u>	<u><u>994,513</u></u>

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	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net current assets	248,509	523,345	140,104
Total assets less current liabilities	328,476	620,279	296,442

Property, plant and equipment

Our property, plant and equipment increased by RMB1.2 million from RMB26.0 million as of June 30, 2014 to RMB27.2 million as of June 30, 2015, primarily due to additions of leasehold improvements of RMB26.0 million, additions of office equipment and others of RMB2.3 million and additions of construction in progress of RMB1.4 million in connection with our new warehousing and logistics center, partially offset by depreciation of leasehold improvements of RMB23.4 million and depreciation of office equipment and others of RMB3.8 million.

Our property, plant and equipment increased by RMB6.4 million from RMB27.2 million as of June 30, 2015 to RMB33.6 million as of June 30, 2016 primarily due to additions of leasehold improvements of RMB31.4 million and additions of office equipment and others of RMB4.2 million, partially offset by depreciation of leasehold improvements of RMB24.8 million and depreciation of office equipment and others of RMB3.4 million.

Inventories

Our inventories consist of finished goods, raw materials, commissioned processing materials, and work-in-progress. To minimize the risk of inventory build-up, we review our inventory levels based on product collections on a monthly basis. We believe that maintaining appropriate levels of inventories can help us better plan for the production and deliver our products to meet customer demand in a timely manner without straining our liquidity. The value of our inventories accounted for 38.7%, 41.8% and 52.3% of our total current assets as of June 30, 2014, 2015 and 2016, respectively. In connection with the Reorganization, Huikang Industrial, a related party, retained approximately RMB217.1 million of inventories. For more information, see “—Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial”.

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The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods.....	275,115	330,241	409,518
Raw materials.....	39,362	60,710	67,283
Commissioned processing materials ⁽¹⁾	46,500	57,528	69,646
Work-in-progress ⁽²⁾	3,179	1,691	—
Less: provision.....	(23,086)	(56,668)	(107,761)
Total	<u>341,070</u>	<u>393,502</u>	<u>438,686</u>

Notes:

- (1) Refers to raw materials which are provided to our processing suppliers.
- (2) Refers to work-in-progress during our in-house production. We produced a small portion of our products in Fiscal 2014 and Fiscal 2015. Since July 2015, we have outsourced the production of all our products to selected domestic OEM suppliers.

Our inventory slightly increased from RMB341.1 million as of June 30, 2014 to RMB393.5 million as of June 30, 2015, primarily due to (i) an increase in finished goods of RMB55.1 million, (ii) an increase in raw materials of RMB21.3 million related to increased reserves of new types of fabrics to support new designs and (iii) an increase in commissioned processing materials of RMB11.0 million, each as a result of our business expansion, partially offset by an increase in provision for impairment of RMB33.6 million.

Our inventory increased from RMB393.5 million as of June 30, 2015 to RMB438.7 million as of June 30, 2016, primarily due to (i) an increase in commissioned processing materials of RMB12.1 million and an increase in raw materials of RMB6.6 million as a result of our business expansion and (ii) an increase in finished goods of RMB79.3 million as a result of our business expansion, partially offset by an increase in provision for impairment of RMB51.1 million. As of August 31, 2016, RMB62.5 million, or 15.3% of our finished goods inventories, RMB25.6 million, or 38.0% of our raw materials inventories, and RMB36.5 million, or 52.4% of our commissioned processing materials inventories, had been consumed subsequent to June 30, 2016.

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The following table sets forth our inventory turnover days for the years indicated.

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Inventory turnover days ⁽¹⁾	172.8	215.3	213.3

Note:

- (1) Inventory turnover days are derived by dividing the average inventory as at the beginning and the end of the relevant year by cost of sales and multiplying by 365 days.

Our inventory turnover days increased from 172.8 days in Fiscal 2014 to 215.3 days in Fiscal 2015 primarily as a result of (i) retention of inventory by Huikang Industrial in connection with the Reorganization, which resulted in a relatively lower inventory balance at the beginning of Fiscal 2014; and (ii) an increase in inventory level to meet anticipated increase in demand for our products as a result of (a) our efforts to expand sales network in Fiscal 2015, (b) increased product offerings of newer brands such as *jnby by JNBY* and *less* in Fiscal 2015 and (c) increased sales due to our inventory sharing and allocation system during the Track Record Period. Our inventory turnover days decreased from 215.3 days in Fiscal 2015 to 213.3 days in Fiscal 2016 primarily due to (i) the higher utilization of inventory sharing and allocation system in Fiscal 2016; and (ii) an increase in inventory provision primarily due to the launch of more *avant-garde* products. We aim to continue to actively manage our inventory turnover days in the future.

Our products typically have a life cycle of four years. After the first 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 net realizable value of products will be lower than its cost in the fourth year of its life cycle. As part of our retail pricing strategy, discount rates can not be lower than the minimum discount rates that are pre-determined by our management and implemented across our omni-channel interactive platform to ensure consistent pricing. As of August 31, 2016, 65.9%, 47.3% and 6.7% of the then-off-season inventory balance at cost as of June 30, 2014, 2015 and 2016, had been sold, respectively, which demonstrate our capacity to sell off-season inventories.

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 that become off-season, and such provisions are estimated and assessed by each product collection based on the market conditions prevailing at the time the provisions are made, our marketing policies and the retail pricing strategy, strategy of each product line, sales forecast of each product collection based on our historical sales-through rate, our management’s historical experience of selling products of a

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similar nature and the physical condition of each category of inventories. We also make provisions for products that turn out to be defective or are damaged over their life cycle. The following table sets forth the movements of our inventory provision for the years indicated.

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year	—	23,086	56,668
Addition	<u>23,086</u>	<u>33,582</u>	<u>51,093</u>
End of the year	<u>23,086</u>	<u>56,668</u>	<u>107,761</u>

Provision for inventory relates to both finished goods and raw materials. As of June 30, 2014, 2015 and 2016, provision for inventory totaled RMB23.1 million, RMB56.7 million and RMB107.8 million, respectively, of which RMB17.7 million, RMB46.4 million and RMB91.0 million, respectively, were provision for finished goods, and RMB5.4 million, RMB10.3 million and RMB16.8 million, respectively, were for raw materials. Our gross inventory (calculated as our inventory balance adding back provision) totaled RMB364.2 million, RMB450.2 million and RMB546.4 million, respectively, representing a provision to gross inventory ratio of 6.3%, 12.6% and 19.7%, respectively. The increase in the provision to gross inventory ratio in Fiscal 2015 was primarily due to the retention of finished goods by Huikang Industrial as part of our Reorganization, which resulted in nil provision at the beginning of Fiscal 2014. The increase in Fiscal 2016 was mainly due to launch of more *avant-garde* products during the year and the preceding year, for which products we generally grant higher rates of sales returns. Partially due to such *avant-garde* products, policy returns as a percentage of gross sales to our distributors and overseas customers increased from 12.9% in Fiscal 2015 to 16.0% in Fiscal 2016. The increase in policy return rates was also due to the increase in the opening of distributor-operated stores from 205 in Fiscal 2015 to 251 in Fiscal 2016. We grant higher sales return rates to distributors who opened new stores as part of our supplemental return to incentivize new store openings. For more information, see “Business — Sales and Distribution — Our Retail Stores — Distributor-operated Stores — Ownership of Products and Sales Returns — Policy returns — Supplemental returns”. The increased amount of sales returns contributed to the increase in inventory in Fiscal 2016. The increase in inventory also contributed to the increase in inventory provision in Fiscal 2016, and the increase of inventory from RMB393.5 million as of June 30, 2015 to RMB438.7 million as of June 30, 2016 was in line with the increase in our revenue.

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The following table sets forth the aging analysis of our finished goods as of the respective dates indicated:

	As of June 30,					
	2014		2015		2016	
	<i>Cost</i>	<i>Provision</i>	<i>(RMB'000)</i>		<i>Cost</i>	<i>Provision</i>
		<i>Cost</i>	<i>Provision</i>			
Pre-2013 collections.....	4,851*	—	—*	—	—*	—
2013 Spring/Summer.....	44,130*	6,652	26,753*	8,017	15,132*	9,523
2013 Autumn/Winter.....	85,200*	11,086	52,304*	12,469	30,912*	15,221
2014 Spring/Summer.....	50,864	—	30,750*	8,170	18,634*	8,826
2014 Autumn/Winter.....	83,609	—	102,858*	17,757	56,428*	19,525
2015 Spring/Summer.....	—	—	60,486	—	42,324*	13,373
2015 Autumn/Winter.....	—	—	48,620	—	108,564*	23,011
2016 Spring/Summer.....	—	—	—	—	78,566	1,146
2016 Autumn/Winter.....	—	—	—	—	51,822	340
In-store displays.....	6,461	—	8,470	—	7,136	—
	<u>275,115</u>	<u>17,738</u>	<u>330,241</u>	<u>46,413</u>	<u>409,518</u>	<u>90,965</u>

Note:

(*) Refers to finished goods that were off-season as of the respective date indicated.

As indicated in the table above, we estimate and recognize the provision of each product collection during its life cycle based on the comparison between the product’s cost and net realizable value, which is determined by considering the actual sales for the past season and anticipated future sales of such collection as well as actual wear and tear, and we reassess the inventory at each balance sheet date and make any necessary write-back (generally in the fourth year of the life cycle) or write-down, when the products are sold or disposed. Provision for each product collection did not fluctuate significantly during the Track Record Period. For example, provision for 2013 Spring/Summer collection was RMB6.7 million as of June 30, 2014, and additional provision as of June 30, 2015 was RMB1.3 million and additional provision as of June 30, 2016 was RMB1.5 million. Inventory provision increased during the Track Record Period, as off-season products accounted for an increasing portion of total inventory, which situation resulted from the zero off-season inventory at the beginning of Fiscal 2014 due to the retention of such inventory by Huikang Industrial. For more information, see “— Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial”. We had approximately RMB3.6 million of write-back with respect to the provision for the 2013 Spring/Summer and 2013 Autumn/Winter collections during Fiscal 2016.

Besides off-season products, we also recognize provision for in-season products that are defective and the net realizable value of which is lower than the cost. As of June 30, 2016, we recognized RMB1.1 million and RMB0.3 million of provision with respect to 2016 Spring/Summer and 2016 Autumn/Winter collections, respectively. Such defective products did not have a material adverse impact on our financial position or results of operations in Fiscal 2016.

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Our Directors believe that our inventory provision policy is in compliance with the HKFRSs and that the inventory provisions recognized as of June 30, 2014, 2015 and 2016 were adequate.

In connection with our Reorganization, our Founders and VKC agreed that Huikang Industrial would retain approximately RMB217.1 million of inventories then held by JNBY Finery, Huikang Industrial itself, Shangwei Apparel and certain distributors who would later return the products pursuant to the sales return policies. Huikang Industrial then acted as a product supplier for such inventories to the Group. Such inventories consisted of off-season products. See “— Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial” for further details. The table below sets forth a breakdown of such inventories by collection as of January 1, 2013.

	<u>Cost</u>
	<i>RMB'000</i>
Pre-2009 collections.....	11,994
2010 Spring/Summer.....	3,196
2010 Autumn/Winter.....	7,015
2011 Spring/Summer.....	21,916
2011 Autumn/Winter.....	30,913
2012 Spring/Summer.....	36,559
2012 Autumn/Winter.....	<u>105,487</u>
	<u>217,080</u>

The following table sets forth the aging analysis of such inventories by collection as of the respective dates indicated:

	<u>As of June 30,</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<i>(RMB'000)</i>		
	<i>Cost</i>	<i>Cost</i>	<i>Cost</i>
Pre-2009 collections.....	6,826	230	—
2010 Spring/Summer.....	508	2	—
2010 Autumn/Winter.....	1,737	16	—
2011 Spring/Summer.....	10,402	4,216	11
2011 Autumn/Winter.....	18,758	7,258	80
2012 Spring/Summer.....	17,199	8,974	183
2012 Autumn/Winter.....	<u>65,444</u>	<u>35,081</u>	<u>5,893</u>
	<u>120,874</u>	<u>55,777</u>	<u>6,167</u>

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Trade receivables

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

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	85,605	77,988	85,670
Less: provision for impairment	<u>(2,960)</u>	<u>(7,031)</u>	<u>(7,869)</u>
Trade receivables — net	<u>82,645</u>	<u>70,957</u>	<u>77,801</u>

The majority of our trade receivables represent receivables from department stores, which are generally collectible within 45 to 90 days from the invoice date. The remainder of our trade receivables represents receivables from our distributors. We generally require most distributors to make prepayments for the products which they purchase from us.

Our trade receivables remained relatively stable during the Track Record Period, amounting to RMB82.6 million, RMB71.0 million and RMB77.8 million as of June 30, 2014, 2015 and 2016, respectively.

The following table sets forth our trade receivables turnover days for the years indicated.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Trade receivables turnover days ⁽¹⁾	18.7	17.4	14.3

Note:

- (1) Trade receivables turnover days are equal to the average balance of trade receivables at the beginning and the end of the relevant year divided by revenue for such period and multiplied by 365 days.

Our trade receivables turnover days generally remained stable at 18.7 days in Fiscal 2014, 17.4 days in Fiscal 2015 and 14.3 days in Fiscal 2016 as a result of increasing efforts in payment collection. We regularly review the department stores' payment history and also review the aging of our trade receivables on a monthly basis. We believe our credit policy is appropriate.

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The following table sets forth the aging analysis of our gross trade receivables as of the dates indicated, based on the due date.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	73,510	63,093	76,384
3 months to 6 months	7,394	7,434	2,120
6 months to 1 year.....	4,557	2,956	1,791
1 year to 2 years.....	144	4,505	1,826
2 years to 3 years	—	—	3,549
	85,605	77,988	85,670

The following table sets forth the aging analysis of our trade receivables that were past due but not impaired as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
3 months to 6 months	6,469	6,553	1,060
6 months to 1 year.....	2,665	1,312	357
	9,134	7,865	1,417

We consider an amount that is not paid on schedule pursuant to the agreement with us to be past due. As of June 30, 2014 and 2015 and 2016, the amounts past due but not impaired of our trade receivables were RMB9.1 million, RMB7.9 million and RMB1.4 million, respectively, accounting for 10.7%, 10.1% and 1.7% of our total gross trade receivables, respectively. The continuous decrease in the amounts past due of our trade receivables during the Track Record Period was primarily due to our improved collection of trade receivables. We do not hold any collateral against our trade receivables. We review the aging of trade receivables on a monthly basis. As of August 31, 2016, 72.2% of our total gross trade receivables as of June 30, 2016 had been settled.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables consist of (i) deposits and 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)

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prepayment of [REDACTED] expense, (v) value-added tax recoverable and (vi) staff advances. The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Deposits and other receivables.....	55,874	54,967	62,466
Prepayment to suppliers.....	29,162	41,812	49,343
Prepaid expenses	8,014	9,773	13,438
Value-added tax recoverable	25,686	—	6,134
Prepayment of [REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]
Staff advances	1,264	603	106
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Our prepayments, deposits and other receivables decreased by RMB12.8 million from RMB120.0 million as of June 30, 2014 to RMB107.2 million as of June 30, 2015, primarily due to a decrease of RMB25.7 million in value-added tax recoverable as such value-added tax was recovered in the second half of Fiscal 2015. The decrease was partially offset by an increase of RMB12.7 million in prepayment to suppliers in connection with increased demand for raw materials as a result of our business expansion.

Our prepayments, deposits and other receivables increased by RMB25.3 million from RMB107.2 million as of June 30, 2015 to RMB132.5 million as of June 30, 2016, primarily due to an increase of RMB7.5 million in prepayment to suppliers, an increase of RMB7.5 million in deposits and other receivables, and an increase of RMB6.1 million in value-added tax recoverable.

Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise cash at bank and in hand. Restricted cash primarily represents deposits pledged for bills payable as collaterals.

The following table sets forth a breakdown of our cash and cash equivalents and restricted cash as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents.....	85,203	154,981	167,523
Restricted cash.....	10,415	4,314	7,671
Total cash and cash equivalents and restricted cash.....	<u>95,618</u>	<u>159,295</u>	<u>175,194</u>

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As of June 30, 2014, 2015 and 2016, cash and cash equivalents and restricted cash in the amount of RMB94.5 million, RMB157.3 million, and RMB154.1 million, respectively, were denominated in Renminbi; nil, RMB1.0 million, and nil, respectively, were denominated in Japanese Yen; RMB0.8 million, RMB0.8 million and RMB19.8 million, respectively, were denominated in U.S. dollar; while the remaining balances were denominated in other currencies.

Trade and bills payables

As of June 30, 2014, 2015 and 2016, our trade and bills payables totaled RMB71.3 million, RMB85.4 million and RMB110.7 million, respectively.

Our trade payables mainly relate to purchases of finished products from finished product suppliers and the outsourcing of production and raw material processing to our processing suppliers. Finished product suppliers generally granted us credit terms of two months during the Track Record Period. Processing suppliers generally granted us credit terms of one months during the Track Record Period. Our trade payables increased by 40.9% from RMB54.5 million as of June 30, 2014 to RMB76.8 million as of June 30, 2015 primarily due to our business expansion and an increase in sales. Our trade payables increased by 24.1% from RMB76.8 million as of June 30, 2015 to RMB95.3 million as of June 30, 2016 primarily due to the effect of enlarged scale of our business operations. We place our orders for each season shortly after the corresponding trade fair. We hold trade fairs twice a year, in February or March for our upcoming Autumn/Winter collection and in July or August for our upcoming Spring/Summer collection. As a result, we mostly settle payments in April and October of each year. Our bills payable represented bank acceptance notes issued by us with maturity within three months. Our bills payables decreased by 48.7% from RMB16.8 million as of June 30, 2014 to RMB8.6 million as of June 30, 2015 primarily due to the fact that the amount of bank acceptance notes decreased continuously during the Track Record Period, and we had RMB15.3 million in bills payable as of June 30, 2016.

The following table sets forth our trade and bills payables turnover days for the years indicated.

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Trade and bills payables turnover days ⁽¹⁾	40.3	46.0	50.3

Note:

- (1) Trade and bills payables turnover days equal to the average balance of trade and bills payables at the beginning and the end of the relevant period divided by cost of sales for such period and multiplied by 365 days.

Our trade and bills payables turnover days increased during the Track Record Period because we have more fully utilized the credit terms provided by our suppliers in recent years. Our trade and bills payables turnover days were 40.3 days in Fiscal 2014, 46.0 days in Fiscal 2015 and 50.3 days in Fiscal 2016.

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As of August 31, 2016, 60.8% of trade and bills payables as of June 30, 2016 had been settled.

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

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	53,977	75,801	92,852
6 months to 1 year.....	280	310	1,535
1 year to 2 years.....	263	449	926
2 years to 3 years	—	253	9
	54,520	76,813	95,322

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 payables.

Accruals and other current liabilities

As of June 30, 2014, 2015 and 2016, our accruals and other current liabilities totaled RMB229.8 million, RMB255.3 million and RMB327.5 million, respectively.

Our accruals and other current liabilities primarily consist of advances from customers, non-refundable deposits from distributors, payroll and welfare payables and provisions for sales returns and sales rebates.

Advances from customers represent prepayments for purchases of our distributors for products ordered at trade fairs. When products are returned, the returned products’ sale price is credited to the distributor’s account. Non-refundable deposits from distributors represent cash deposits of 15% of the amount of purchases by our distributors for products ordered at trade fairs, which deposits can be used to offset against the purchase price of our products. Distribution deposits primarily represent deposits paid by our distributors upon the execution of distribution agreements that help ensure the quality of the distributors’ business operations.

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The following table sets forth a breakdown of our accruals and other current liabilities as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-refundable deposits from distributors.....	73,212	51,810	79,118
Advances from customers	47,770	54,739	61,621
Payroll and welfare payables.....	37,815	53,902	60,399
Provisions for sales returns	13,370	27,661	36,342
Provisions for sales rebates.....	16,162	21,282	22,135
Distribution deposits	9,240	11,555	14,692
Accruals and payables for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Workforce contracting payables.....	—	7,473	11,376
Payables for leasehold improvements	1,955	2,459	6,406
Marketing and promotions.....	12,157	5,420	5,925
Value-added and other taxes payables	13,468	7,586	2,328
Rentals.....	2,012	3,852	2,011
Others ⁽¹⁾	2,674	7,578	13,372
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Note:

(1) Includes provisions for idle land, withholding for intermediary expenses, transportation fees and others.

Our accruals and other current liabilities increased by 11.1% from RMB229.8 million as of June 30, 2014 to RMB255.3 million as of June 30, 2015. This increase was partly due to an increase of RMB14.3 million in provisions for sales returns primarily due to the introduction of our supplemental returns policy in Fiscal 2014 and increased retail sales of brands such as *CROQUIS*, *jnby by JNBY* and *less*, for which we generally grant higher rates of sales returns. For more information, see “Business — Sales and Distribution — Our Retail Stores — Distributor-operated Stores — Ownership of Products and Sales Returns”. This increase was also due to an increase of RMB16.1 million in payroll and welfare payables to support our growing business and an increase of RMB7.5 million in payables for service outsourcing as a result of our engagement with the HR Company. In addition, this increase was a result of an increase of RMB7.0 million in advances from customers as a result of the expansion of our distributor-operated stores. The increase was partially offset by a decrease of RMB21.4 million in non-refundable deposits from distributors.

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Our accruals and other current liabilities increased by 28.3% from RMB255.3 million as of June 30, 2015 to RMB327.5 million as of June 30, 2016. This increase was partly due to an increase of RMB27.3 million in non-refundable deposits from distributors due to (i) relatively lower non-refundable deposits from distributors as of June 30, 2015 due to certain deposits having been received soon after June 30, 2015, and (ii) an increase in overall purchase amounts of products ordered by our distributors in Fiscal 2016 as compared with Fiscal 2015. This increase was also due to an increase of RMB[REDACTED] million in accruals and payables for [REDACTED] expenses. The increase was partially offset by a decrease of RMB5.3 million in value-added and other taxes payables.

As of August 31, 2016, 84.6% of advances from customers and non-refundable deposits from distributors as of June 30, 2016 had been recognized as revenue.

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 borrowings as of the dates indicated.

	As of June 30,			As of
	2014	2015	2016	August 31,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Non-current				
Non-current portion of long-term bank borrowings	13,650	106,900	—	—
Total non-current	<u>13,650</u>	<u>106,900</u>	—	—
Current				
Current portion of long-term bank borrowings	215,850	8,900	—	—
Short-term bank borrowings.....	49,589	11,460	—	100,000
Total current	<u>265,439</u>	<u>20,360</u>	—	<u>100,000</u>
Total bank borrowings	<u>279,089</u>	<u>127,260</u>	—	<u>100,000</u>

As of June 30, 2014, 2015 and 2016 and August 31, 2016, the weighted average effective interest rate of our borrowings was 6.83%, 6.92%, 5.94% and 4.79% per annum, respectively. All of our outstanding bank borrowings were denominated in RMB. We had RMB100.0 million of outstanding bank borrowings as of August 31, 2016. For more information, see “— Indebtedness”.

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As an additional support to our distributors, during the Track Record Period we had a financing arrangement with a bank in the PRC under which certain of our distributors were allowed take out short-term borrowings to finance purchases of our products, while we, the controlling shareholders and Huikang Industrial acted as guarantors of these borrowings. We bore substantially all credit risks under this financing arrangement and the resulting short-term borrowings are reflected on our consolidated balance sheets for accounting purposes. We had terminated this financing arrangement and released all guarantees as of June 11, 2016. See “Business — Sales and Distribution — Our Retail Stores — Distributor-operated Stores — Distributor Support and Services” for more details. As of June 30, 2014, 2015 and 2016, the aggregate amount of our outstanding guarantees under this arrangement amounted to RMB11.6 million, RMB11.5 million and nil, respectively.

NET CURRENT ASSETS

We recorded net current assets of RMB248.5 million, RMB523.3 million, RMB140.1 million and RMB171.3 million, respectively, as of June 30, 2014, 2015 and 2016 and August 31, 2016. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of June 30,			As of August 31,
	2014	2015	2016	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current assets				
Inventories	341,070	393,502	438,686	565,949
Trade receivables	82,645	70,957	77,801	106,158
Prepayments, deposits and other receivables	120,000	107,155	132,486	121,081
Amount due from related parties	242,224	209,595	14,008	11,231
Restricted cash	10,415	4,314	7,671	29,101
Cash and cash equivalents	<u>85,203</u>	<u>154,981</u>	<u>167,523</u>	<u>222,681</u>
Total current assets	<u>881,557</u>	<u>940,504</u>	<u>838,175</u>	<u>1,056,201</u>
Current liabilities				
Trade and bills payables	71,350	85,441	110,663	206,212
Deferred revenue	2,143	6,404	14,090	14,572
Accruals and other current liabilities	229,835	255,317	327,519	367,268
Amount due to related parties	62,233	36,686	9,294	6,890
Current income tax liabilities	2,048	12,951	6,505	29,295
Borrowings	265,439	20,360	—	100,000
Dividend payables	—	—	230,000	160,693
Total current liabilities	<u>633,048</u>	<u>417,159</u>	<u>698,071</u>	<u>884,930</u>
Net current assets	<u>248,509</u>	<u>523,345</u>	<u>140,104</u>	<u>171,271</u>

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Our net current assets increased by RMB31.2 million from RMB140.1 million as of June 30, 2016 to RMB171.3 million as of August 31, 2016, primarily due to (i) an increase in inventories of RMB127.3 million in preparation for the sales of our 2016 Autumn/Winter collection, (ii) an increase in cash and cash equivalents of RMB55.2 million and (iii) a decrease in dividend payables of RMB69.3 million (the remaining dividend payables of RMB160.7 million was fully settled prior to the date of this document), partially offset by (i) an increase in trade and bills payables of RMB95.5 million and (ii) an increase in borrowings of RMB100.0 million.

Our net current assets decreased by RMB383.2 million from RMB523.3 million as of June 30, 2015 to RMB140.1 million as of June 30, 2016, primarily due to (i) an increase in dividend payables of RMB230.0 million (for more information, please see “— Dividend Policy” in this section) and (ii) a decrease in amount due from related parties of RMB195.6 million, partially offset by (i) an increase in restricted cash and cash and cash equivalents of RMB15.9 million and (ii) a decrease in borrowings of RMB20.4 million.

Our net current assets increased by RMB274.8 million from RMB248.5 million as of June 30, 2014 to RMB523.3 million as of June 30, 2015, primarily due to (i) a decrease in borrowings of RMB245.1 million, (ii) an increase in cash and cash equivalents of RMB69.8 million, (iii) an increase in inventories of RMB52.4 million, and (iv) a decrease in amounts due to related parties of RMB25.5 million, partially offset by (i) a decrease in amounts due from related parties of RMB32.6 million, (ii) an increase in accruals and other current liabilities of RMB25.5 million, (iii) a decrease in prepayments, deposits and other receivables of RMB12.8 million, (iv) a decrease in trade receivables of RMB11.7 million, and (v) an increase in current income tax liabilities of RMB10.9 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 [REDACTED], 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 document. As of August 31, 2016, we had cash and cash equivalents of RMB222.7 million.

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment, land use rights 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”.

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LIQUIDITY AND CAPITAL RESOURCES

Historically, we funded our operations primarily with net cash generated from our operations and bank borrowings. As of August 31, 2016, we had RMB222.7 million in cash and cash equivalents, most of which were denominated in RMB. Our cash and cash equivalents primarily consist of cash on hand and bank balances.

Consolidated cash flow statements

The following table sets forth a summary of our consolidated cash flow statements for the years indicated.

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	88,112	282,003	297,186
Net cash (used in)/generated from investing activities....	(155,314)	(19,544)	110,136
Net cash generated from/(used in) financing activities ...	<u>940</u>	<u>(192,677)</u>	<u>(394,989)</u>
Net (decrease)/increase in cash and cash equivalents.....	(66,262)	69,782	12,333
Cash and cash equivalents at beginning of the year.....	151,462	85,203	154,981
Exchange gains/(losses) on cash and cash equivalents....	<u>3</u>	<u>(4)</u>	<u>209</u>
Cash and cash equivalents at end of the year	<u><u>85,203</u></u>	<u><u>154,981</u></u>	<u><u>167,523</u></u>

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 marketing expenses, administrative expenses and other operating expenses.

Cash generated from operations reflects our profit before income tax, adjusted for (i) the cash flow effects of non-cash items, including depreciation of property, plant and equipment, amortization of land use rights, amortization of intangible assets, (losses)/gains on disposal of property, plant and equipment, provision for impairment of receivables, write-down of inventories, interest income of loans to related parties, interest income, interest expenses, investment income and share based compensation, and (ii) the effects of changes in our working capital, including changes in inventories, trade receivables, prepayments, deposits and other receivables, trade and bills payables, accruals and other current liabilities. Our operating profits before working capital changes increased from RMB267.5 million in Fiscal 2014 to RMB360.8 million in Fiscal 2015 primarily due to an increase in profit before income tax of RMB71.8 million primarily as a result of increased revenue and improved gross profit margin, partially offset by an increase in write-down of inventories of RMB10.5 million. Our operating profits before working capital changes increased from RMB360.8 million in Fiscal 2015 to RMB430.3 million in Fiscal 2016 primarily due to an increase in profit before income tax of RMB59.5 million primarily as a result of increased revenue and improved gross profit margin.

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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 Balance Sheet Items — Inventories” in this section.

In Fiscal 2016, net cash generated from operating activities was RMB297.2 million, consisting of cash generated from operations of RMB432.9 million and income tax paid of RMB135.7 million. Our operating profit before working capital changes was RMB430.3 million. Negative working capital adjustments reflected primarily (i) an increase in inventories of RMB96.3 million, primarily as a result of our business expansion, and (ii) an increase in prepayments, deposits and other receivables of RMB29.7 million, primarily due to an increase in prepayments to suppliers. Such negative adjustments were offset in part by cash inflows including (i) an increase in accruals and other current liabilities of RMB82.3 million, primarily due to an increase in non-refundable deposits from distributors, (ii) a decrease in trade receivables of RMB21.7 million, and (iii) an increase in trade and bills payables of RMB24.6 million.

In Fiscal 2015, net cash generated from operating activities was RMB282.0 million, consisting of cash generated from operations of RMB367.4 million and income tax paid of RMB85.3 million. Our operating profit before working capital changes was RMB360.8 million. Negative working capital adjustments reflected primarily an increase in inventories of RMB86.0 million, primarily as a result of our business expansion, partially offset by an increase in provision for impairment. Such negative adjustments were offset in part by cash inflows including (i) a decrease in trade receivables of RMB30.9 million, (ii) a decrease in prepayments, deposits and other receivables of RMB35.1 million, primarily due to a decrease in value added taxes recoverable and (iii) an increase in accruals and other current liabilities of RMB28.2 million, primarily due to an increase in provision for sales returns.

In Fiscal 2014, net cash generated from operating activities was RMB88.1 million, consisting of cash generated from operations of RMB160.0 million and income tax paid of RMB71.9 million. Our operating profit before working capital changes was RMB267.5 million. Negative working capital adjustments reflected primarily (i) an increase in inventories of RMB155.6 million, (refer to “—Analysis of Selected Consolidated Balance Sheet Items — Inventories”), and (ii) an increase in prepayments, deposits and other receivables of RMB62.1 million, primarily as a result of increase in business scale. Such negative adjustments were offset in part by cash inflows including (i) an increase in trade and bills payables of RMB31.3 million, (ii) a decrease in trade receivables of RMB56.2 million related to settlement of sales proceeds collected by Shangwei Apparel and Huikang Industrial on behalf of us, see “— Related Party Transactions and Balances” and (iii) an increase in accruals and other current liabilities of RMB22.8 million, primarily as a result of increase in business scale.

Investing activities

Our cash outflows from investing activities reflect purchases of land use rights, purchases of property, plant and equipment, purchases of intangible assets, proceeds from disposal of property, plant and equipment, loans granted to related parties, cash designated for restriction, cash released from restriction, income received from structured investment products and interest received.

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Net cash generated from investing activities in Fiscal 2016 was RMB110.1 million, which was primarily attributable to (i) repayments of loans received from a related party of RMB145.0 million, (ii) interest received of RMB28.8 million, (iii) cash released from restriction of RMB12.0 million, (iv) proceeds from disposals of property, plant and equipment of RMB1.7 million, and (v) income received from structured investment products of RMB0.5 million, partially offset by (i) cash expenditure for purchases of property, plant and equipment of RMB33.5 million mainly in connection with renovation of our self-operated stores, (ii) cash expenditure for purchases of land use right of RMB27.9 million, (iii) cash designated for restriction of RMB15.4 million, and (iv) purchase of intangible assets of RMB1.2 million.

Net cash used in investing activities in Fiscal 2015 was RMB19.5 million, which was primarily attributable to (i) cash expenditure for purchases of property, plant and equipment of RMB29.8 million mainly in connection with renovation of our self-operated stores, purchase of fixed assets, and construction of our new warehousing and logistics center, (ii) cash designated for restriction of RMB25.1 million, and (iii) cash expenditure for purchases of intangible assets of RMB0.6 million in connection with the upgrade of our information technology system, partially offset by (i) cash released from restriction of RMB31.2 million, (ii) interest received of RMB2.4 million, (iii) income received from structured investment products of RMB1.6 million and (iv) proceeds from disposals of property, plant and equipment of RMB0.7 million.

Net cash used in investing activities in Fiscal 2014 was RMB155.3 million, which was primarily attributable to (i) loans granted to a related party (i.e. Huikang Industrial) of RMB95.0 million, (ii) cash expenditure for purchases of property, plant and equipment of RMB28.9 million mainly in connection with renovation of our self-operated stores, (iii) cash expenditure for purchases of land use right of RMB23.7 million, (iv) cash designated for restriction of RMB17.6 million and (v) cash expenditure for purchases of intangible assets of RMB2.7 million in connection with the upgrade of our information technology system, partially offset by (i) cash released from restriction of RMB9.2 million, (ii) proceeds from disposals of property, plant and equipment of RMB2.0 million, (iii) interest received of RMB0.8 million and (iv) income received from structured investment products of RMB0.6 million.

Financing activities

Our cash inflows from financing activities primarily include borrowings from Controlling Shareholders and proceeds from bank borrowings. Our cash outflows from financing activities primarily include repayments of related party borrowings, repayment of bank borrowings, interest paid, dividends paid to our shareholders, and payment to non-controlling interests for liquidation of a subsidiary.

Net cash used in financing activities in Fiscal 2016 was RMB395.0 million, which was attributable to (i) dividends paid of RMB233.8 million, (ii) repayments of bank borrowings of RMB152.4 million, (iii) repayments of borrowings from our Controlling Shareholders of RMB30.7 million, (iv) interest paid of RMB2.8 million, and (v) payment to non-controlling interests for liquidation of a subsidiary of RMB0.5 million, partially offset by proceeds from bank borrowings of RMB25.1 million.

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Net cash used in financing activities in Fiscal 2015 was RMB192.7 million, which was attributable to (i) repayment of bank borrowings of RMB344.6 million, (ii) interest paid of RMB16.7 million, (iii) repayment to our Controlling Shareholders of RMB11.6 million, (iv) dividends paid to our shareholders of RMB10.3 million, and (v) payment to non-controlling interests for liquidation of a subsidiary of RMB3.5 million, partially offset by (i) proceeds from bank borrowings of RMB192.8 million and (ii) borrowings from our Controlling Shareholders of RMB1.2 million.

Net cash generated from financing activities in Fiscal 2014 was RMB0.9 million, which was attributable to (i) proceeds from bank borrowings of RMB66.9 million and (ii) borrowings from our Controlling Shareholders of RMB57.0 million, partially offset by (i) repayment to our Controlling Shareholders of RMB84.5 million, (ii) repayments of bank borrowings of RMB21.7 million and (iii) interest paid of RMB16.7 million.

CAPITAL EXPENDITURES

Our capital expenditures decreased from RMB55.3 million in Fiscal 2014 to RMB30.3 million in Fiscal 2015, and increased from RMB30.3 million in Fiscal 2015 to RMB62.5 million in Fiscal 2016. Our capital expenditures were used primarily for the construction of our new warehousing and logistics center, renovation of our retail stores and purchase of fixed assets used in daily operation. The following table sets forth our capital expenditures for the years indicated.

	Fiscal 2014	Fiscal 2015	Fiscal 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions to:			
Purchase of property, plant and equipment	28,879	29,792	33,450
Purchase of land use rights	23,742 ⁽¹⁾	—	27,892 ⁽²⁾
Purchase of intangible assets.....	2,650	552	1,195
Total	55,271	30,344	62,537

Notes:

- (1) Relates to the First Parcel of Land. For more information, see “Business — Properties — Owned Properties”.
- (2) Relates to the Second Parcel of Land. For more information, see “Business — Properties — Owned Properties”.

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations. For Fiscal 2017, our planned capital expenditure is expected to be RMB95.8 million, subject to adjustment based on market conditions. 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 received from the [REDACTED]. See “Business — Business Strategies — Strengthen supply chain management and enhance warehousing and logistics infrastructure” for details of our expansion plan and “Future Plans and Use of Proceeds — Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the [REDACTED].

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CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Capital commitments

Our capital commitments during the Track Record Period were primarily relating to decoration of retail stores. As of June 30, 2014, 2015 and 2016, the total amount of our capital expenditures contracted for but not yet incurred was RMB0.8 million, RMB1.1 million and RMB2.9 million, respectively.

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 June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not later than one year	119,772	75,060	105,131
Later than one year and not later than five years	93,367	70,280	75,715
Later than five years	—	—	152
Total	213,139	145,340	180,998

INDEBTEDNESS

Except for our borrowings as disclosed in “— Analysis of Selected Consolidated Balance Sheets Items — 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 August 31, 2016, being the latest practicable date for our indebtedness statement.

In June 2016, we obtained one-year banking facilities of up to RMB250.0 million in total from Bank of Hangzhou, consisting of (i) a facility of up to RMB100.0 million for JNBY Finery (the “**JNBY Facility**”) and (ii) a facility of up to RMB150.0 million for Liancheng Huazhuo (the “**Liancheng Facility**”).

FINANCIAL INFORMATION

In July 2016, JNBY Finery and Bank of Hangzhou entered into a loan agreement of up to RMB50.0 million under the JNBY Facility. The amount available under the loan agreement is committed. As of August 31, 2016, RMB50.0 million had been drawn down under this loan agreement. Such borrowing is scheduled to mature in January 2017 and bears an interest rate of 4.785% per annum. Liancheng Huazhuo acts as a guarantor for the borrowing. Proceeds from the borrowing have been used for working capital purposes, particularly to satisfy our payment obligations to suppliers. Prior to the date of this document, RMB14.0 million of such borrowing has been repaid.

In July 2016, Liancheng Huazhuo and Bank of Hangzhou entered into a loan agreement of up to RMB34.0 million under the Liancheng Facility. The amount available under the loan agreement is committed. As of August 31, 2016, RMB34.0 million had been drawn down under this loan agreement. Such borrowing is scheduled to mature in January 2017 and bears an interest rate of 4.785% per annum. JNBY Finery acts as a guarantor for the borrowing. Proceeds from the borrowing have been used for working capital purposes, particularly to satisfy our payment obligations to suppliers.

In July 2016, Liancheng Huazhuo and Bank of Hangzhou entered into a loan agreement of up to RMB16.0 million under the Liancheng Facility. The amount available under the loan agreement is committed. Liancheng Huazhuo's obligations under the loan agreement are secured by its land use rights related to the Second Parcel of Land. As of August 31, 2016, RMB16.0 million had been drawn down under this loan agreement. Such borrowing is scheduled to mature in January 2017 and bears an interest rate of 4.785% per annum. Proceeds from the borrowing have been used for working capital purposes, particularly to satisfy our payment obligations to suppliers. Prior to the date of this document, all of such borrowing has been repaid.

As of August 31, 2016, the aggregate amount of unutilized banking facilities was RMB150.0 million.

Since June 30, 2016 and up to the date of this document, there has not been any material and adverse change in our indebtedness and contingent liabilities. 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.

FINANCIAL INFORMATION

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 June 30, 2014	As of/for the year ended June 30, 2015	As of/for the year ended June 30, 2016
Profitability ratios:				
1. Return on equity	Profit for the year/Average total equity x 100%	64.8%	48.9%	60.8%
2. Return on total assets.....	Profit for the year/Average total assets x 100%	17.6%	19.7%	23.6%
Liquidity ratios:				
1. Current ratio	Current assets/Current liabilities	1.4	2.3	1.2
2. Quick ratio.....	(Current assets — Inventories)/ Current liabilities	0.9	1.3	0.6
Capital adequacy ratios:				
1. Gearing ratio.....	(Total bank borrowings — cash and cash equivalents and restricted cash)/Total equity x 100%	59.9%	N/A ⁽¹⁾	N/A ⁽¹⁾
2. Interest coverage.....	Profit before interest and tax/ Net finance cost	13.5x	18.2x	135.9x

Note:

(1) Represents net cash position as of the respective time.

Return on equity ratio. The return on equity ratio was 64.8%, 48.9% and 60.8% in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. The return on equity ratio decreased by 15.9% in Fiscal 2015, primarily as a result of our relatively lower equity base in 2013 because the majority of the subsidiaries in our Group were incorporated in 2012. The return on equity ratio increased by 11.9% in Fiscal 2016, primarily as a result of an increase in our net profit as well as a decrease in our equity as a result of dividends paid.

FINANCIAL INFORMATION

Return on total assets ratio. The return on total assets ratio was 17.6%, 19.7% and 23.6% in Fiscal 2014, Fiscal 2015 and Fiscal 2016, respectively. The return on total assets ratio increased from 17.6% in Fiscal 2014 to 19.7% in Fiscal 2015 primarily as a result of comparatively rapid profit growth in Fiscal 2015, reflecting faster asset turnover and improved profitability for the same period. The return on total assets ratio increased from 19.7% in Fiscal 2015 to 23.6% in Fiscal 2016 primarily as a result of an increase in total profit having exceeded an increase in total assets in Fiscal 2016.

Current ratio. The current ratio was 1.4, 2.3 and 1.2 as of June 30, 2014, 2015 and 2016, respectively. The current ratio increased from 1.4 as of June 30, 2014 to 2.3 as of June 30, 2015 primarily due to repayment of the majority of our bank borrowings. The current ratio decreased from 2.3 as of June 30, 2015 to 1.2 as of June 30, 2016 primarily as a result of an increase in dividend payables of RMB230.0 million. A detailed discussion of our dividend policy is set forth in “— Dividend Policy” in this section.

Quick ratio. The quick ratio increased from 0.9 as of June 30, 2014 to 1.3 as of June 30, 2015 primarily because of repayment of the majority of our bank borrowings, and partly offset by an increase in inventory level to meet anticipated increase in demand for our products as a result of our efforts to expand sales network, increased product offerings of newer brands such as *CROQUIS*, *jnby by JNBY* and *less* and increased sales due to our inventory sharing and allocation system. The quick ratio decreased from 1.3 as of June 30, 2015 to 0.6 as of June 30, 2016 primarily as a result of an increase in dividend payables of RMB230.0 million. A detailed discussion of our dividend policy is set forth in “— Dividend Policy” in this section.

Gearing ratio. The gearing ratio was 59.9% as of June 30, 2014, and we recorded net cash position as of June 30, 2015 and 2016. The change from net debt to net cash position was mainly due to (1) repayments of bank borrowings and (2) increase of cash and cash equivalents, primarily reflecting the expansion of our business operation and our ability to generate cash from operating activities.

Interest coverage. The interest coverage ratio increased from 13.5x in Fiscal 2014 to 18.2x in Fiscal 2015, primarily as a result of a decrease in our finance cost due to repayments of our bank borrowings. Our finance cost decreased from RMB16.9 million for the year ended June 30, 2014 to RMB16.4 million for the year ended June 30, 2015. The interest coverage ratio significantly increased from 18.2x in Fiscal 2015 to 135.9x in Fiscal 2016, primarily as a result of a further decrease in our finance cost due to repayment of all of our bank borrowings. Our finance cost decreased from RMB16.4 million in Fiscal 2015 to RMB2.5 million in Fiscal 2016.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

Most of our subsidiaries' functional currencies are RMB as majority of the revenues of these companies are derived from operations in the PRC. We are exposed to foreign currency risks with respect to sales to overseas customers and purchases from overseas suppliers as well as foreign currency denominated financial assets or liabilities as of each balance sheet date. We do not hedge against any fluctuation in foreign currency. As of June 30, 2014, 2015 and 2016, we did not have any significant exchange risk from our operations.

Cash flow and fair value interest rate risk

As we have no significant interest-bearing assets except for cash and cash equivalents, restricted cash and certain interest bearing loans temporarily lent to related parties, our income and operating cash flows are substantially independent of changes in market interest rates.

Our interest rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. During the Track Record Period, we did not use any financial instrument to hedge our exposure to interest rate risk.

As of June 30, 2014, 2015 and 2016, if the interest rates on bank borrowings had been 10% higher/lower with all other variables held constant, post-tax profit for Fiscal 2014, Fiscal 2015 and Fiscal 2016 would have been RMB1.2 million, RMB1.0 million and RMB0.2 million lower/higher, respectively, mainly as a result of higher/lower interest expense on bank borrowings.

Credit risk

Our credit risk is managed on a group basis. Our credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

As of June 30, 2014, 2015 and 2016, most of our restricted cash and cash and cash equivalents were deposited in major financial institutions with good credit rating in the PRC. We categorize our major counterparties into the following groups:

Group 1 — Top four banks in the PRC (including China Construction Bank, Bank of China, Agricultural Bank of China, and Industrial and Commercial Bank of China), Citi Bank and Hang Seng Bank;

Group 2 — Other major listed banks and regional banks in the PRC; and

Group 3 — Other banks and financial institutions.

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The following table sets forth a breakdown of our restricted cash and cash and cash equivalents by bank category as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group 1	19,789	39,278	113,871
Group 2	75,217	119,283	60,513
Group 3	—	—	—
	<u>95,006</u>	<u>158,561</u>	<u>174,384</u>

For sales to our distributors, we typically receive deposits and advances prior to the delivery of products. For other customers with credit terms granted, we have policies in place to ensure credit terms are only granted to customers with an appropriate credit history and we perform periodic credit evaluations on these customers, taking into account their financial position, past experience and other factors. Normally we do not require collaterals from trade debtors. Provisions are made for the balance past due when our management considers the loss from non-performance by our customers is likely. Sales to Internet customers are settled by third-party online payment platforms.

Liquidity risk

Our policy is to regularly monitor current and expected liquidity requirements to ensure we maintain sufficient cash and cash equivalents and have available funding through adequate amount of committed credit facilities to meet our working capital requirements.

The table below analyzes our financial liabilities into relevant maturity groupings based on the remaining year as of the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Within 1 year	Between 1 and 2 years
	<i>RMB'000</i>	<i>RMB'000</i>
As of June 30, 2014:		
Borrowings and interests.....	265,439	14,724
Trade and bills payables	54,257	263
Amounts due to related parties.....	62,233	—
Accruals and other current liabilities.....	<u>57,570</u>	<u>—</u>
	<u>439,499</u>	<u>14,987</u>

FINANCIAL INFORMATION

	<u>Within 1 year</u>	<u>Between 1 and 2 years</u>
	<i>RMB'000</i>	<i>RMB'000</i>
As of June 30, 2015:		
Borrowings and interests.....	20,360	119,607
Trade and bills payables	76,111	702
Amounts due to related parties.....	36,686	—
Accruals and other current liabilities.....	<u>87,280</u>	<u>—</u>
	<u>220,437</u>	<u>120,309</u>
As of June 30, 2016:		
Dividend payables.....	230,000	—
Trade and bills payables	94,387	935
Amounts due to related parties.....	9,294	—
Accruals and other current liabilities.....	<u>124,053</u>	<u>—</u>
	<u>457,734</u>	<u>935</u>

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. For a discussion of related party transactions, see Note 31 to the Accountant’s Report in Appendix I.

Significant related party transactions

During the Track Record Period, we had the following significant transactions with related parties.

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we purchased inventory from a related party in amounts of RMB98.6 million, RMB51.5 million and RMB23.4 million, respectively. For more information, see “— Factors Affecting Our Financial Condition and Results of Operations — Retention of inventory by Huikang Industrial”.

	<u>Fiscal</u>		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of goods			
Huikang Industrial	98,599	51,474	23,374

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In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we incurred processing fees to related parties that are our OEM suppliers in amounts totaling RMB62.6 million, RMB42.2 million and RMB46.1 million, respectively.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Processing fee			
Shangwei Apparel.....	32,279	28,189	32,550
Shenzhen Hengyi ⁽¹⁾	30,311	13,996	9,189
New Shangwei Finery.....	—	—	4,398
	<u>62,590</u>	<u>42,185</u>	<u>46,137</u>

Note:

(1) Shenzhen Hengyi has ceased being our connected party since April 2016.

We started to outsource the development and production of sample apparel to Hangzhou JNBY, a related party, in July 2015. In Fiscal 2016, we incurred RMB18.6 million to Hangzhou JNBY for development and production of sample apparel.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Development and production of sample apparel			
Hangzhou JNBY.....	—	—	18,619

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we sold goods to a related party in amounts totaling RMB2.7 million, RMB2.0 million and RMB0.4 million, respectively.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods			
JNBY (Canada) Enterprises Inc.	2,696	1,958	397

FINANCIAL INFORMATION

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we recognized interest income from Huikang Industrial relating to these loans in amounts of RMB9.3 million, RMB12.5 million and RMB5.6 million, respectively.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Interest income from a related party

Huikang Industrial	9,304	12,497	5,553
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In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we incurred operating lease expenses to related parties in amounts totaling RMB12.8 million, RMB13.1 million and RMB12.7 million, respectively.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Operating lease expenses charged by related parties

Huikang Industrial	10,546	10,841	10,447
Hangzhou JNBY	1,600	1,600	1,640
Mr. Wu	650	628	644
	<u>12,796</u>	<u>13,069</u>	<u>12,731</u>

In Fiscal 2014, Fiscal 2015 and Fiscal 2016, we incurred logistics and warehousing expenses to a related party totaling RMB10.4 million, RMB10.9 million and RMB14.0 million, respectively.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Logistics and warehousing expenses charged by related party

Huikang Industrial	10,432	10,883	14,025
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In Fiscal 2016, we received RMB0.9 million in rental income from a related party.

	Fiscal		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Rental income from related party

New Shangwei Finery	—	—	891
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FINANCIAL INFORMATION

Amounts due from related parties

As of June 30, 2014, 2015 and 2016, the amounts due from related parties were RMB242.2 million, RMB209.6 million and RMB14.0 million, respectively.

The following table sets forth a breakdown of our amounts due from related parties as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade receivables:			
JNBY (Canada) Enterprises Inc.	2,420	4,113	—
Other receivables:			
Shangwei Apparel.....	24,907	24,907	—
Huikang Industrial.....	25,263	384	—
Hangzhou Jihui ⁽¹⁾	49	—	—
	<u>50,219</u>	<u>25,291</u>	<u>—</u>
Loans and interests receivables:			
Huikang Industrial.....	<u>154,304</u>	<u>166,801</u>	<u>—</u>
Prepaid operating lease expenses:			
Huikang Industrial.....	34,231	10,854	12,836
Hangzhou JNBY.....	800	800	840
Mr. Wu.....	<u>150</u>	<u>22</u>	<u>332</u>
	35,181	11,676	14,008
Advance to suppliers:			
Shangwei Apparel.....	—	1,000	—
Shenzhen Hengyi.....	<u>—</u>	<u>160</u>	<u>—</u>
	—	1,160	—
Others:			
New Shangwei Finery.....	—	474	—
Hangzhou JNBY.....	80	80	—
JNBY (Canada) Enterprises Inc.	<u>20</u>	<u>—</u>	<u>—</u>
	<u>100</u>	<u>554</u>	<u>—</u>
	<u>242,224</u>	<u>209,595</u>	<u>14,008</u>

Note:

(1) Hangzhou Jihui was deregistered on March 17, 2015.

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Trade receivables from JNBY (Canada) Enterprises Inc. mostly represent trade receivables in connection with goods sold to them. As of the Latest Practicable Date, JNBY (Canada) Enterprises Inc. is no longer our related party and accordingly our future transactions with them will not be categorized as related party transactions.

Other receivables from Shangwei Apparel and Huikang Industrial represent the sales proceeds collected by them on behalf of us during the Reorganization, which sales proceeds had been returned to us in full as of June 30, 2016. We do not expect such other receivables to be incurred in the future.

Loans and interest receivables from Huikang Industrial represent the balance of our loans extended to Huikang Industrial and interests thereof. These loans had been fully repaid as of June 30, 2016, and we do not expect to extend such loans in the future.

Prepaid operating lease expenses to Huikang Industrial are for the use of the warehousing and logistics facility owned by Huikang Industrial. For more details, see “Business — Our Logistics and Inventory Management System — Warehousing and Logistics Facility and Product Delivery”. Prepaid operating lease expenses to Hangzhou JNBY are related to the lease of properties by Hangzhou JNBY to us as stores. Prepaid operating lease expenses to Mr. Wu are in relation to the lease of his personal properties to us as offices and stores. Such prepaid operating lease expenses are trade in nature and will not be settled before listing.

Advances to Shangwei Apparel represent our advance payments to Shangwei Apparel in connection with the outsourced production. Advances to Shenzhen Hengyi represent advances for processing fees.

Amount due to related parties

The following table sets forth a breakdown of our amount due to related parties as of the dates indicated.

	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables:			
Shangwei Apparel.....	8,059	2,354	4,317
Huikang Industrial.....	10,492	3,074	—
Shenzhen Hengyi.....	2,595	—	—
New Shangwei Finery.....	—	—	511
	<u>21,146</u>	<u>5,428</u>	<u>4,828</u>

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	As of June 30,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Borrowings from related party:			
Mr. Wu	41,082	30,720	—
Dividend payable:			
Hangzhou JNBY	—	487	—
Other payables:			
Hangzhou JNBY	5	—	2,920
Huikang Industrial	—	51	—
Ninth Investment	—	—	775
N&N Capital	—	—	383
United City Investment Limited.....	—	—	226
Ninth Capital	—	—	112
W&L Capital	—	—	50
	<u>5</u>	<u>51</u>	<u>4,466</u>
	<u>62,233</u>	<u>36,686</u>	<u>9,294</u>

During the Track Record Period we had incurred trade payables to our related parties that are OEM suppliers and provide us with outsourced production services. Trade payables due to Shangwei Apparel are related to the outsourcing of production to Shangwei Apparel. Trade payables due to Huikang Industrial are related to the purchase of off-season inventories from Huikang Industrial for sale on our online and offline platforms. We do not expect to incur such trade payables after June 2016. Trade payables due to Shenzhen Hengyi are related to outsourced production fees. Trade payables due to New Shangwei Apparel are related to outsourced productions fees. Borrowings from Mr. Wu represent the balance of our borrowings incurred from Mr. Wu for our working capital requirements. We had already repaid these borrowings as of June 30, 2016. Such trade payables are trade in nature and will not be settled before Listing.

Other payables due to Hangzhou JNBY are related to payments for product development, including the development and production of sample fabrics and apparel. Other payables due to Huikang Industrial are related to accrued office rental expenses. Such other payables are trade in nature and will not be settled before Listing.

Other payables due to Ninth Investment, N&N Capital, United City Investment Limited, Ninth Capital and W&L Capital are related to cash held by us for these entities which had been settled as of the Latest Practicable Date.

Our Directors believe that the related party transactions were carried out on an arm’s length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

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DIVIDEND POLICY

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 75% of our total net profit attributable to the Group for any particular fiscal year. Assuming the [REDACTED] occurs, Fiscal 2017 will be the first fiscal year for which our total net profit 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 Fiscal 2014. We declared and paid dividends of RMB10.3 million and RMB233.8 million, respectively, in Fiscal 2015 and Fiscal 2016. As of June 30, 2016, we had dividend payables in an amount of RMB230.0 million, which amount has been paid prior to the date of this document.

DISTRIBUTABLE RESERVES

As of June 30, 2014, 2015 and 2016, our reserves available for distributions to shareholders amounted to RMB134.8 million, RMB156.6 million and RMB180.2 million, respectively.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this document, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2016, and there is no event since June 30, 2016 which would materially affect the information shown in “Accountant’s Report” in Appendix I.

FINANCIAL INFORMATION

[REDACTED] EXPENSE INCURRED AND TO BE INCURRED

During Fiscal 2016, we incurred [REDACTED] expenses of approximately RMB[REDACTED] million, of which RMB15.5 million was recognized as administrative expenses in our consolidated income statement for Fiscal 2016, and RMB1.0 million was capitalized as current assets in our consolidated balance sheet as of June 30, 2016 and recognized as a prepayment. We expect to incur additional [REDACTED] expenses of approximately RMB[REDACTED] million after June 30, 2016 (assuming that the [REDACTED] is conducted at the mid-point of the [REDACTED] range), of which RMB[REDACTED] million is expected to be recognized as administrative expenses in Fiscal 2017 and RMB[REDACTED] 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 Fiscal 2017.

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 Capitalization Issue and the [REDACTED] on the consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2016 as if the Capitalization Issue and the [REDACTED] had taken place on that date.

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 consolidated net tangible assets of the Group had the Capitalization Issue and the [REDACTED] been completed as of June 30, 2016 or at any future dates. It is prepared based on the consolidated net assets of the Group as of June 30, 2016 as set out in the Accountant’s Report of the Group, the text of which is set out in Appendix I to this document, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant’s report.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at June 30, 2016 <i>RMB'000</i>	Estimated net proceeds from the [REDACTED] <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at June 30, 2016 <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i>
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at June 30, 2016 is extracted from the accountant’s report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at June 30, 2016 of RMB287,942,000 with adjustments for intangible assets of RMB5,003,000.
- (2) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share after deduction of the estimated underwriting fees and other related expenses payable by us subsequent to June 30, 2016 and takes no account of any shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and the Capitalisation Issue have been completed on June 30, 2016 but takes no account of any Shares which may be issued upon the exercise of the [REDACTED] and any Share which may be issued or repurchased by the Company pursuant to the issuing mandate or the repurchase mandate as described in the section headed “Share Capital” in this document.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2016.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of RMB1.000 to HK\$1.1578.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that 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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Business Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate the net proceeds of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED] and assuming the [REDACTED] is not exercised.

We intend to use the net proceeds of the [REDACTED] for the following purposes assuming the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range).

- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to finance the capital expenditures required in connection with the establishment of a new logistics center in Xiaoshan, Hangzhou. For details, see “Business — Business Strategies — Strengthen supply chain management and enhance warehousing and logistics infrastructure” and “Business — Our Logistics and Inventory Management System — Warehousing and Logistics Facility and Product Delivery”.
- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to strengthen our omni-channel interactive platform:
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to open new self-operated stores, including additional multi-brand “JNBY+” stores, self-operated stores for our existing brands as well as new brands, such as *Pomme de terre* and *JNBY Home*; for details, see “Business — Business Strategies — Further enhance our retail network and optimize our channel mix”;
 - Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to renovate existing self-operated stores, including upgrading our store visual display and image to attract customers and upgrading our footwear display counters. For details, see “Business — Business Strategies — Improve customer experience to improve Same Store Sales Growth”; and
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to expand our distribution network, support the opening of new distributor-operated stores and renovation of existing distributor-operated stores to reduce distributors’ costs and facilitate the upgrade of store image for distributor-operated stores, see “Business — Business Strategies — Further enhance our retail network and optimize our channel mix”.

FUTURE PLANS AND USE OF PROCEEDS

- Approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to expand our brand and product portfolio, of which amount:
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to selectively pursue acquisitions of businesses, brands or products and further develop strategic alliances. We plan to, among others, selectively pursue strategic acquisitions of or develop strategic alliances with sporting or accessory brands and selectively develop strategic alliances with suppliers and product manufacturers. We also plan to establish joint ventures with third-party partners to establish a designer platform. As of the Latest Practicable Date, we had not identified or committed to any acquisition targets for our use of net proceeds from the [REDACTED]. For details, see “Business — Business Strategies — Continue to expand and diversify our product portfolio by further enhancing our design capabilities and brand awareness”; and
 - approximately [REDACTED]%, or HK\$[REDACTED] million, will be used to develop and launch new brands and products in-house, including research and development expenses and sample apparel costs.
- Approximately [REDACTED]%, or HK\$[REDACTED] 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 [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED] range or the [REDACTED] is exercised.

If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, we will receive net proceeds of approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED].

If the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range stated in this document) and assuming the [REDACTED] is not exercised, the net proceeds we receive will be approximately HK\$[REDACTED] million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED].

In the event that the [REDACTED] is exercised in full, we will receive additional net proceeds ranging from approximately HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the low end of the proposed [REDACTED] range) to HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the high end of the proposed [REDACTED] range), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the [REDACTED].

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 the net proceeds to be received by the [REDACTED] from the sale of [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately [REDACTED] million, after deduction of underwriting fees and commissions and assuming the [REDACTED] is not exercised.

We will not receive any of the proceeds from the [REDACTED].

UNDERWRITING

HONG KONG UNDERWRITERS

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

Hong Kong Underwriting Agreement

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except in certain circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by our Controlling Shareholders

[REDACTED]

UNDERWRITING

[REDACTED]

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

International Underwriting Agreement

In connection with the [REDACTED], it is expected that we, our Controlling Shareholders and the [REDACTED] will enter into the International Underwriting Agreement with the [REDACTED] and the International Underwriters. [REDACTED]

[REDACTED]

Commissions and Expenses

The [REDACTED] (for itself and on behalf of the Hong Kong Underwriters) will receive a underwriting commission equal to [REDACTED]% of the aggregate [REDACTED] in respect of all the [REDACTED] initially offered under the [REDACTED]. Our Company may also at its sole discretion pay one or more Hong Kong Underwriters an additional incentive fee.

For unsubscribed [REDACTED] reallocated to the [REDACTED] (in such proportion as the [REDACTED] in its sole discretion consider appropriate), the underwriting commission regarding such [REDACTED] shall be reallocated to the International Underwriters (in such proportion as the [REDACTED] in its sole discretion consider appropriate).

Assuming the [REDACTED] is not exercised, the aggregate commissions and fees, together with Stock Exchange [REDACTED] fees, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and all other expenses relating to the [REDACTED], which are currently estimated to amount in aggregate to approximately HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range stated in this document), are payable and borne by our Company.

UNDERWRITING

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the [REDACTED] will ensure that there will be a minimum 25% of the total issued [REDACTED] held in [REDACTED] in accordance with Rule 8.08 of the Listing Rules after completion of the [REDACTED].

[REDACTED]

UNDERWRITING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

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STRUCTURE OF THE GLOBAL OFFERING

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STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

STRUCTURE OF THE GLOBAL OFFERING

[REDACTED]

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HOW TO APPLY FOR HONG KONG OFFER SHARES

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HOW TO APPLY FOR HONG KONG OFFER SHARES

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the sole sponsor pursuant to the requirements of Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

[REDACTED]

The Directors
JNBY Design Limited

CCB International Capital Limited

Dear Sirs,

We report on the financial information of JNBY Design Limited (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated balance sheets as at 30 June 2014, 2015 and 2016, the balance sheets of the Company as at 30 June 2014, 2015 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 30 June 2014, 2015 and 2016 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the document of the Company dated [REDACTED] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 26 November 2012 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No statutory audited financial statements have been prepared by the Company as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1 of Section II.

[REDACTED]

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs. The Underlying Financial Statements have been audited by us in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 30 June 2014, 2015 and 2016 and of the state of affairs of the Group as at 30 June 2014, 2015 and 2016 and of the Group’s results and cash flows for the Relevant Periods then ended.

APPENDIX I

ACCOUNTANT’S REPORT

I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at 30 June 2014, 2015 and 2016 and for each of the years ended 30 June 2014, 2015 and 2016 (the “Financial Information”).

(a) Consolidated balance sheets

	Note	As at 30 June		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	25,974	27,220	33,649
Land use rights	7	23,584	23,109	50,386
Intangible assets	8	4,358	4,399	5,003
Prepayments, deposits and other				
receivables.....	13	2,337	2,004	5,795
Deferred income tax assets.....	10	23,714	40,202	61,505
Total non-current assets		<u>79,967</u>	<u>96,934</u>	<u>156,338</u>
Current assets				
Inventories	11	341,070	393,502	438,686
Trade receivables	12	82,645	70,957	77,801
Prepayments, deposits and other				
receivables.....	13	120,000	107,155	132,486
Amounts due from related parties	31(b)	242,224	209,595	14,008
Restricted cash.....	14	10,415	4,314	7,671
Cash and cash equivalents.....	14	85,203	154,981	167,523
Total current assets		<u>881,557</u>	<u>940,504</u>	<u>838,175</u>
Total assets		<u>961,524</u>	<u>1,037,438</u>	<u>994,513</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Note	As at 30 June		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
EQUITY				
Share capital	16	16	16	16
Other reserves	17	34,946	54,614	96,984
Retained earnings		267,749	444,824	190,942
Equity attributable to owners of the Company		302,711	499,454	287,942
Non-controlling interests		3,834	—	—
Total equity		<u>306,545</u>	<u>499,454</u>	<u>287,942</u>
LIABILITIES				
Non-current liabilities				
Borrowings	20	13,650	106,900	—
Deferred income tax liabilities	10	8,281	13,925	8,500
		<u>21,931</u>	<u>120,825</u>	<u>8,500</u>
Current liabilities				
Trade and bills payables	18	71,350	85,441	110,663
Deferred revenue		2,143	6,404	14,090
Accruals and other current liabilities	19	229,835	255,317	327,519
Amounts due to related parties	31(b)	62,233	36,686	9,294
Current income tax liabilities		2,048	12,951	6,505
Borrowings	20	265,439	20,360	—
Dividend payables	28	—	—	230,000
Total current liabilities		<u>633,048</u>	<u>417,159</u>	<u>698,071</u>
Total liabilities		<u>654,979</u>	<u>537,984</u>	<u>706,571</u>
Total equity and liabilities		<u>961,524</u>	<u>1,037,438</u>	<u>994,513</u>
Net current assets		<u>248,509</u>	<u>523,345</u>	<u>140,104</u>
Total assets less current liabilities		<u>328,476</u>	<u>620,279</u>	<u>296,442</u>

APPENDIX I

ACCOUNTANT’S REPORT

(b) **Balance sheets — Company**

	Note	As at 30 June		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary	9	134,930	146,509	157,467
Amounts due from a subsidiary.....	9	—	10,268	16,302
Total non-current assets		<u>134,930</u>	<u>156,777</u>	<u>173,769</u>
Current assets				
Cash and cash equivalents.....	14	82	62	—
Prepayments, deposits and other receivables.....		—	—	176
Dividend receivables.....	15	—	—	237,500
Total current assets		<u>82</u>	<u>62</u>	<u>237,676</u>
Total assets		<u>135,012</u>	<u>156,839</u>	<u>411,445</u>
EQUITY				
Share capital.....	16	16	16	16
Other reserves.....	17	134,925	146,465	158,383
(Accumulated deficits)/Retained earnings.....		(114)	10,163	21,808
Total equity		<u>134,827</u>	<u>156,644</u>	<u>180,207</u>
LIABILITIES				
Current liabilities				
Accruals and other current liabilities.....		32	43	1,155
Amounts due to a related party		153	152	—
Amounts due to a subsidiary		—	—	83
Dividend payables.....		—	—	230,000
Total current liabilities		<u>185</u>	<u>195</u>	<u>231,238</u>
Total liabilities		<u>185</u>	<u>195</u>	<u>231,238</u>
Total equity and liabilities		<u>135,012</u>	<u>156,839</u>	<u>411,445</u>
Net current (liabilities)/assets		<u>(103)</u>	<u>(133)</u>	<u>6,438</u>
Total assets less current liabilities		<u>134,827</u>	<u>156,644</u>	<u>180,207</u>

APPENDIX I

ACCOUNTANT’S REPORT

(c) Consolidated statements of comprehensive income

	Note	Year ended 30 June		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Revenue	5	1,383,435	1,613,093	1,902,642
Cost of sales	21	(580,459)	(622,542)	(712,183)
Gross profit		<u>802,976</u>	<u>990,551</u>	<u>1,190,459</u>
Selling and marketing expenses.....	21	(501,352)	(581,609)	(712,381)
Administrative expenses.....	21	(102,705)	(131,204)	(157,409)
Other income and gains, net.....	24	27,771	18,627	22,335
Operating profit		<u>226,690</u>	<u>296,365</u>	<u>343,004</u>
Finance income	25	796	2,406	1,437
Finance costs	25	(16,878)	(16,413)	(2,535)
Finance costs, net		<u>(16,082)</u>	<u>(14,007)</u>	<u>(1,098)</u>
Profit before income tax		210,608	282,358	341,906
Income tax expense.....	26	(60,692)	(85,406)	(102,570)
Profit for the year		<u>149,916</u>	<u>196,952</u>	<u>239,336</u>
Other comprehensive income				
<i>Items that may be reclassified</i>				
<i>subsequently to profit or loss:</i>				
Currency translation differences		430	(1,348)	1,965
Total comprehensive income for the				
year		<u>150,346</u>	<u>195,604</u>	<u>241,301</u>
Profit attributable to:				
Owners of the Company.....		149,464	196,819	239,336
Non-controlling interests.....		452	133	—
		<u>149,916</u>	<u>196,952</u>	<u>239,336</u>
Total comprehensive income				
attributable to:				
Owners of the Company.....		149,894	195,471	241,301
Non-controlling interests.....		452	133	—
		<u>150,346</u>	<u>195,604</u>	<u>241,301</u>
Earnings per share (expressed in RMB				
per share)				
- Basic	27	<u>79.01</u>	<u>104.04</u>	<u>126.51</u>
- Diluted	27	<u>79.01</u>	<u>103.40</u>	<u>124.47</u>

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(d) Consolidated statements of changes in equity

	Note	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 July 2013		16	20,060	132,741	152,817	3,382	156,199
Comprehensive income							
Profit for the year		—	—	149,464	149,464	452	149,916
Other comprehensive income:							
Currency translation differences		—	430	—	430	—	430
Total comprehensive income		—	430	149,464	149,894	452	150,346
Transactions with owners							
Profit appropriations to statutory reserves	17(a)	—	14,456	(14,456)	—	—	—
Total transactions with owners ...		—	14,456	(14,456)	—	—	—
Balance at 30 June 2014		16	34,946	267,749	302,711	3,834	306,545
Balance at 1 July 2014		16	34,946	267,749	302,711	3,834	306,545
Comprehensive income							
Profit for the year		—	—	196,819	196,819	133	196,952
Other comprehensive income:							
Currency translation differences		—	(1,348)	—	(1,348)	—	(1,348)
Total comprehensive income		—	(1,348)	196,819	195,471	133	195,604
Transactions with owners							
Liquidation of a subsidiary	17(b)	—	(5,254)	5,254	—	(3,967)	(3,967)
Profit appropriations to statutory reserves	17(a)	—	14,691	(14,691)	—	—	—
Share-based compensation	23	—	11,579	—	11,579	—	11,579
Dividend	28	—	—	(10,307)	(10,307)	—	(10,307)
Total transactions with owners ...		—	21,016	(19,744)	1,272	(3,967)	(2,695)
Balance at 30 June 2015		16	54,614	444,824	499,454	—	499,454
Balance at 1 July 2015		16	54,614	444,824	499,454	—	499,454
Comprehensive income							
Profit for the year		—	—	239,336	239,336	—	239,336
Other comprehensive income:							
Currency translation differences		—	1,965	—	1,965	—	1,965
Total comprehensive income		—	1,965	239,336	241,301	—	241,301
Transactions with owners							
Profit appropriations to statutory reserves	17(a)	—	29,447	(29,447)	—	—	—
Share-based compensation	23	—	10,958	—	10,958	—	10,958
Dividend	28	—	—	(463,771)	(463,771)	—	(463,771)
Total transactions with owners ...		—	40,405	(493,218)	(452,813)	—	(452,813)
Balance at 30 June 2016		16	96,984	190,942	287,942	—	287,942

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(e) Consolidated statements of cash flows

	Note	For the year ended 30 June		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	29	159,974	367,350	432,930
Income tax paid		(71,862)	(85,347)	(135,744)
Net cash generated from operating activities		<u>88,112</u>	<u>282,003</u>	<u>297,186</u>
Cash flows from investing activities				
Purchase of land use rights		(23,742)	—	(27,892)
Purchase of property, plant and equipment		(28,879)	(29,792)	(33,450)
Purchase of intangible assets		(2,650)	(552)	(1,195)
Proceeds from disposals of property, plant and equipment		1,972	701	1,701
Loans granted to a related party		(95,000)	—	—
Repayments of loans received from a related party		—	—	145,000
Cash designated for restriction		(17,625)	(25,080)	(15,359)
Cash released from restriction		9,210	31,181	12,002
Income received from structured investment products		604	1,592	538
Interest received		796	2,406	28,791
Net cash (used in)/generated from investing activities		<u>(155,314)</u>	<u>(19,544)</u>	<u>110,136</u>
Cash flows from financing activities				
Borrowings from the Controlling Shareholders of the Company		56,964	1,227	—
Proceeds from bank borrowings		66,892	192,813	25,115
Repayments of borrowings from the Controlling Shareholders of the Company		(84,541)	(11,589)	(30,720)
Repayments of bank borrowings		(21,650)	(344,642)	(152,375)
Interest paid		(16,725)	(16,699)	(2,751)
Dividends paid	28	—	(10,307)	(233,771)
Payment to non-controlling interests for liquidation of a subsidiary	17	—	(3,480)	(487)
Net cash generated from/(used in) financing activities		<u>940</u>	<u>(192,677)</u>	<u>(394,989)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(66,262)</u>	<u>69,782</u>	<u>12,333</u>
Cash and cash equivalents at beginning of the year	14	151,462	85,203	154,981
Exchange gains/(losses) on cash and cash equivalents		3	(4)	209
Cash and cash equivalents at end of the year	14	<u>85,203</u>	<u>154,981</u>	<u>167,523</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

The Company was incorporated in the Cayman Islands on 26 November 2012 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands. Pursuant to the resolution passed by the board of directors on 8 June 2016, the Company changed its name from Croquis Investment Limited to JNBY Design Limited.

The Company is an investment holding company. Its subsidiaries (collectively, the “Group”) are primarily engaged in the design, marketing and sales of fashion apparel and accessory products in the People’s Republic of China (the “PRC”) and overseas (the “[REDACTED] Business”). The ultimate holding company of the Group is Ninth Investment Limited, a company incorporated in the British Virgin Islands (“BVI”), which is wholly-owned by Ms. Li Lin (Ms. Li Lin, together with her spouse, Mr. Wu Jian, the “Controlling Shareholders”).

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the “Reorganisation”), the [REDACTED] Businesses were carried out by Hangzhou JNBY Finery Co., Ltd. (“Hangzhou JNBY”), Hangzhou Shangwei Apparel Co., Ltd. (“Hangzhou Shangwei”) and Hangzhou Huikang Industrial Co., Ltd. (“Huikang Industrial”), all of which were wholly-owned by the Controlling Shareholders.

The following reorganization steps took place in order to transfer the [REDACTED] Business to the Company:

- (1) In June 2011, JNBY Finery Co., Ltd. (“JNBY Finery”) was established by Grand Vantage (China) Limited (“Grand Vantage”) (90%), an investment holding company incorporated in Hong Kong by the Controlling Shareholders and Hangzhou JNBY (10%), which subsequently transferred its 10% equity interests to Grand Vantage at a consideration of RMB7,500,000.
- (2) In October 2012, Hangzhou Liancheng Huazhuo Industry Co., Ltd. (“Liancheng Huazhuo”) was established by Grand Vantage as a wholly foreign owned enterprise in the PRC.
- (3) In October 2012 and February 2013, JNBY Finery and Liancheng Huazhuo respectively acquired the entire equity interests in Hangzhou Woquan Finery Co., Ltd. (“Hangzhou Woquan”) and Hangzhou Huikang Huazhuo Import & Export Trading Co., Ltd. (“Huikang Huazhuo”), both of which were ultimately owned by the Controlling Shareholders for a consideration of RMB2,000,000 each.
- (4) Pursuant to various agreements entered into among JNBY Finery, Liancheng Huazhuo, Hangzhou JNBY, Hangzhou Shangwei and Huikang Industrial, the [REDACTED] Businesses carried out by Hangzhou JNBY and these PRC companies were transferred to JNBY Finery and Liancheng Huazhuo before June 2013.

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- (5) Apart from above, the remaining group companies, which are all engaged in sales and marketing operations were established by JNBY Finery as the wholly-owned subsidiaries of the Group during the period from July 2012 to July 2015.
- (6) The Company was incorporated on 26 November 2012 by the Controlling Shareholders through their respective wholly-owned investment holding companies incorporated in BVI.
- (7) In December 2012, Croquis Holdings Limited (“Croquis Holdings”), a BVI company was incorporated by the Company as a wholly-owned subsidiary of the Company.
- (8) In June 2013, Grand Vantage issued 139,990,000 shares at a par value of HK\$1.00 each to Croquis Holdings. Subsequently, the Controlling Shareholders transferred their entire interests in Grand Vantage to Croquis Holdings at a total consideration of HK\$100,000. As a result, Grand Vantage became a wholly-owned subsidiary of Croquis Holdings.

Upon completion of the Reorganisation, the Company became holding company of the companies comprising the Group.

The Company’s subsidiaries are companies with limited liabilities, details of which are set out in below table:

Name of Company	Place and date of incorporation	Issued and paid up capital	Attributable equity interest of the Group				Principal activities
			30 June			As at the date of this report	
			2014	2015	2016		
Directly owned							
Croquis Holdings Limited ⁽¹⁾	BVI/ 14 December 2012	US\$1,000	100%	100%	100%	100%	Investment holding
Indirectly owned							
Grand Vantage (China) Limited ⁽²⁾	Hong Kong/ 24 March 2011	HK\$140,000,000	100%	100%	100%	100%	Investment holding and sales of apparel and accessory products
Hangzhou Liancheng Huazhuo Industrial Co., Ltd. ⁽³⁾	The PRC/ 19 October 2012	US\$19,250,000	100%	100%	100%	100%	Production and sales of apparel and accessory products
Hangzhou Huikang Huazhuo Import and Export Trade Co., Ltd. ⁽³⁾	The PRC/ 23 May 2008	RMB2,000,000	100%	100%	100%	100%	Overseas sales of apparel and accessory products
JNBY Finery Co., Ltd. ⁽³⁾	The PRC/ 21 June 2011	US\$10,000,000	100%	100%	100%	100%	Design and sales of apparel and accessory products
Hangzhou Linghui Jiayi Industrial Co., Ltd. ⁽⁵⁾	The PRC/ 11 July 2011	US\$5,000,000	90%	NA*	NA*	NA*	Retail of apparel and accessory products
Hangzhou Woquan Finery Co., Ltd. ⁽³⁾	The PRC/ 3 September 2012	RMB2,000,000	100%	100%	100%	100%	Production and sales of apparel and accessory products

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Name of Company	Place and date of incorporation	Issued and paid up capital	Attributable equity interest of the Group				Principal activities
			30 June			As at the date of this report	
			2014	2015	2016		
Guangzhou JNBY Finery Co., Ltd. ⁽⁵⁾	The PRC/ 24 July 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
JNBY (Tianjin) Finery Co., Ltd. ⁽⁵⁾	The PRC/ 13 August 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
JNBY Finery (Hefei) Co., Ltd. ⁽⁵⁾	The PRC/ 4 July 2012	RMB2,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
JNBY Finery Sales (Wuhu) Co., Ltd. ⁽⁵⁾	The PRC/ 24 August 2012	RMB1,000,000	100%	NA*	NA*	NA*	Retail of apparel and accessory products
Shenyang JNBY Finery Co., Ltd. ⁽⁵⁾	The PRC/ 13 August 2012	RMB6,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Changsha JNBY Finery Co., Ltd. ⁽⁵⁾	The PRC/ 13 September 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
JNBY Finery (Beijing) Co., Ltd. ⁽⁵⁾	The PRC/ 18 October 2012	RMB2,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Chongqing Croquis Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 9 August 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Wuhan Grand Vantage Croquis Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 12 September 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Xi’an JNBY Finery Sales Co., Ltd. ⁽⁴⁾	The PRC/ 16 February 2013	RMB1,010,000	100%	100%	100%	100%	Retail of apparel and accessory products
JNBY Finery (Wenzhou) Sales Co., Ltd. ⁽⁵⁾	The PRC/ 4 January 2013	RMB1,000,000	100%	100%	NA*	NA*	Retail of apparel and accessory products
Zhengzhou JNBY Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 28 September 2012	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Ningbo JNBY Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 12 April 2013	RMB2,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Jinan Hangji Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 22 March 2011	RMB500,000	100%	100%	NA*	NA*	Retail of apparel and accessory products
Dalian Huazhuo Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 5 July 2013	RMB1,000,000	100%	NA*	NA*	NA*	Retail of apparel and accessory products
JNBY Finery (Huzhou) Sales Co., Ltd. ⁽⁵⁾	The PRC/ 15 July 2013	RMB1,000,000	100%	100%	NA*	NA*	Retail of apparel and accessory products
JNBY Finery (Wuxi) Sales Co., Ltd. ⁽⁵⁾	The PRC/ 27 May 2013	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Qingdao Huazhuo Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 7 June 2013	RMB1,500,000	100%	100%	100%	100%	Retail of apparel and accessory products
Shanghai Huazhuo Finery Sales Co., Ltd. ⁽⁵⁾	The PRC/ 1 July 2013	RMB1,000,000	100%	100%	100%	100%	Retail of apparel and accessory products
Taiyuan JNBY Finery Co., Ltd. ⁽⁵⁾	The PRC/ 31 July 2015	RMB500,000	0%	0%	100%	100%	Retail of apparel and accessory products

The Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

Notes:

- * These companies were deregistered during the Relevant Periods.
- (1) No statutory audited financial statements have been prepared by this BVI company as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
 - (2) The statutory financial statements of this company for the year ended 30 June 2014 were audited by PricewaterhouseCoopers. The statutory financial statements of this company for the year ended 30 June 2015 were audited by Au Choi Yuen & Co, Certified Public Accountants in Hong Kong. As at the date of this report, the statutory financial statements of Grand Vantage (China) Limited for the year ended 30 June 2016 is yet to be issued.
 - (3) The statutory financial statements of these companies for each of the years ended 31 December 2013, 2014 and 2015 were audited by Zhejiang Hongda Certified Public Accountants Co., Ltd. in the PRC.
 - (4) The statutory financial statements of this company for each of the years ended 31 December 2013 and 2014 were audited by Shanxi Minghao Certified Public Accountants Co., Ltd. and Shanxi Hao Sheng United Certified Public Accountants Co., Ltd, respectively. No audited financial statements for the year ended 31 December 2015 were issued for this company as it was not required to issue audited statutory financial statements by its regulatory authority since 2015.
 - (5) Except for the above, no statutory financial statements were prepared for other PRC companies during the Relevant Periods as there were no statutory requirements in their places of incorporation in the PRC.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA as set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

All new standards, amendments and interpretation to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods unless prohibited by the relevant standards to apply retrospectively.

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The following new standards, amendments and interpretations to existing standards which have been issued but are not effective for the financial year beginning on July 1, 2015 and have not been early adopted by the Group:

Standards	Effective for annual periods beginning on or after
HKFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operations.....	January 1, 2016
Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation	January 1, 2016
Amendments to HKAS 16 and HKAS 41 on Agriculture: bearer plants	January 1, 2016
Amendments to HKFRS 10 and HKAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”	Deferred
Amendment to HKAS 27 on equity method in separate financial statements.....	January 1, 2016
Annual improvements 2014	January 1, 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 on investment entities: applying the consolidation exception	January 1, 2016
Amendments to HKAS 1 for the disclosure initiative	January 1, 2016
HKFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
HKFRS 9 “Financial Instruments”	January 1, 2018
HKFRS16 “Leases”*	January 1, 2019

* The Group is a lessee of retail outlets, offices and warehouses under which the relevant leases are classified as operating leases. The Group’s current accounting policy for such leases is set out in Note 2.26. As at 30 June 2016, the Group’s total non-cancellable operating lease commitments amounted to RMB 180,998,000 (Note 30). HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the Financial Information. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in the Group’s consolidated balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated balance sheets. In the consolidated statements of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. The new standard is not expected to apply until the financial year 2019, which will include the adjustment of prior years.

The Company’s directors have also performed an assessment on the other new standards and amendments, and have concluded on a preliminary basis that the other new standards and amendments would not have a significant impact on the Company’s consolidated financial statements in the subsequent years.

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2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee’s net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company, Croquis Holdings Limited and Grand Vantage (China) Limited is the Hong Kong dollar (“HK\$”). The subsidiaries incorporated in the PRC considered RMB as their functional currency as the major operations of the Group during the Relevant Periods are within the PRC. The Group determined to present its Financial Information in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and other financial asset are presented in the consolidated statements of comprehensive income within ‘finance income or costs’. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within ‘other income and gains, net’.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

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2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life, as follows:

	<u>Estimated useful lives</u>
Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of assets
Machinery	10 years
Office equipment and others	3-5 years
Motor vehicles	5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents buildings, machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘Other income and gains, net’ in the consolidated statements of comprehensive income.

2.6 Land use right

Land use right represents upfront prepayments made for the land use right at historical cost and are expensed in the consolidated statements of comprehensive income on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated statements of comprehensive income.

2.7 Intangible assets

Computer Software

Acquired computer software are shown at historical cost less accumulated amortisation and accumulated impairment if any. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 10 years.

2.8 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise ‘trade receivables’, ‘prepayments, deposits and other receivables’, ‘amount due from related parties’, ‘restricted cash’ and ‘cash and cash equivalents’ in the balance sheet (Note 2.13 and 2.14).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the consolidated statements of comprehensive income within ‘Other income and gains, net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statements of comprehensive income as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale and carried at fair value are recognised in other comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of comprehensive income as ‘gains and losses from investment securities’.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss 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) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.12 *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 raw materials, labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 *Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 *Share capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has a contractual or an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of

goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 *Employee benefits*

(a) *Pension obligations*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees’ salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employee payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group’s contributions to these plans are expensed as incurred.

(b) *Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group has no further payment obligation once the contributions have been paid. The contribution are recognised as employee benefit expense when they are due.

2.21 *Share-based payments*

(a) *Equity-settled share-based payments transactions*

The Group received service from an employee as consideration for its equity instruments. The fair value of the employee services received in exchange for the grant of the restricted share units is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted share units granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service conditions are included in assumptions about the number of restricted share units that are expected to vest. The total expense is recognised over the vesting period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of restricted share units that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) *Share-based payments transactions among group entities*

The grant by the Company of restricted share units over its equity instruments to the employees or other service providers of the subsidiaries and the PRC operating entities are treated as a capital contribution in the separate financial statements of the Company. The fair value of consulting and employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding credit to equity in the separate financial statements of the Company.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation or constructive obligation as a result of past transactions or events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group’s activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

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(a) *Sales of goods — distributors*

A significant part of the Group’s products are sold to distributors, which 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, the risks of obsolescence and loss have been transferred to the distributors, and acceptance by distributors occurs. Acceptance refers to either of the situations that distributors 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’ acceptance of the products.

The Group offers volume rebates to distributors as agreed in the sales contracts. Distributors are also offered with right of return within the limit as agreed in the sales contracts. Revenue is adjusted for estimated rebates and expected returns based on historical pattern.

(b) *Sales of products — retail*

The Group sells its products to end customers via a chain of retail outlets of the Group or over third-party online retail platform 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 platform. Revenue is adjusted for the value of expected returns.

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognised as deferred revenue at their fair value. Revenue from the reward points is recognised when the points are redeemed or expired.

2.24 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment and land use rights are included in liabilities as other non-current liabilities and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. The definition of a lease includes contracts for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

2.27 Dividend distributions

Dividends distributed to the Company’s shareholders is recognised as a liability in the Group’s and the Company’s financial information in the period in which the dividend distributions are approved by the Company’s shareholders or directors, where appropriate.

3. Financial risk management

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures during the Relevant Periods.

(a) Market risk

(i) Foreign exchange risk

The functional currencies of most of the Company’s subsidiaries are RMB as majority of the revenues of these companies are derived from operations in the PRC. The Group is exposed to foreign currency risks with respect to sales to overseas customers and purchases from overseas suppliers as well as foreign currency denominated financial assets or liabilities at each balance sheet date. The Group does not hedge against any fluctuation in foreign currency. As at 30 June 2014, 2015 and 2016, the Group did not have any significant exchange risk from operation.

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(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents, restricted cash and certain interest bearing loans temporarily lent to related parties, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

The Group’s interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. During the Relevant Periods, the Group has not used any financial instrument to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. For the years ended 30 June 2014, 2015 and 2016, if interest rates had been increased/decreased by 10% with all other variance held constant, post-tax profit would decrease/increase by RMB1,161,000, RMB958,000 and RMB187,000, respectively, resulting from the changes in borrowing costs subject to floating interest rate.

(b) *Credit risk*

Credit risk is managed on a group basis. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

As at 30 June 2014, 2015 and 2016, most of the Group’s restricted cash and cash and cash equivalents were deposited in the major financial institutions in the PRC with good credit rating. The Group categorises its major counterparties into the following groups:

Group 1 — Top 4 banks in the PRC (China Construction Bank, Bank of China, Agricultural Bank of China, and Industrial and Commercial Bank of China), Hang Seng Bank and Citi Bank in Hong Kong;

Group 2 — Other major listed banks and regional banks in the PRC; and

Group 3 — Other banks and financial institutions.

Category	As at 30 June		
	2014	2015	2016
	RMB’000	RMB’000	RMB’000
Group 1	19,789	39,278	113,871
Group 2	75,217	119,283	60,513
Group 3	—	—	—
	<u>95,006</u>	<u>158,561</u>	<u>174,384</u>

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For sales to distributors, deposits and advances are received in most cases before delivery is made. For other customers with credit terms granted, the Group has policies in place to ensure credit terms are only granted to customers with an appropriate credit history and the Group performs periodic credit evaluations of these customers, taking into account their financial position, past experience and other factors. Normally the Group does not require collaterals from trade debtors. Provisions are made for the balance past due when management considers the loss from non-performance by the customers is likely. Sales to customers on internet are settled by third-party online payment platforms.

(c) *Liquidity risk*

The Group’s policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining year at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<u>Within 1 year</u>	<u>More than 1 year</u>
	<i>RMB’000</i>	<i>RMB’000</i>
As at 30 June 2014		
Borrowings and interests payable	265,439	14,724
Trade and bills payables	54,257	263
Amounts due to related parties.....	62,233	—
Accruals and other current liabilities.....	57,570	—
	<u>439,499</u>	<u>14,987</u>
As at 30 June 2015		
Borrowings and interests payable	20,360	119,607
Trade and bills payables	76,111	702
Amounts due to related parties.....	36,686	—
Accruals and other current liabilities	87,280	—
	<u>220,437</u>	<u>120,309</u>
As at 30 June 2016		
Dividend payables.....	230,000	—
Trade and bills payables	94,387	935
Amounts due to related parties.....	9,294	—
Accruals and other current liabilities.....	124,053	—
	<u>457,734</u>	<u>935</u>

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3.2 Capital management

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including “current and non-current borrowings” as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash. Total capital is calculated as “equity” as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 30 June 2014, 2015 and 2016 were as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Total borrowings (Note 20).....	279,089	127,260	—
Less: Cash and cash equivalents (Note 14)	(85,203)	(154,981)	(167,523)
Restricted cash (Note 14).....	(10,415)	(4,314)	(7,671)
Net debt.....	183,471	(32,035)	(175,194)
Total equity	306,545	499,454	287,942
Total capital	490,016	467,419	112,748
Gearing ratio	<u>37.44%</u>	<u>N/A</u>	<u>N/A</u>

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at 30 June 2014, 2015 and 2016, the Group did not have any financial instruments that are measured in the consolidated balance sheets at fair value.

4. Critical accounting estimates and judgements

Estimates and judgements 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.

The Group makes 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.

(a) *Net realisable value of inventories*

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling and marketing expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(b) *Income taxes and deferred income tax*

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(c) ***Right of return***

The Group offers right of return to distributors and end customers. The Group management estimates the amount of returns associated with sales in a specific period, which are deducted from the total revenue arising from such sales. The Group management believes that the Group has processed sufficient historical experience and patterns to estimate sales returns based on different customer profiles, e.g. distributors, offline retail customers, online retail customers, etc. Such estimates are performed on a periodic basis taking into account the competitive landscape, world fashion trend, and disposable income level of specific geographical areas.

(d) ***Volume rebates***

The Group offers volume rebates to distributors as agreed in the sales contracts. Revenue is adjusted for estimated rebates in the respective period. Rebates are offered to certain distributors upon reaching minimum sales thresholds for a specified period or based on certain percentage of sales volume. Volume rebates are reasonably estimated based on the Group’s past experience and sales forecasts.

(e) ***Membership-based customer loyalty program***

The Group offers a membership-based customer loyalty program, under which customers who joined the membership are able to accumulate reward points through purchases of goods and could redeem these reward points for vouchers entitling discount on a subsequent purchase. The Group accrues for deferred revenue as members accumulate points on the consideration of the proportion of vouchers expected to be redeemed. When members redeem awards, the accrued liability is reduced correspondingly.

(f) ***Fair value of share-based compensation expenses***

The Group awarded restricted share units under the restricted share units (“RSUs”) scheme to eligible senior management and employees, and used the fair value of underlying ordinary shares to determine the total fair value of the RSUs awarded.

The Company have used the discounted cash flow method to determine the fair value of the underlying equity of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary shares. The discounted cash flow analysis is based on projected cash flow using management’s best estimate as of the valuation date. The determination of the fair value of RSUs requires complex and subjective judgments to be made regarding projected financial and operating results, business risks, the liquidity of shares and operating history and prospects at the time of valuation. The major assumptions used in calculating the fair value of ordinary shares include discount rates, comparable companies and discount for lack of marketability.

The fair values of RSUs granted are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group. The Group only recognises an expense for those RSUs expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the RSUs and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The fair value of the RSUs at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expenses.

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting would be met, the corresponding share-based compensation expenses recognised by the Group in respect of their services rendered for the years ended 30 June 2014, 2015 and 2016, were nil, RMB11,579,000 and RMB10,958,000, respectively.

5. Segment information

The Group operates as three operating segments. The operating segments are reported in a manner consistent with the internal reporting provided to the CODM.

The Group is principally engaged in designing, marketing and selling apparel products and over 98% of its revenue are derived in the PRC during the Relevant Periods.

None of the revenue derived from any single external customer amounted to more than 2% of the Group’s revenue during the Relevant Periods.

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Management has determined the operating segments based on the information reviewed by the executive directors for the purposes of allocating resources and assessing performance. The executive directors consider the business from both a geographic and product perspective. Geographically, the executive directors considers the performance in the PRC and overseas. From a product perspective, the executive directors separately considers the product lines for women, men and children in these geographies. Management assesses the performance of the operating segments based on operating profit.

	For the year ended 30 June 2014			
	Women	Men	Children	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
The PRC	1,072,886	237,781	41,596	1,352,263
Overseas	31,172	—	—	31,172
Revenue from external customers	<u>1,104,058</u>	<u>237,781</u>	<u>41,596</u>	<u>1,383,435</u>
Segment gross profit	<u>623,563</u>	<u>156,599</u>	<u>22,814</u>	<u>802,976</u>
Segment operating profit/(loss)	<u>281,592</u>	<u>40,209</u>	<u>(1,272)</u>	<u>320,529</u>
Unallocated expense.....				(121,610)
Other gains, net				27,771
Total operating profit				<u><u>226,690</u></u>

	For the year ended 30 June 2015			
	Women	Men	Children	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
The PRC	1,178,230	295,890	113,806	1,587,926
Overseas	22,532	2,168	467	25,167
Revenue from external customers	<u>1,200,762</u>	<u>298,058</u>	<u>114,273</u>	<u>1,613,093</u>
Segment gross profit	<u>720,007</u>	<u>201,847</u>	<u>68,697</u>	<u>990,551</u>
Segment operating profit.....	<u>330,161</u>	<u>84,586</u>	<u>19,042</u>	<u>433,789</u>
Unallocated expense.....				(156,051)
Other gains, net				18,627
Total operating profit				<u><u>296,365</u></u>

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	For the year ended 30 June 2016			
	Women	Men	Children	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
The PRC	1,305,845	378,112	202,503	1,886,460
Overseas	<u>14,450</u>	<u>1,483</u>	<u>249</u>	<u>16,182</u>
Revenue from external customers.....	<u>1,320,295</u>	<u>379,595</u>	<u>202,752</u>	<u>1,902,642</u>
Segment gross profit.....	<u>806,416</u>	<u>259,396</u>	<u>124,647</u>	<u>1,190,459</u>
Segment operating profit.....	<u>347,335</u>	<u>117,156</u>	<u>43,782</u>	<u>508,273</u>
Unallocated expense.....				(187,604)
Other gains, net				22,335
Total operating profit.....				<u><u>343,004</u></u>

Revenue analysed by product lines was as follows:

	For the year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Women.....	1,104,058	1,200,762	1,320,295
Men	237,781	298,058	379,595
Children.....	<u>41,596</u>	<u>114,273</u>	<u>202,752</u>
	<u>1,383,435</u>	<u>1,613,093</u>	<u>1,902,642</u>

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6. Property, plant and equipment

	Office equipment and others	Machinery	Motor vehicles	Leasehold improvements	Construction -in-progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 July 2013						
Cost	10,119	587	4,657	17,639	—	33,002
Accumulated depreciation	(1,370)	(34)	(450)	(5,642)	—	(7,496)
Net book value	<u>8,749</u>	<u>553</u>	<u>4,207</u>	<u>11,997</u>	<u>—</u>	<u>25,506</u>
Year ended 30 June 2014						
Opening net book value	8,749	553	4,207	11,997	—	25,506
Additions	2,253	1,080	—	24,860	—	28,193
Depreciation	(3,365)	(107)	(848)	(21,420)	—	(25,740)
Disposals	(20)	—	(100)	(1,865)	—	(1,985)
Closing net book value	<u>7,617</u>	<u>1,526</u>	<u>3,259</u>	<u>13,572</u>	<u>—</u>	<u>25,974</u>
As at 30 June 2014						
Cost	12,352	1,667	4,557	40,634	—	59,210
Accumulated depreciation	(4,735)	(141)	(1,298)	(27,062)	—	(33,236)
Net book value	<u>7,617</u>	<u>1,526</u>	<u>3,259</u>	<u>13,572</u>	<u>—</u>	<u>25,974</u>
Year ended 30 June 2015						
Opening net book value	7,617	1,526	3,259	13,572	—	25,974
Additions	2,256	638	9	26,013	1,380	30,296
Depreciation	(3,844)	(258)	(846)	(23,397)	—	(28,345)
Disposals	(209)	(416)	(40)	(40)	—	(705)
Closing net book value	<u>5,820</u>	<u>1,490</u>	<u>2,382</u>	<u>16,148</u>	<u>1,380</u>	<u>27,220</u>
As at 30 June 2015						
Cost	14,108	1,889	4,456	66,507	1,380	88,340
Accumulated depreciation	(8,288)	(399)	(2,074)	(50,359)	—	(61,120)
Net book value	<u>5,820</u>	<u>1,490</u>	<u>2,382</u>	<u>16,148</u>	<u>1,380</u>	<u>27,220</u>
Year ended 30 June 2016						
Opening net book value	5,820	1,490	2,382	16,148	1,380	27,220
Additions	4,219	675	514	31,415	574	37,397
Depreciation	(3,384)	(107)	(836)	(24,775)	—	(29,102)
Disposals	(474)	(160)	(97)	(1,135)	—	(1,866)
Closing net book value	<u>6,181</u>	<u>1,898</u>	<u>1,963</u>	<u>21,653</u>	<u>1,954</u>	<u>33,649</u>
As at 30 June 2016						
Cost	17,722	2,309	4,713	92,871	1,954	119,569
Accumulated depreciation	(11,541)	(411)	(2,750)	(71,218)	—	(85,920)
Net book value	<u>6,181</u>	<u>1,898</u>	<u>1,963</u>	<u>21,653</u>	<u>1,954</u>	<u>33,649</u>

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Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	27	58	—
Selling and marketing expenses	21,817	24,824	26,064
Administrative expenses	<u>3,896</u>	<u>3,463</u>	<u>3,038</u>
	<u>25,740</u>	<u>28,345</u>	<u>29,102</u>

7. Land use rights

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book value.....	—	23,584	23,109
Addition.....	23,742	—	27,892
Amortisation charges	<u>(158)</u>	<u>(475)</u>	<u>(615)</u>
Closing net book value.....	<u>23,584</u>	<u>23,109</u>	<u>50,386</u>

The Group’s land use rights are located in Hangzhou, the PRC, and with an original lease period of 50 years.

As at 30 June 2014, 2015 and 2016, the net book value of the land use right pledged as collaterals were approximately RMB23,584,000 (Note 20), nil and nil, respectively.

Amortisation of land use right has been charged to the consolidated statements of comprehensive income as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Administrative expenses	<u>158</u>	<u>475</u>	<u>615</u>

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8. Intangible assets

	<u>Computer software</u>
	<i>RMB’000</i>
As at 1 July 2013	
Cost	2,239
Accumulated amortisation	<u>(154)</u>
Net book value	<u>2,085</u>
Year ended 30 June 2014	
Opening net book value	2,085
Additions	2,650
Amortisation charge	<u>(377)</u>
Closing net book value	<u>4,358</u>
As at 30 June 2014	
Cost	4,889
Accumulated amortisation	<u>(531)</u>
Net book value	<u>4,358</u>
Year ended 30 June 2015	
Opening net book value	4,358
Additions	552
Amortisation charge	<u>(511)</u>
Closing net book value	<u>4,399</u>
As at 30 June 2015	
Cost	5,441
Accumulated amortisation	<u>(1,042)</u>
Net book value	<u>4,399</u>
Year ended 30 June 2016	
Opening net book value	4,399
Additions	1,195
Amortisation charge	<u>(591)</u>
Closing net book value	<u>5,003</u>
As at 30 June 2016	
Cost	6,636
Accumulated amortisation	<u>(1,633)</u>
Net book value	<u>5,003</u>

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Amortisation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Administrative expenses	<u>377</u>	<u>511</u>	<u>591</u>

9. Interests in a subsidiary — the Company

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investments in a subsidiary			
- Investment in a subsidiary (a)	134,930	134,930	134,930
- Deemed investments arising from share-based compensation (b)	—	11,579	22,537
Amount due from a subsidiary (c)	<u>—</u>	<u>10,268</u>	<u>16,302</u>
	<u>134,930</u>	<u>156,777</u>	<u>173,769</u>

- (a) The Company’s investment in its subsidiary, an unlisted company, is approximately RMB134,930,000, which is the carrying value of Croquis Holdings upon completion of the Reorganisation.
- (b) It represented share-based compensation expenses attributable to the employees of the Group subsidiaries, which were recorded as deemed investments in subsidiaries in the Company’s balance sheets.
- (c) The amount due from a subsidiary is unsecured and interest free with no fixed repayment term. The Company has no intention to collect such amount within 12 months as at 30 June 2016.

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10. Deferred income tax

The analysis of deferred income tax assets is as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income tax assets:			
- to be recovered after more than 12 months	8,722	19,703	28,524
- to be recovered within 12 months.....	<u>14,992</u>	<u>20,499</u>	<u>32,981</u>
	<u>23,714</u>	<u>40,202</u>	<u>61,505</u>
Deferred income tax liabilities:			
- to be recovered after more than 12 months	3,520	—	—
- to be recovered within 12 months.....	<u>4,761</u>	<u>13,925</u>	<u>8,500</u>
	<u>8,281</u>	<u>13,925</u>	<u>8,500</u>
	<u>15,433</u>	<u>26,277</u>	<u>53,005</u>

The gross movement of the deferred income tax assets is as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year.....	14,554	23,714	40,202
Credited in the consolidated statements of comprehensive income (Note 26)	<u>9,160</u>	<u>16,488</u>	<u>21,303</u>
End of the year	<u>23,714</u>	<u>40,202</u>	<u>61,505</u>

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	Provision for inventories	Deferred revenue	Accrued expenses and provisions	Tax losses carried forward	Impairment for receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 July 2013	—	563	8,595	4,807	589	14,554
Recognised in the consolidated statements of comprehensive income.....	<u>5,771</u>	<u>(27)</u>	<u>5,069</u>	<u>(1,272)</u>	<u>(381)</u>	<u>9,160</u>
As at 30 June 2014	<u>5,771</u>	<u>536</u>	<u>13,664</u>	<u>3,535</u>	<u>208</u>	<u>23,714</u>
Recognised in the consolidated statements of comprehensive income.....	<u>8,395</u>	<u>1,065</u>	<u>7,816</u>	<u>(1,657)</u>	<u>869</u>	<u>16,488</u>
As at 30 June 2015	<u>14,166</u>	<u>1,601</u>	<u>21,480</u>	<u>1,878</u>	<u>1,077</u>	<u>40,202</u>
Recognised in the consolidated statements of comprehensive income.....	<u>12,773</u>	<u>1,922</u>	<u>6,707</u>	<u>(293)</u>	<u>194</u>	<u>21,303</u>
As at 30 June 2016	<u>26,939</u>	<u>3,523</u>	<u>28,187</u>	<u>1,585</u>	<u>1,271</u>	<u>61,505</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. As at each of the balance sheet dates, the Group recognised deferred income tax assets in respect of losses that can be carried forward against future taxable income within five years. The Group did not recognise deferred income tax assets of RMB328,000, RMB616,000 and RMB750,000 in respect of tax losses amounting to RMB1,725,000, RMB2,715,000 and RMB4,502,000 as at 30 June 2014, 2015 and 2016, respectively. All these tax losses will expire within five years since each of the balance sheet dates.

The gross movement of the deferred income tax liabilities is as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year.....	1,123	8,281	13,925
Debited in the consolidated statements of comprehensive income (Note 26)	7,158	10,405	11,653
Transferred to tax payables.....	—	<u>(4,761)</u>	<u>(17,078)</u>
End of the year	<u>8,281</u>	<u>13,925</u>	<u>8,500</u>

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The provisions of RMB8,281,000, RMB13,925,000 and RMB8,500,000 represented provision for withholding income tax were made for the planned profit distribution of the PRC subsidiaries as at 30 June 2014, 2015 and 2016, respectively.

11. Inventories

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	275,115	330,241	409,518
Raw materials	39,362	60,710	67,283
Commissioned processing materials	46,500	57,528	69,646
Work in progress	3,179	1,691	—
Less: provision	<u>(23,086)</u>	<u>(56,668)</u>	<u>(107,761)</u>
	<u>341,070</u>	<u>393,502</u>	<u>438,686</u>

For the years ended 30 June 2014, 2015 and 2016, the cost of inventories recognised as “cost of sales” amounted to approximately RMB580,459,000, RMB622,542,000 and RMB712,183,000, respectively.

Movements of provision for inventories are analysed as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year.....	—	23,086	56,668
Addition of provision for inventories to net realised value included in “cost of sales”	<u>23,086</u>	<u>33,582</u>	<u>51,093</u>
End of the year	<u>23,086</u>	<u>56,668</u>	<u>107,761</u>

12. Trade receivables

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables.....	85,605	77,988	85,670
Less: provision for impairment.....	<u>(2,960)</u>	<u>(7,031)</u>	<u>(7,869)</u>
	<u>82,645</u>	<u>70,957</u>	<u>77,801</u>

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The trade receivables are mainly derived from sales through department stores and are generally collectible within 45 to 90 days from the invoice date.

The ageing analysis of gross trade receivables based on invoice date at the respective balance sheet date was as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months.....	73,510	63,093	76,384
3 months to 6 months.....	7,394	7,434	2,120
6 months to 1 year.....	4,557	2,956	1,791
1 year to 2 years.....	144	4,505	1,826
more than 2 years.....	—	—	3,549
	<u>85,605</u>	<u>77,988</u>	<u>85,670</u>

Ageing analysis of past due but not impaired trade receivables was as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
3 months to 6 months.....	6,469	6,553	1,060
6 months to 1 year.....	2,665	1,312	357
	<u>9,134</u>	<u>7,865</u>	<u>1,417</u>

Based on the past experience and review of the operating situation with the customers, the directors are of the view that past due trade receivables, amounting to approximately RMB9,134,000, RMB7,865,000 and RMB1,417,000 were not impaired as at 30 June 2014, 2015 and 2016, respectively. There has not been a significant change in their credit quality and the balances are considered fully recoverable.

Movement of the provision for impairment of trade receivables was as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year.....	2,375	2,960	7,031
Provision for trade receivables (Note 21).....	1,303	4,071	838
Write-off.....	(718)	—	—
End of the year.....	<u>2,960</u>	<u>7,031</u>	<u>7,869</u>

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As at 30 June 2014, 2015 and 2016, trade receivables of approximately RMB2,960,000, RMB7,031,000 and RMB7,869,000, respectively, of the Group are impaired and fully provided for. The individually impaired receivables mainly relate to certain customers who are in unexpectedly difficult financial situation.

The maximum exposure to credit risk as at the balance sheet date is the carrying value of the net trade receivables balances.

The carrying amounts of the Group’s trade receivables were denominated in the following currencies:

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
RMB	82,830	74,342	81,999
US\$.....	2,328	3,297	3,276
Others	447	349	395
	<u>85,605</u>	<u>77,988</u>	<u>85,670</u>

The carrying amounts of the Group’s trade receivables approximated their fair values as at each of the balance sheet dates.

13. Prepayments, deposits and other receivables

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Long-term prepayments			
Long-term prepaid expenses	2,337	2,004	5,795
Current assets			
Deposits and other receivables	55,874	54,967	62,466
Prepayment to suppliers	29,162	41,812	49,343
Prepaid expenses	8,014	9,773	13,438
Value added tax recoverable	25,686	—	6,134
Prepayment of [REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]
Staff advances	1,264	603	106
	<u>120,000</u>	<u>107,155</u>	<u>132,486</u>
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

As at 30 June 2014, 2015 and 2016, the fair value of deposits and other receivables approximated their carrying amounts.

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The maximum exposure to credit risk at each of the reporting date is the carrying value of each class of prepayment, deposits and other receivables mentioned above.

14. Cash and bank balance

(a) Group

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Cash and cash equivalents	85,203	154,981	167,523
Restricted cash	<u>10,415</u>	<u>4,314</u>	<u>7,671</u>
	<u>95,618</u>	<u>159,295</u>	<u>175,194</u>

Restricted cash represents guarantee deposits pledged to bank for issuance of bills payables and funds restricted voluntarily for guarantee of contract performance.

Company

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Cash and cash equivalents	<u>82</u>	<u>62</u>	<u>—</u>

(b) Cash and bank balance were denominated in the following currencies:

Group

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	94,540	157,332	154,073
US\$	750	753	19,804
JPY	—	1,024	—
Others	<u>328</u>	<u>186</u>	<u>1,317</u>
	<u>95,618</u>	<u>159,295</u>	<u>175,194</u>

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	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
US\$.....	62	61	—
Others	<u>20</u>	<u>1</u>	<u>—</u>
	<u>82</u>	<u>62</u>	<u>—</u>

15. Dividend receivables

Company

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Dividend receivables	<u>—</u>	<u>—</u>	<u>237,500</u>

Pursuant to the resolution made by the board of the directors of Croquis Holdings Limited on 28 June 2016, Croquis Holdings Limited declared dividends of RMB237,500,000 to the Company, which has been settled subsequently.

16. Share capital

	Number of shares authorised	Number of shares issued	Share capital
			<i>RMB’000</i>
As at 30 June 2014 and 2015	50,000	2,500	16
Increase in authorised share capital and issuance new shares	1,000,000,000	1,950,000	16
Cancellation/repurchase of shares	<u>(50,000)</u>	<u>(2,500)</u>	<u>(16)</u>
As at 30 June 2016	<u>1,000,000,000</u>	<u>1,950,000</u>	<u>16</u>

(a) The Company was incorporated on 26 November 2012 in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1 each, of which 2,500 shares have been issued and fully paid in cash.

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Pursuant to a resolution passed by the shareholders on 9 June 2016, the authorised share capital of the Company was increased by HK\$10,000,000 by the creation of 1,000,000,000 ordinary shares of par value of HK\$0.01 each. The Company allotted and issued 1,950,000 new shares fully paid to the current members on a pro rata basis at the subscription price of HK\$0.01. In addition, the Company also repurchased the 2,500 existing shares of US\$1.00 each. Following such repurchase, the authorised but unissued 50,000 shares of par value US\$1.00 each were diminished.

- (b) As at 30 June 2016, approximately 2.94% shares of the Company have been granted to the senior management and selected employees under RSU scheme (Note 23). The par value of the ordinary shares held under this RSU scheme amounting to RMB460 was recorded as a deduction from shareholders’ equity as the directors are of the view that such shares are within the Company’s control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance.

17. Other reserves

(a) Group

	Statutory reserves	Share-based compensation reserve	Currency translation differences	Merger reserve (c)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 July 2013	18,498	—	3,161	(1,599)	20,060
Appropriation to statutory reserves (a).....	14,456	—	—	—	14,456
Currency translation differences.....	—	—	430	—	430
As at 30 June 2014	<u>32,954</u>	<u>—</u>	<u>3,591</u>	<u>(1,599)</u>	<u>34,946</u>
Appropriation to statutory reserves (a).....	14,691	—	—	—	14,691
Share based compensation (Note 23).....	—	11,579	—	—	11,579
Liquidation of a subsidiary (b).....	(5,254)	—	—	—	(5,254)
Currency translation differences.....	—	—	(1,348)	—	(1,348)
As at 30 June 2015	<u>42,391</u>	<u>11,579</u>	<u>2,243</u>	<u>(1,599)</u>	<u>54,614</u>
Appropriation to statutory reserves (a).....	29,447	—	—	—	29,447
Share based compensation (Note 23).....	—	10,958	—	—	10,958
Currency translation differences.....	—	—	1,965	—	1,965
As at 30 June 2016	<u><u>71,838</u></u>	<u><u>22,537</u></u>	<u><u>4,208</u></u>	<u><u>(1,599)</u></u>	<u><u>96,984</u></u>

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(b) **Company**

	Statutory reserves	Share-based compensation reserve	Currency translation differences	Capital reserve (Note 9)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 July 2013	—	—	1	134,924	134,925
Currency translation differences.....	—	—	—	—	—
As at 30 June 2014	—	—	1	134,924	134,925
Currency translation differences.....	—	—	(39)	—	(39)
Share based compensation (Note 23).....	—	11,579	—	—	11,579
As at 30 June 2015	—	11,579	(38)	134,924	146,465
Currency translation differences.....	—	—	960	—	960
Share based compensation (Note 23).....	—	10,958	—	—	10,958
As at 30 June 2016	—	22,537	922	134,924	158,383

- (a) In accordance with the respective articles of association and board resolutions, certain subsidiaries of the Group incorporated in the PRC appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve fund can be used to offset prior year losses, if any, and may be converted into paid-in capital. For the years ended 30 June 2014, 2015 and 2016, approximately RMB14,456,000, RMB14,691,000, and RMB29,447,000, respectively, were appropriated from retained earnings to the statutory surplus reserve fund.
- (b) In June 2015, Hangzhou Linghui Jiayi Finery Co., Ltd., one of the Company’s subsidiaries, was liquidated as resolved by its board of directors (the “Board”). As a result, the statutory reserve of approximately RMB5,254,000 was transferred to retained earnings. According to the board resolution, all distributable profits earned by Hangzhou Linghui Jiayi Finery Co., Ltd., amounting to approximately RMB39,670,000, would be distributed to the equity holders, of which RMB3,967,000 was distributed to Hangzhou JNBY Finery Co., Ltd., the non-controlling interests. As at 30 June 2015 and 2016, the Group paid RMB3,480,000 and RMB487,000 to Hangzhou JNBY Finery Co., Ltd., respectively.
- (c) During the Reorganisation, the shareholders reorganised the [REDACTED] Businesses to form the current Group, during which the Group acquired the equity interests of certain Group entities as described in Note 1 from the then shareholders of these companies. The difference between the considerations paid and their original investments have been recognised as merger reserve.

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18. Trade and bills payables

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (a).....	54,520	76,813	95,322
Bills payables (b).....	<u>16,830</u>	<u>8,628</u>	<u>15,341</u>
	<u>71,350</u>	<u>85,441</u>	<u>110,663</u>

(a) Ageing analysis of trade payables based on invoices as at 30 June 2014, 2015 and 2016 was as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months.....	53,977	75,801	92,852
6 months to 1 year.....	280	310	1,535
1 to 2 years.....	263	449	926
2 to 3 years.....	<u>—</u>	<u>253</u>	<u>9</u>
	<u>54,520</u>	<u>76,813</u>	<u>95,322</u>

(b) As at 30 June 2014, 2015 and 2016, bills payables represented bank acceptance notes issued by the Group with maturity within three months.

As at 30 June 2014, 2015 and 2016, trade and bills payables were denominated in RMB and the fair value of trade payables approximated their carrying amount at each balance sheet date.

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19. Accruals and other current liabilities

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-refundable deposits from distributors (a).....	73,212	51,810	79,118
Advances from distributors.....	47,770	54,739	61,621
Payroll and welfare payables.....	37,815	53,902	60,399
Provisions for sales returns.....	13,370	27,661	36,342
Provisions for sales rebates.....	16,162	21,282	22,135
Distribution deposits (b).....	9,240	11,555	14,692
Accruals and payables for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Workforce contracting payables.....	—	7,473	11,376
Payables for leasehold improvements.....	1,955	2,459	6,406
Marketing and promotions.....	12,157	5,420	5,925
Value-added and other taxes payables.....	13,468	7,586	2,328
Rentals.....	2,012	3,852	2,011
Others.....	2,674	7,578	13,372
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

- (a) Non-refundable deposits from distributors refer to cash deposits received from third-party distributors for placing orders on seasonal products at the Group’s trade fair. Such deposits, which is non-interest bearing, would be used to offset the payments for orders placed by the distributors but is non-refundable if the orders are subsequently cancelled by the distributors.
- (b) This represented non-interest bearing deposits received from third-party distributors as a condition of engaging in business with the Group for distributing the Group’s products in specific geographical areas. Such distribution deposits would be refunded to distributors when the distribution relationship with the Group was ceased.

20. Borrowings

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current			
Non-current portion of long-term bank borrowings.....	<u>13,650</u>	<u>106,900</u>	—
Current			
Current portion of long-term bank borrowings.....	215,850	8,900	—
Short-term bank borrowings.....	<u>49,589</u>	<u>11,460</u>	—
	<u>265,439</u>	<u>20,360</u>	—
Total borrowings.....	<u><u>279,089</u></u>	<u><u>127,260</u></u>	<u>—</u>

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	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Representing:			
Guaranteed (a)	249,500	115,800	—
Secured (b)	18,000	—	—
Other financing arrangement (c).....	<u>11,589</u>	<u>11,460</u>	—
	<u>279,089</u>	<u>127,260</u>	—

(a) As at 30 June 2014, 2015 and 2016, bank borrowings of approximately RMB249,500,000, RMB115,800,000 and nil were guaranteed by related parties. Details of guarantee were as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed by:			
- Hangzhou Huikang Industrial Co., Ltd.....	138,000	37,950	—
- Controlling Shareholders	106,750	77,850	—
- Close family members of the Controlling Shareholders	<u>4,750</u>	—	—
	<u>249,500</u>	<u>115,800</u>	—

(b) As at 30 June 2014, bank borrowings of RMB18,000,000 were secured by the land use right of the Group of RMB23,584,000. The Group has repaid the principal of such loans as at 30 June 2015.

(c) During the Relevant Periods, the Group entered into a financing arrangement with a bank in PRC, which allows the Group’s distributors to draw down cash equivalent up to six times of the down payment a distributor would make to the Group upon placing a purchasing order. Such draw-down is in turn directly deposited into the Group’s bank account with the same bank. Under the arrangement, the Group is committed to undertake the interests arising from such draw-down in the first three months from the date of draw-down under the circumstance that the distributors are able to settle such draw-down within the three months period. However, the distributors shall be liable for all interests if they fail to settle the draw down within three months. The draw-down and any unpaid interest are guaranteed by the Group, the Controlling Shareholders and Hangzhou Huikang Industrial Co., Ltd. As the Group bears substantially all credit risks on such arrangement, the Directors are of the view that such draw-downs are in substance short-term borrowings of the Group, which should be reflected on the consolidated balance sheets. Such borrowings would be extinguished upon settlement of the loan by either the distributor or the Group. The weighted average interest rates for such arrangement in the year ended 30 June 2014, 2015 and 2016 were 9%, 9% and 9% per annum, respectively.

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Analysis of the carrying amounts of the Group’s borrowings by type and currency was as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At fixed rates in RMB.....	49,589	118,360	—
At floating rates in RMB.....	<u>229,500</u>	<u>8,900</u>	<u>—</u>
	<u><u>279,089</u></u>	<u><u>127,260</u></u>	<u><u>—</u></u>

During the years ended 30 June 2014, 2015 and 2016, the weighted average effective interest rates of the Group were 6.83%, 6.92% and 5.94% per annum, respectively.

The exposure of the Group’s borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
6 months or less.....	—	8,900	—
6-12 months.....	215,850	—	—
1-2 years.....	<u>13,650</u>	<u>—</u>	<u>—</u>
	<u><u>229,500</u></u>	<u><u>8,900</u></u>	<u><u>—</u></u>

The maturity of borrowings was as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 1 year.....	265,439	20,360	—
1 year to 2 years.....	<u>13,650</u>	<u>106,900</u>	<u>—</u>
	<u><u>279,089</u></u>	<u><u>127,260</u></u>	<u><u>—</u></u>

The fair values of current bank borrowings approximate their carrying amounts as the discounting impact is not significant.

The fair value of non-current borrowings as at 30 June 2014, 2015 and 2016 were RMB13,663,000, RMB109,636,000, and nil, respectively.

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21. Expenses by nature

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials consumed and consumable used	701,995	632,859	728,211
Changes in inventories of finished goods, work in progress and commissioned processing materials (Note 11)	(167,087)	(64,666)	(89,704)
Operating lease rental.....	154,112	164,122	180,049
Workforce contracting expenses.....	3,740	20,213	159,413
Employee benefit expenses (including share-based compensation expenses) (Note 22)	198,470	228,678	136,872
Concession fees payable to department stores and shopping malls	67,883	98,361	133,160
Promotion and marketing expense	42,874	45,745	65,019
Provision for inventories (Note 11)	23,086	33,582	51,093
Store management fees	26,486	29,746	36,401
Utilities charges and office expenses	26,907	29,840	30,623
Depreciation and amortisation (Note 6, 7 & 8)	26,275	29,331	30,308
Transportation and warehouse expense	20,402	21,031	28,649
Stamp duty, property tax and other surcharges	18,062	17,753	25,666
[REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]
Commission expenses to online platforms.....	8,529	13,573	13,515
Entertainment and travelling expenses	11,347	12,361	11,698
Apparel design fee	8,271	7,569	9,514
Other professional service expenses	4,906	4,718	6,670
Auditors’ remuneration.....	594	744	2,265
Provision for trade receivable (Note 12).....	1,303	4,071	838
Others	6,361	5,724	7,930
Total cost of sales, selling and marketing expenses and administrative expenses	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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22. Employee benefit expenses

	Year ended 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Salaries, bonus and other welfares.....	168,060	185,894	113,186
Social security insurances (a)	23,358	23,096	9,253
Housing Fund.....	7,052	8,109	3,475
Share-based compensation expenses (Note 23).....	—	11,579	10,958
	<u>198,470</u>	<u>228,678</u>	<u>136,872</u>

(a) Employees of the PRC Subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage of the employees’ salary (subject to a floor and cap) as set by local municipal government to each scheme locally to fund the retirement benefits of the employees.

(b) *Directors’ emoluments*

	Salaries and allowances	Discretionary bonuses	Social security insurance	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
For the year ended 30 June 2014					
Executive Directors					
Mr. Wu Jian (i)	2,626	190	19	—	2,835
Ms. Li Lin (i)	2,294	179	19	—	2,492
Mr. Li Ming (iii).....	—	—	—	—	—
Non-executive Directors					
Mr. Wei Zhe (ii)	—	—	—	—	—
Mr. Zhang Beili (iv).....	—	—	—	—	—
Independent Non-executive Directors					
Mr. Hu Huanxin (v)	—	—	—	—	—
Mr. Lam Yiu Por (v)	—	—	—	—	—
Ms. Han Min (v).....	—	—	—	—	—
For the year ended 30 June 2015					
Executive Directors					
Mr. Wu Jian (i)	2,255	119	45	—	2,419
Ms. Li Lin (i)	2,281	91	43	—	2,415
Mr. Li Ming (iii).....	—	—	—	—	—
Non-executive Directors					
Mr. Wei Zhe (ii)	—	—	—	—	—
Mr. Zhang Beili (iv).....	—	—	—	—	—

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	Salaries and allowances	Discretionary bonuses	Social security insurance	Share-based compensation	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Independent Non-executive Directors					
Mr. Hu Huanxin (v)	—	—	—	—	—
Mr. Lam Yiu Por (v)	—	—	—	—	—
Ms. Han Min (v)	—	—	—	—	—
For the year ended 30 June 2016					
Executive Directors					
Mr. Wu Jian (i)	2,326	124	78	—	2,528
Ms. Li Lin (i)	2,327	95	78	—	2,500
Mr. Li Ming (iii)	—	289	—	—	289
Non-executive Directors					
Mr. Wei Zhe (ii)	—	—	—	—	—
Mr. Zhang Beili (iv)	—	—	—	—	—
Independent Non-executive Directors					
Mr. Hu Huanxin (v)	—	—	—	—	—
Mr. Lam Yiu Por (v)	—	—	—	—	—
Ms. Han Min (v)	—	—	—	—	—

- (i) On 26 November 2012, Ms. Li Lin and Mr. Wu Jian were appointed as the executive directors of the Company. Mr. Wu Jian is also the chief executive officer of the Group.
- (ii) On 24 June 2013, Mr. Wei Zhe was appointed as the non-executive director of the Company.
- (iii) On 29 June 2016, Mr. Li Ming was appointed as the executive director of the Company.
- (iv) On 29 June 2016, Mr. Zhang Beili was appointed as the non-executive director of the Company.
- (v) On 13 October 2016, Mr. Hu Huanxin, Mr. Lam Yiu Por and Ms. Han Min were appointed as the independent non-executive directors of the Company.

No director has waived or agreed to waive any emoluments during the Relevant Periods.

Save as disclosed in Note 31 in the financial information, during the Relevant Periods, no transactions, arrangements and contracts of significance in relation to the Group’s business to which the company’s, subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Relevant Periods.

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(c) *Five highest paid individuals*

For the years ended 30 June 2014, 2015 and 2016, the five individuals whose emoluments were the highest in the Group included 2, 2, and 2 directors, respectively and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3, 3, and 3 individuals, respectively were as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances.....	2,520	2,619	1,859
Discretionary bonuses.....	3,343	3,147	4,962
Social security insurance.....	60	141	212
Share-based compensation expenses (Note 23).....	—	2,818	2,231
	<u>5,923</u>	<u>8,725</u>	<u>9,264</u>

The emoluments of the remaining three highest paid individuals fell within the following bands:

	Year ended 30 June		
	2014	2015	2016
Emolument band:			
RMB1,000,000 to RMB2,000,000	1	—	—
RMB2,000,000 to RMB3,000,000	2	3	2
RMB3,000,000 to RMB4,000,000	—	—	1
	<u>3</u>	<u>3</u>	<u>3</u>

(d) During the Relevant Periods, none of the directors, senior management, and the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

23. Share-based payments

On 16 May 2014, the Board resolved to approve a restrict share unit (“RSU”) scheme, under which the Company granted certain shares to selected employees. The RSU scheme shall be valid and effective for a period of 10 years commencing from 30 June 2014. RSUs shall be exercised no earlier than 6 months after the [REDACTED] (the “[REDACTED]”) date of the Company with zero exercise price. The unvested RSUs shall be forfeited if a grantee resigns or has his/her employment terminated after the Company’s [REDACTED]. All RSUs including both vested and unvested portion shall be forfeited if a grantee resigns or has his/her employment terminated prior to the Company’s [REDACTED].

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Pursuant to a board resolution on 16 May 2014, [REDACTED] RSUs (on the basis that the total shares of the Company immediately before [REDACTED] will be [REDACTED] shares) were granted to 82 grantees on 30 June 2014, including three senior management members and 79 other employees. Subject to the grantee continuing to be an employee of the Group, 20%, 20%, 30% and 30% of [REDACTED] RSUs shall vest within two months after the year ended 30 June 2015, 2016, 2017 and 2018, respectively. 25%, 25%, 25% and 25% of 3,264,380 RSUs shall vest within two months after the year ended 30 June 2016, 2017, 2018 and 2019, respectively.

Apart from the [REDACTED] RSUs above, the Group granted [REDACTED] additional RSUs to three senior management members and other employees with below different vesting schedules:

- (i) [REDACTED] RSUs were granted to a senior management member on 23 July 2014: 20%, 20%, 30% and 30% shall vest within two months after the year ended 30 June 2015, 2016, 2017 and 2018, respectively.
- (ii) [REDACTED] RSUs were granted to a senior management member on 20 November 2014: 20%, 20%, 30% and 30% shall vest within two months after the year ended 30 June 2015, 2016, 2017 and 2018, respectively.
- (iii) [REDACTED] RSUs were granted on 1 December 2014: 25%, 25%, 25% and 25% shall vest within two months after the year ended 30 June 2016, 2017, 2018 and 2019, respectively.
- (iv) [REDACTED] RSUs were granted on 9 March 2015: 25%, 25%, 25% and 25% shall vest within two months after the year ended 30 June 2016, 2017, 2018 and 2019, respectively.
- (v) [REDACTED] RSUs were granted to a senior management member on 10 September 2015: 25%, 25%, 25% and 25% shall vest within two months after the year ended 30 June 2016, 2017, 2018 and 2019, respectively.
- (vi) [REDACTED] RSUs were granted on 23 November 2015: 25%, 25%, 25% and 25% shall vest within two months after the year ended 30 June 2017, 2018, 2019 and 2020, respectively.
- (vii) [REDACTED] RSUs were granted on 7 December 2015: 20%, 20%, 30% and 30% shall vest within two months after the year ended 30 June 2017, 2018, 2019 and 2020, respectively.

Fair value of RSUs

The fair value of RSUs was calculated based on the fair value of underlying ordinary shares as at the grant date.

The directors have used the discounted cash flow method to determine the fair value of the underlying equity of the Group and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimates.

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The directors estimated the risk-free interest rate based on the yield of Chinese government bonds with maturity of 20 years. Weighted average cost of capital was estimated based on selected comparable companies. The fair value of RSUs was calculated based on the fair value of underlying ordinary shares as at the grant date. For the years ended 30 June 2014, 2015 and 2016, the Company recognised nil, RMB11,579,000 and RMB10,958,000 as shared based compensation costs relating to these RSUs, respectively.

Expected retention rate of grantees

The Group estimates the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of RSUs (the “Expected Retention Rate”) in order to determine the amount of share-based compensation expenses charged to the statement of comprehensive income. As at 30 June 2014, 2015 and 2016, the Expected Retention Rate was assessed to be 100%, 100%, and 97%, respectively.

24. Other income and gains, net

	Year ended 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government grants (a).....	17,860	3,273	22,726
Interest income of loans to a related party (Note 31(a)).....	9,304	12,497	5,553
Investment income (b).....	604	1,592	538
Provision for loss in association with idle land (c).....	—	—	(6,915)
Foreign exchange gains/(losses).....	474	809	(238)
Losses on disposal of property, plant and equipment (Note 29).....	(13)	(4)	(165)
Others	(458)	460	836
	<u>27,771</u>	<u>18,627</u>	<u>22,335</u>

(a) Government grants during the years ended 30 June 2014, 2015 and 2016 primarily comprised financial subsidies received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to such incomes.

(b) Investment income primarily represent interest income on money market funds invested by the Group.

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(c) In February 2014, the Group acquired a land use right from the Xiaoshan Bureau of the PRC Ministry of Land & Resource at consideration of RMB23,742,000 (Note 7) on which the Group intended to build certain warehouse and logistic facilities. As required by the relevant laws and regulations in the PRC, the Group should start construction on the acquired land within one year from the committed construction commencement date, 19 November 2014. Due to change of government’s district jurisdiction, such specific land was no longer located in the Xiaoshan District. Accordingly, the Group decided to abandon the original construction plan and is in discussion with relevant local authority to return the land use right to the local authority in order to maintain its presence in Xiaoshan District, Hangzhou. The directors of the Company considered that the Group would be able to recover in full the entire cost of the land use right of RMB23.7 million but have assessed that the Group could be liable to idle land fee and forfeiture of certain construction deposits amounting to RMB6.9 million in aggregate. Accordingly, a provision was made in this respect during the year ended 30 June 2016.

25. Finance costs, net

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finance income			
Interest income on cash and cash equivalents and restricted cash.....	(796)	(2,406)	(1,437)
Finance costs			
Interest expenses on bank borrowings.....	16,878	16,413	2,535
Finance costs, net	<u>16,082</u>	<u>14,007</u>	<u>1,098</u>

26. Income tax expense

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense			
- Enterprise income tax expense	62,694	96,250	129,298
Deferred income tax expense (Note 10).....	(2,002)	(10,844)	(26,728)
	<u>60,692</u>	<u>85,406</u>	<u>102,570</u>

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The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the companies comprising the Group as follows:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Profit before income tax.....	210,608	282,358	341,906
Tax calculated at domestic tax rate applicable to profits in PRC (25%)	52,652	70,590	85,477
Effect of difference between Hong Kong income tax rate and domestic tax rate	48	(1)	571
PRC withholding income tax on dividends	7,158	10,405	11,653
Tax losses for which no deferred income tax asset was recognised.....	403	687	609
Effect of tax preferential enterprise income tax rate	40	93	(8)
Expenses not deductible for tax purpose			
- Share based compensation.....	—	2,895	2,739
- Other permanent difference.....	391	737	1,529
Income tax expense	60,692	85,406	102,570
Effective tax rate.....	<u>28.82%</u>	<u>30.25%</u>	<u>30.00%</u>

(a) ***Cayman Islands income tax***

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

(b) ***Hong Kong profits tax***

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% for the Relevant Periods.

(c) ***PRC enterprise income tax***

Enterprises incorporated in the PRC are generally subject to income tax rates of 25% throughout the Relevant Periods except for enterprises with approval for preferential rate (Note (d) below).

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits based on existing legislations, interpretations and practices.

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Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the assets is realised or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group’s subsidiaries located in the PRC.

(d) Tax effect of reduced tax rate

Certain subsidiaries of the Group enjoyed preferential income tax rates as qualified Small and Thin-profit Enterprise for the years ended 30 June 2014, 2015 and 2016, and have obtained approvals from the relevant tax authorities in the PRC.

(e) PRC withholding income tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. 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 treaty between the PRC and the jurisdiction of the foreign investors. Grand Vantage (China) Limited has met the conditions and requirements under the Agreement for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income between the PRC and Hong Kong, the relevant withholding tax rate was reduced from 10% to 5%.

The subsidiaries with tax preferential treatment for the years ended 30 June 2014, 2015 and 2016 are as follows:

Name of Company

Changsha JNBY Finery Sales Co., Ltd.
JNBY Finery (Huzhou) Sales Co., Ltd.
JNBY Finery (Wuhu) Sales Co., Ltd.
Qingdao Huazhuo Finery Sales Co., Ltd.
Dalian Huazhuo Finery Sales Co., Ltd.
JNBY Finery (Hefei) Co., Ltd.
Wuhan Grand Vantage Croquis Finery Sales Co., Ltd.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC throughout the Relevant Periods.

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27. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue excluding shares held under the RSU scheme in issue during the Relevant Periods.

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	149,464	196,819	239,336
Weighted average number of ordinary shares in issue* excluding shares held under the RSU scheme in issue (number of shares)	<u>1,891,812</u>	<u>1,891,812</u>	<u>1,891,812</u>
Basic earnings per share (expressed in RMB per share).....	<u>79.01</u>	<u>104.04</u>	<u>126.51</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the years ended 30 June 2014, 2015 and 2016, the Company has one category of dilutive potential ordinary shares, which is the RSUs granted to employees. The restricted share units are assumed to have been fully vested and released from restrictions with no significant impact on earnings.

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	<u>149,464</u>	<u>196,819</u>	<u>239,336</u>
Weighted average number of ordinary shares in issue* excluding shares held under the RSU scheme in issue (number of shares)	1,891,812	1,891,812	1,891,812
Adjustments for share based compensation — RSUs (shares).....	<u>—</u>	<u>11,746</u>	<u>30,964</u>
Weighted average number of ordinary shares for the calculation of diluted EPS.....	<u>1,891,812</u>	<u>1,903,558</u>	<u>1,922,776</u>
Diluted earnings per share (expressed in RMB per share).....	<u>79.01</u>	<u>103.40</u>	<u>124.47</u>

* Pursuant to the resolution passed by the shareholders on 9 June 2016, the authorised share capital of the Company was increased by HK\$10,000,000 divided into 1,000,000,000 ordinary shares of par value of HK\$0.01 each. The Company allotted and issued [REDACTED] new shares fully paid to the current members on a pro rata basis at the subscription price of HK\$0.01. Accordingly, the calculations of the basic and diluted earnings per share were adjusted retrospectively for the years ended 30 June 2014 and 2015, as if such share allotment and repurchase of shares had taken place as at 1 July 2013. However, it has not taken into account the proposed capitalisation issue pursuant to the [REDACTED] of the Company’s shares on the Hong Kong Stock Exchange, because such capitalisation issue has not become effective as at the date of this report.

28. Dividends

The dividends declared in the years ended 30 June 2014, 2015 and 2016 were nil, RMB10,307,000 and RMB463,771,000, respectively. As at 30 June 2016, the dividend payables balance was RMB230,000,000, which has been settled subsequently.

29. Cash generated from operations

	Year ended 30 June		
	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Profit before income tax	210,608	282,358	341,906
Adjustments for:			
- Depreciation of property, plant and equipment (Note 6).....	25,740	28,345	29,102
- Amortisation of land use rights (Note 7).....	158	475	615
- Amortisation of intangible assets (Note 8).....	377	511	591
- Losses on disposal of property, plant and equipment (Note 24).....	13	4	165
- Provision for impairment of receivables (Note 12).	1,303	4,071	838
- Write-down of inventories (Note 21)	23,086	33,582	51,093
- Interest income on loans to a related party (Note 24).....	(9,304)	(12,497)	(5,553)
- Interest income (Note 25).....	(796)	(2,406)	(1,437)
- Interest expenses (Note 25)	16,878	16,413	2,535
- Investment income (Note 24).....	(604)	(1,592)	(538)
- Share based compensation (Note 23)	—	11,579	10,958
Operating profits before working capital changes	<u>267,459</u>	<u>360,843</u>	<u>430,275</u>

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	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Changes in working capital:			
- Inventories	(155,610)	(86,014)	(96,277)
- Trade receivables.....	56,209	30,850	21,722
- Prepayments, deposits and other receivables	(62,117)	35,072	(29,743)
- Trade and bills payables	31,276	(1,627)	24,622
- Accruals and other current liabilities	<u>22,757</u>	<u>28,226</u>	<u>82,331</u>
Cash flow generated from operations.....	<u>159,974</u>	<u>367,350</u>	<u>432,930</u>

30. Commitments

(a) Capital commitments

As at 30 June 2014, 2015 and 2016, the capital expenditure contracted but not provided for amounted to RMB829,000, RMB1,123,000 and RMB2,894,000, respectively.

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases for the Group’s operating premises are as follows:

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	119,772	75,060	105,131
Later than 1 year and no later than 5 years	93,367	70,280	75,715
Later than 5 years	<u>—</u>	<u>—</u>	<u>152</u>
	<u>213,139</u>	<u>145,340</u>	<u>180,998</u>

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31. Significant related party transactions

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 the Group are also considered as related parties.

The directors are of the view that the following companies are related parties of the Group, of which JNBY (Canada) Enterprises Inc. and Shenzhen Hengyi Finery Co., Ltd are no longer related parties since April 2016 because the close family members has transferred their shares to third parties.

Name	Relationship with the Group
Li Lin	One of the Controlling Shareholders
Wu Jian	One of the Controlling Shareholders
Hangzhou Huikang Industrial Co., Ltd.	Controlled by the Controlling Shareholders
Hangzhou Shangwei Apparel Co., Ltd.	Controlled by the Controlling Shareholders
Hangzhou JNBY Finery Co., Ltd.	Controlled by the Controlling Shareholders
Hangzhou Jihui Finery Co., Ltd.	Controlled by the Controlling Shareholders
Hangzhou New Shangwei Finery Co., Ltd.	Controlled by the Controlling Shareholders
United City Investment Limited	Controlled by the Controlling Shareholders
Shenzhen Hengyi Finery Co., Ltd	Controlled by close family member of the Controlling Shareholders
JNBY (Canada) Enterprises Inc.	Controlled by close family member of the Controlling Shareholders
Ninth Investment Limited	Ultimate holding company
Ninth Capital Limited	One of the shareholders
N&N Capital Limited	One of the shareholders
W&L Capital Limited	One of the shareholders

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(a) *Significant transactions with related parties*

Save as disclosed in Note 20 in the financial information during the Relevant Periods, the Group had the following significant transactions with related parties, which are all continued transactions except for Interest income from a related party as disclosed in Note 31(a)(viii) below:

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(i) Purchase of goods			
Hangzhou Huikang Industrial Co., Ltd.....	<u>98,599</u>	<u>51,474</u>	<u>23,374</u>
(ii) Processing fee			
Hangzhou Shangwei Apparel Co., Ltd.	32,279	28,189	32,550
Shenzhen Hengyi Finery Co., Ltd.....	30,311	13,996	9,189
Hangzhou New Shangwei Finery Co., Ltd.	<u>—</u>	<u>—</u>	<u>4,398</u>
	<u>62,590</u>	<u>42,185</u>	<u>46,137</u>
(iii) Workforce contracting			
Hangzhou JNBY Finery Co., Ltd.	<u>—</u>	<u>—</u>	<u>18,619</u>
(iv) Sales of goods			
JNBY (Canada) Enterprises Inc.	<u>2,696</u>	<u>1,958</u>	<u>397</u>
(v) Operating lease expenses charged by related parties			
Hangzhou Huikang Industrial Co., Ltd.....	10,546	10,841	10,447
Hangzhou JNBY Finery Co., Ltd.	1,600	1,600	1,640
Wu Jian.....	<u>650</u>	<u>628</u>	<u>644</u>
	<u>12,796</u>	<u>13,069</u>	<u>12,731</u>
(vi) Logistics and warehousing expenses charged by a related party			
Hangzhou Huikang Industrial Co., Ltd.....	<u>10,432</u>	<u>10,883</u>	<u>14,025</u>
(vii) Rental income from a related party			
Hangzhou New Shangwei Finery Co., Ltd.	<u>—</u>	<u>—</u>	<u>891</u>
(viii) Interest income from a related party			
Hangzhou Huikang Industrial Co., Ltd.....	<u>9,304</u>	<u>12,497</u>	<u>5,553</u>

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(b) *Balances with related parties*

	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from related parties			
Trade receivables:			
- JNBY (Canada) Enterprises Inc.	2,420	4,113	—
Other receivables:			
- Hangzhou Shangwei Apparel Co., Ltd.....	24,907	24,907	—
- Hangzhou Huikang Industrial Co., Ltd.....	25,263	384	—
- Hangzhou Jihui Finery Co., Ltd.....	49	—	—
	<u>50,219</u>	<u>25,291</u>	<u>—</u>
Loans and interests receivables:			
- Hangzhou Huikang Industrial Co., Ltd.....	154,304	166,801	—
Prepaid operating lease expenses:			
- Hangzhou Huikang Industrial Co., Ltd.....	34,231	10,854	12,836
- Hangzhou JNBY Finery Co., Ltd.	800	800	840
- Wu Jian.....	150	22	332
	<u>35,181</u>	<u>11,676</u>	<u>14,008</u>
Advance to suppliers:			
- Hangzhou Shangwei Apparel Co., Ltd.....	—	1,000	—
- Shenzhen Hengyi Finery Co., Ltd.....	—	160	—
	<u>—</u>	<u>1,160</u>	<u>—</u>
Others:			
- Hangzhou New Shangwei Finery Co., Ltd.	—	474	—
- Hangzhou JNBY Finery Co., Ltd.	80	80	—
- JNBY (Canada) Enterprises Inc	20	—	—
	<u>100</u>	<u>554</u>	<u>—</u>
	<u>242,224</u>	<u>209,595</u>	<u>14,008</u>
Due to related parties			
Trade payables:			
- Hangzhou Shangwei Apparel Co., Ltd.....	8,059	2,354	4,317
- Hangzhou New Shangwei Finery Co., Ltd.	—	—	511
- Hangzhou Huikang Industrial Co., Ltd.....	10,492	3,074	—
- Shenzhen Hengyi Finery Co., Ltd.....	2,595	—	—
	<u>21,146</u>	<u>5,428</u>	<u>4,828</u>

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	As at 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Borrowings from a related party:			
- Wu Jian.....	41,082	30,720	—
Dividend payables:			
- Hangzhou JNBY Finery Co., Ltd.	—	487	—
Other payables:			
- Hangzhou JNBY Finery Co., Ltd.	5	—	2,920
- Ninth Investment Limited	—	—	775
- N&N Capital Limited	—	—	383
- United City Investment Limited.....	—	—	226
- Ninth Capital Limited.....	—	—	112
- W&L Capital Limited	—	—	50
- Hangzhou Huikang Industrial Co., Ltd.....	—	51	—
	<u>5</u>	<u>51</u>	<u>4,466</u>
	<u>62,233</u>	<u>36,686</u>	<u>9,294</u>

(c) **Key management compensation**

	Year ended 30 June		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances.....	1,999	3,588	3,958
Discretionary bonuses.....	2,537	2,796	3,864
Other benefits including pension	75	257	443
Share-based compensation	—	3,970	3,733
	<u>4,611</u>	<u>10,611</u>	<u>11,998</u>

32. **Events after the balance sheet date**

Save as disclosed above, there is no other subsequent event subsequent to 30 June 2016.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2016 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2016.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the accountant’s report prepared by PricewaterhouseCoopers, Certified Public Accountants, the Reporting Accountant of the Company, as set forth in Appendix I to this document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled “Financial Information” in this document and the accountant’s report set forth in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED 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 for illustrative purposes only, and is set out below to illustrate the effect of the [REDACTED] on the net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2016 as if the [REDACTED] had taken place on 30 June 2016 assuming the [REDACTED] is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2016 or at any future dates following the [REDACTED]. It is prepared based on the consolidated net assets of the Group as at 30 June 2016 as set out in the accountant’s report of the Group, the text of which is set out in Appendix I to this document, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant’s report.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2016 RMB’000	Estimated net proceeds from the [REDACTED] RMB’000	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2016 RMB’000	Unaudited pro forma adjusted net tangible assets per Share RMB	Unaudited pro forma adjusted net tangible assets per Share HK\$
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2016 is extracted from the accountant’s report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 30 June 2016 of RMB287,942,000 with adjustments for intangible assets of RMB5,003,000.
- (2) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share after deduction of the estimated underwriting fees and other related expenses payable by us subsequent to 30 June 2016 and takes no account of any shares which may be issued upon the exercise of the [REDACTED].

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and the Capitalisation Issue have been completed on 30 June 2016 but takes no account of any Shares which may be issued upon the exercise of the [REDACTED] and any Share which may be issued or repurchased by the Company pursuant to the issuing mandate or the repurchase mandate as described in the section headed “Share Capital” in this document.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2016.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.000 to HK\$1.1578.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN COMPANIES LAW**

This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this document, a copy of the Memorandum and Articles of Association is available for inspection.

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 26, 2012 under the Companies Law. The Memorandum of Association and the Articles of Association comprise its constitution.

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 October 13, 2016 with effect from the [REDACTED]. The following is a summary of certain provisions of the Articles:

- (a) **Directors**
 - (i) *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 with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN COMPANIES LAW**

absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants 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 from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) 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 shall be 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.

Neither the Company nor the board shall be 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.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

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.

(iii) *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.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN COMPANIES LAW**

(v) Financial assistance to purchase shares of the Company or its subsidiaries

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase shares of its subsidiaries.

(vi) 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, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other 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. Subject as otherwise provided by the Articles, 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 favour 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.

Subject to the Companies Law and the Articles, 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 realised 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 shall 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.

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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 (as defined in the Articles) is materially interested, but this prohibition shall 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.

(vii) ***Remuneration***

The ordinary remuneration of the Directors shall from time to time 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 shall also be entitled to be prepaid

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or repaid all travelling, 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 (whether by way of salary, commission, participation in profits or otherwise) 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 (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) 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.

(viii) ***Retirement, appointment 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. There are no provisions relating to retirement of Directors upon reaching any age limit.

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The Directors shall have the power from time to time and at any time 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

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 the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. 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:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if 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 from time to time 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 shall, 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.

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(ix) ***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 (present and future) 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.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(x) ***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.

(xi) ***Register of Directors and Officers***

The Companies Law and the Articles provide that 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.

(b) **Alterations to constitutional documents**

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.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

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- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, 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.

The 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.

(e) Special resolution-majority required

Pursuant to the Articles, 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 authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

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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 authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, 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 authorised 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 recognised clearing house (or its nominee(s)) is a member of the Company it may authorise 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 authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised 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 Designated Stock Exchange (as defined in the Articles), 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.

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(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (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 any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) 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 shall 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 authorised by the board or the Company in general meeting. However, an exempted company shall 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 Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised 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 summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

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The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

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 (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall 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 the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed 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;
- (ee) the fixing of the remuneration of the directors and of the auditors;

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(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) 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 Designated Stock Exchange (as defined in the Articles) 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. 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 in any case in which it thinks fit, in its discretion, to do so and 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 thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to 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.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, 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

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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 a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for 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 any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, 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, realised or unrealised, 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 authorised for this purpose in accordance with the Companies Law.

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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.

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(n) 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 shall be 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 shall be 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 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 authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, 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 instalment 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.

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(p) Inspection of register of members

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 Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) 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.

Save as otherwise provided by the Articles 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 authorised 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.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the 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 law, as summarised in paragraph 3(f) of this Appendix.

(s) 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 shall be 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

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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 shall be 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 shall be 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.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) 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.

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3. CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) 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 authorised 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 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 authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise 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 authorised 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 shall be treated as cancelled 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 shall not be treated as a member for any

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purpose and shall 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 shall not be voted, directly or indirectly, at any meeting of the company and shall 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. Further, 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.

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

With the exception of section 34 of the Companies Law, there is 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. In addition, section 34 of 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 (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands 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.

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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 authorising 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) Management

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 shall 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.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

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(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (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 with effect from July 12, 2016.

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 will 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.

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 shall 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

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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.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business 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, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised 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. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

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Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and 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. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) 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.

(p) Compulsory acquisition

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.

(q) 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).

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4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising 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 paragraph headed "Documents available for inspection" in Appendix V to this document. 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.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on November 26, 2012. We have established a principal place of business in Hong Kong at Unit 709, 7/F, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Ng Sau Mei has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

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\$1.0 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 document:

- On November 26, 2012, one Share of US\$1.00 was allotted and issued to Offshore Incorporations (Cayman) Limited and such Share was subsequently transferred to Ninth Capital for a consideration of US\$1.00 on the same day;
- On November 26, 2012, an additional 999 Shares of US\$1.00 were allotted and issued to Ninth Capital for a consideration of US\$999.00;
- On November 26, 2012, 1,000 Shares of US\$1.00 were allotted and issued to Ninth Investment for a consideration of US\$1,000.00;
- On May 23, 2013, 250 Shares of US\$1.00 were allotted and issued to W&L Capital for a consideration of US\$250.00;
- On May 23, 2013, 250 Shares of US\$1.00 were allotted and issued to N&N Capital for a consideration of US\$250.00;
- On June 9, 2016, our authorized share capital was increased by HK\$10 million divided into one billion shares of par value HK\$0.01 each. On the same date, our Company repurchased the Shares held by the then existing shareholders of our Company with the issuance of an

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aggregate of 1,950,000 new Shares; and decreased the authorized share capital by US\$[REDACTED] by the cancellation of [REDACTED] Shares of US\$[REDACTED] each. As a result, [REDACTED] Shares were issued to each of Ninth Capital and Ninth Investment and 195,000 Shares were issued to each of N&N Capital and W&L Capital;

- On September 27, 2016, Ninth Capital transferred [REDACTED] Shares for nil consideration to Core Trust for the RSU Scheme (representing [REDACTED]% of the issued share capital at the time of transfer); and
- On September 27, 2016, Ninth Investment transferred [REDACTED] Shares for nil consideration for Li Personal Trust (representing [REDACTED]% of the issued share capital at the time of transfer).

Immediately following the completion of the [REDACTED] and Capitalization Issue but without taking into account any Shares which may be issued upon the exercise of the [REDACTED], the issued share capital of our Company will be HK\$[REDACTED], divided into [REDACTED] Shares of HK\$0.01 each, all fully paid or credited as fully paid and [REDACTED] Shares of HK\$0.01 each will remain unissued.

Save as disclosed above and in this document, 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 October 13, 2016

Pursuant to the written resolutions passed by the Shareholders on October 13, 2016:

- (a) our Company approved and adopted the Memorandum and Articles of Association conditional upon [REDACTED];
- (b) conditional on (1) the [REDACTED] Committee granting the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document, (2) the [REDACTED] being fixed on the [REDACTED] 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 [REDACTED] was approved and the Directors were authorized to allot and issue the new Shares pursuant to the [REDACTED];
 - (ii) the granting of the [REDACTED] was approved;
 - (iii) the proposed [REDACTED] was approved and the Directors were authorized to implement the [REDACTED];
 - (iv) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of [REDACTED] pursuant to the

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[REDACTED], our Directors were authorized to allot and issue a total of [REDACTED] 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 [REDACTED] 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\$[REDACTED] 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;

- (v) 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 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 issue of Shares under the RSU Scheme or (d) 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 (e) 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 [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]) 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 (vi) 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**”);
- (vi) 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 [REDACTED] 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 [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]), such mandate to remain in effect during the **Applicable Period**; and

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(vii) the general unconditional mandate mentioned in paragraph (v) above be extended by the addition to the aggregate 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 aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the Company’s share capital in issue immediately following completion of the Capitalization Issue and the [REDACTED]; and

(d) conditional on (1) the [REDACTED] Committee granting the [REDACTED] of, and permission to deal in, the Shares to be issued pursuant to the [REDACTED] and (2) the commencement of [REDACTED] of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the RSU Scheme was approved and (ii) the Board was authorized to allot, issue and deal with Shares underlying the RSU Scheme.

4. Our Corporate Reorganization

The companies comprising the Group underwent the Reorganization in preparation for the [REDACTED]. 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 document:

On May 28, 2015, the registered capital of JNBY Hefei was increased from RMB1,000,000 to RMB2,000,000 due to the merger with JNBY Finery Sales (Wuhu) Co., Ltd. (江南布衣服飾銷售(蕪湖)有限公司).

On July 3, 2015, the registered capital of JNBY Shenyang was increased from RMB5,000,000 to RMB6,000,000 due to the merger with Dalian Huazhuo Finery Sales Co., Ltd. (大連華卓服飾銷售有限公司).

On August 14, 2015, the registered capital of JNBY Ningbo was increased from RMB1,000,000 to RMB2,000,000 due to the merger with JNBY Finery Wenzhou Sales Co., Ltd. (江南布衣服飾溫州銷售有限公司).

On November 30, 2015, the registered capital of Qingdao Huazhuo was increased from RMB1,000,000 to RMB1,500,000 due to the merger with Jinan Hangji.

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On June 23, 2014, the paid-up capital of Liancheng Huazhuo was increased from \$9,250,000 to \$10,250,000, which was injected by way of cash in the sum of \$1,000,000.

On January 7, 2015, the paid-up capital of Liancheng Huazhuo was increased from \$10,250,000 to \$19,250,000, which was injected by way of converting the undistributed profit in the sum of RMB55,142,100.

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 document.

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 October 13, 2016, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the [REDACTED] 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 [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), 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 the Cayman Companies Law or 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) 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

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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.

(iii) *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 cancelled and destroyed.

(iv) *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.

(v) *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.

(vi) *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 company.

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(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.

(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, 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 document) 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 [REDACTED] Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] and assuming the [REDACTED] is not exercised, could accordingly result in up to approximately [REDACTED] 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,

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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.

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 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 Hong Kong Code on Takeovers and Mergers (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 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 document and are or may be material:

- (a) the Deed of Non-Competition;
- (b) the Deed of Indemnity;
- (c) a cornerstone investment agreement dated October 13, 2016 entered into among our Company, Tianhai International Holdings Limited and CCB International Capital Limited, details of which are included in the section headed “Cornerstone Investor” of this document; and
- (d) the Hong Kong Underwriting Agreement.

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2. Intellectual Property Rights of Our 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 or have obtained license to use the following trademarks which are material to our business:

<u>No.</u>	<u>Trademark</u>	<u>Type and class</u>	<u>Registered owner</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Registration date</u>	<u>Expiry date</u>
1.	江南布衣	18	Hangzhou JNBY	PRC	5456936	December 14, 2009	December 13, 2019
2.	江南布衣	20	Hangzhou JNBY	PRC	5456935	August 21, 2009	August 20, 2019
3.	江南布衣	25	Hangzhou JNBY	PRC	3005446	January 21, 2003	January 20, 2023
4.	江南布衣	35	Hangzhou JNBY	PRC	5456923	September 21, 2013	September 20, 2023
5.		25	Hangzhou JNBY	PRC	9023325	March 28, 2012	March 27, 2022
6.		25	Hangzhou JNBY	PRC	1278514	May 28, 1999	May 27, 2019
7.		25	Hangzhou JNBY	PRC	1593204	June 28, 2001	June 27, 2021
8.	JNBYSINCE1994	18	Hangzhou JNBY	PRC	5732521	November 21, 2009	November 20, 2019
9.	JNBYSINCE1994	20	Hangzhou JNBY	PRC	5732522	October 7, 2009	October 6, 2019
10.	JNBYSINCE1994	25	Hangzhou JNBY	PRC	4468359	October 7, 2008	October 6, 2018
11.		18	Hangzhou JNBY	PRC	9621302	July 21, 2012	July 20, 2022
12.		25	Hangzhou JNBY	PRC	8685076	October 7, 2011	October 6, 2021
13.	速写	24	JNBY Finery	PRC	6857239	August 21, 2010	August 20, 2020

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No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
14.	速写	25	JNBY Finery	PRC	6123198	March 28, 2010	March 27, 2020
15.	速写	18	JNBY Finery	PRC	6857236	August 21, 2010	August 20, 2020
16.	速写	20	JNBY Finery	PRC	6857237	April 21, 2010	April 20, 2020
17.	CROQUIS	18	JNBY Finery	PRC	5569408	October 7, 2009	October 6, 2019
18.	CROQUIS	20	JNBY Finery	PRC	5569407	September 7, 2009	September 6, 2019
19.	CROQUIS	24	JNBY Finery	PRC	5569404	September 21, 2009	September 20, 2019
20.	CROQUIS	25	JNBY Finery	PRC	3987509	August 21, 2007	August 20, 2017
21.	LESS	25	JNBY Finery	PRC	3306281	May 14, 2004	May 13, 2024
22.	俾 论 集	20	JNBY Finery	PRC	15388052	November 7, 2015	November 6, 2025
23.	俾 论 集	24	JNBY Finery	PRC	15388069	November 7, 2015	November 6, 2025
24.	CROQUIS	25	JNBY Finery	Certain countries within the Madrid System	919405	February 22, 2007 (Application Date)	February 22, 2017
25.	江南布衣	25	Hangzhou JNBY	Certain countries within the Madrid System	970176	June 12, 2006 (Application Date)	June 12, 2018
26.	速写	25	JNBY Finery	Certain countries within the Madrid System	971326	June 24, 2008 (Application Date)	June 24, 2018

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No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
27.	JNBY	25	Hangzhou JNBY	Certain countries within the Madrid System	980611	August 19, 2008 (Application Date)	August 19, 2018
28.	JNBY	25	Hangzhou JNBY	U.S.	3889012	December 14, 2010 (Application Date)	December 14, 2020
29.	江南布衣	25	Hangzhou JNBY	U.S.	3647771	June 12, 2008 (Application Date)	June 12, 2018
30.	速寫	25	JNBY Finery	HK	301087632	April 8, 2008 (Application Date)	April 7, 2018
31.	 江南布衣	25	JNBY Finery	HK	301082367	March 31, 2008 (Application Date)	March 30, 2018
32.	CROQUIS	25	JNBY Finery	HK	300715491	September 6, 2006 (Application Date)	September 5, 2026
33.	less	25	JNBY Finery	PRC	16372008	April 14, 2016	April 13, 2026
34.	less	25	JNBY Finery	HK	303721112	March 22, 2016	March 21, 2026

As of the Latest Practicable Date, we have applied for the registration or have being granted license to use the following trademarks:

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
1.	JNBY HOME	42	Hangzhou JNBY	PRC	18572152	December 10, 2015
2.	JNBY HOME	40	Hangzhou JNBY	PRC	18572047	December 10, 2015
3.	JNBY HOME	35	Hangzhou JNBY	PRC	18571488	December 10, 2015
4.	JNBY HOME	27	Hangzhou JNBY	PRC	18570702	December 10, 2015
5.	JNBY HOME	25	Hangzhou JNBY	PRC	18570483	December 10, 2015
6.	JNBY HOME	24	Hangzhou JNBY	PRC	18570402	December 10, 2015

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No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
7.	JNBY HOME	20	Hangzhou JNBY	PRC	18569988	December 10, 2015
8.	JNBY HOME	18	Hangzhou JNBY	PRC	18569810	December 10, 2015
9.	pomme de terre 蓬马的袋荷	25	JNBY Finery	PRC	18702949	December 24, 2015
10.	pomme de terre	25	JNBY Finery	PRC	18702783	December 24, 2015
11.	pomme de terre	18	JNBY Finery	PRC	18702601	December 24, 2015
12.	less	25	JNBY Finery	Certain countries within the Madrid System	938362301	December 26, 2015

(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.	pommedeterre.com.cn	JNBY Finery	January 11, 2016	January 11, 2017
2.	pommedeterre.cn	JNBY Finery	January 11, 2016	January 11, 2017
3.	jnbyplus.com.cn	JNBY Finery	December 1, 2015	December 1, 2017
4.	jnbyplus.cn	JNBY Finery	December 1, 2015	December 1, 2017
5.	jnbyplus.com	JNBY Finery	December 1, 2015	December 1, 2018
6.	jnbyhome.net	JNBY Finery	August 24, 2015	August 24, 2018
7.	jnbyhome.com.cn	JNBY Finery	August 24, 2015	August 24, 2018
8.	jnbyhome.cn	JNBY Finery	August 24, 2015	August 24, 2018
9.	jnbyhome.com	JNBY Finery	August 24, 2015	August 24, 2018
10.	jnbygroup.com.cn	JNBY Finery	August 14, 2015	August 14, 2018
11.	jnbygroup.net	JNBY Finery	August 14, 2015	August 14, 2018
12.	jnbygroup.cn	JNBY Finery	August 14, 2015	August 14, 2018
13.	jnbygroup.com	JNBY Finery	August 14, 2015	August 14, 2018
14.	jnbybyjnby.com.cn	JNBY Finery	May 31, 2013	May 31, 2017
15.	jnbybyjnby.net	JNBY Finery	May 31, 2013	May 31, 2017
16.	jnbykids.cn	JNBY Finery	April 28, 2013	April 28, 2020
17.	jnbykids.com	JNBY Finery	April 28, 2013	April 28, 2020
18.	jnbybyjnby.cn	JNBY Finery	April 28, 2013	April 28, 2020

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No.	Domain name	Registrant	Registration date	Expiry date
19.	jnby.cn	JNBY Finery	November 14, 2005	November 14, 2021
20.	jnby.com	JNBY Finery	June 17, 1999	June 17, 2025
21.	croquis.cn	JNBY Finery	June 7, 2004	June 7, 2025
22.	croquis.com.cn	JNBY Finery	June 9, 2006	June 9, 2017
23.	less.cn	JNBY Finery	March 17, 2003	March 17, 2020
24.	less.net.cn	JNBY Finery	March 11, 2003	March 11, 2020

(c) Patents

As of the Latest Practicable Date, we have registered the following patents:

No.	Title of patent	Patent type	Registered owner	Application number	Publication number	Place of registration	Application date	Expiry date
1.	Multifunctional nanometer antifouling shirt	Utility model	Liancheng Huazhuo	2011201744129	CN202059989 U	PRC	May 27, 2011	May 26, 2021
2.	Pearl-fiber double-layer thermal insulation sweater	Utility model	Liancheng Huazhuo	201120174442X	CN202060009 U	PRC	May 27, 2011	May 26, 2021
3.	Antibacterial fiber pants	Utility model	Liancheng Huazhuo	2011201744472	CN202060015 U	PRC	May 27, 2011	May 26, 2021
4.	Ultraviolet ray prevention easy care skirt	Utility model	Liancheng Huazhuo	2011201744580	CN202060021 U	PRC	May 27, 2011	May 26, 2021
5.	Anti-ultraviolet environmental-friendly trousers	Utility model	Liancheng Huazhuo	2011201803358	CN202060017 U	PRC	May 31, 2011	May 30, 2021
6.	Anti-crease composite fiber trousers not easy to change color	Utility model	Liancheng Huazhuo	2011201803324	CN202060016 U	PRC	May 31, 2011	May 30, 2021
7.	Nanometer far-infrared health-care underwear	Utility model	Liancheng Huazhuo	2011201841167	CN202059990 U	PRC	June 2, 2011	June 1, 2021
8.	High air permeability air interlacing composite fiber trousers	Utility model	Liancheng Huazhuo	2011201840944	CN202068963 U	PRC	June 2, 2011	June 1, 2021
9.	Hygroscopic and sweat-releasing nano jeans	Utility model	Liancheng Huazhuo	2011201842403	CN202060018 U	PRC	June 2, 2011	June 1, 2021
10.	Radiation-proof fold jacket	Utility model	Liancheng Huazhuo	2011201843393	CN202076015 U	PRC	June 2, 2011	June 1, 2021

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<u>No.</u>	<u>Title of patent</u>	<u>Patent type</u>	<u>Registered owner</u>	<u>Application number</u>	<u>Publication number</u>	<u>Place of registration</u>	<u>Application date</u>	<u>Expiry date</u>
11.	Reusable breathable knitted jacket	Utility model	Liancheng Huazhuo	2011202172485	CN202122114 U	PRC	June 24, 2011	June 23, 2021
12.	Antistatic and anti-radiation down coat	Utility model	Liancheng Huazhuo	2011202177332	CN202122117 U	PRC	Jun 24, 2011	June 23, 2021
13.	Qiangnian fiber knitted garment production technology	Invention	Liancheng Huazhuo	2014101244747	CN103932415 B	PRC	March 28, 2014	March 27, 2034
14.	Clothing iron-free finishing	Invention	Liancheng Huazhuo	2014101224832	CN103938396 B	PRC	Mar 28, 2014	March 27, 2034

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 [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], 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

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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 [REDACTED], will be as follows:

Name of Director	Nature of interest	Immediately following the completion of the Capitalization Issue and the [REDACTED]	
		Number of Shares/underlying Shares	Approximate percentage of shareholding interest immediately following the completion of the Capitalization Issue and the [REDACTED] ⁽¹⁾
Mr. Wu ⁽³⁾	Founder of a discretionary trust; Beneficial owner Interest of spouse	[REDACTED]	[REDACTED]%
Ms. Li ⁽⁴⁾	Founder of a discretionary trust; Beneficial owner Interest of spouse	[REDACTED]	[REDACTED]%

Notes:

- (1) The calculation is based on the total number of [REDACTED] Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised).
- (2) All interests stated are long positions.
- (3) Ahead Global, a company indirectly wholly owned by the Wu Family Trust, directly holds the entire issued share capital of Ninth Capital which in turn holds [REDACTED] Shares of our Company. The Wu Family Trust is a discretionary trust established by Mr. Wu (as settlor) and the discretionary beneficiaries of which include Mr. Wu, Ms. Li, their children and W&L Trust. W&L Trust is a discretionary trust established by Mr. Wu and Ms. Li (as settlors) and the discretionary beneficiaries are Mr. Wu, Ms. Li and their children. Ms. Li is beneficially interested in the entire issued share capital of Ninth Investment, which in turn holds [REDACTED] Shares of our Company. Li Personal Trust Nominee holds [REDACTED] Shares as nominee of Core Trust under Li Personal Trust. Li Personal Trust Nominee is wholly-owned by Core Trust in its capacity as trustee of Li Personal Trust with Ms. Li as settlor. Accordingly, Mr. Wu is deemed to be interested in [REDACTED], [REDACTED] and [REDACTED] Shares each held by Ninth Capital, Ninth Investment and Li Personal Trust Nominee, respectively. Under the SFO, Mr. Wu, as the spouse of Ms. Li, is deemed to be interested in the same number of Shares in which Ms. Li is interested.
- (4) Puheng Limited, a company indirectly wholly owned by the Li Family Trust, directly holds the entire issued share capital of Ninth Investment which in turn holds [REDACTED] Shares of our Company. The Li Family Trust is a discretionary trust established by Ms. Li (as settlor) and the discretionary beneficiaries of which include Ms. Li, Mr. Wu, their children and W&L Trust. W&L Trust is a discretionary trust established by Mr. Wu and Ms. Li (as settlors) and the discretionary beneficiaries are Mr. Wu, Ms. Li and their children. Li Personal Trust Nominee holds [REDACTED] Shares as nominee of Core Trust under Li Personal Trust. Li Personal Trust Nominee is wholly-owned by Core Trust in its capacity as trustee of Li Personal Trust with Ms. Li as settlor. Mr. Wu is beneficially interested in the entire issued capital of Ninth Capital, which in turn holds [REDACTED] Shares of our Company. Accordingly, Ms. Li is deemed to be interested in [REDACTED], [REDACTED] and [REDACTED] Shares each held by Ninth Investment, Li Personal Trust Nominee and Ninth Capital, respectively. Under the SFO, Ms. Li, as the spouse of Mr. Wu, is deemed to be interested in the same number of Shares in which Mr. Wu is interested.

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(b) *Interests of the Substantial Shareholders*

Save as disclosed in “Substantial Shareholders”, immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares which may be issued under the RSU Schemes, 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 at the Latest Practicable Date, no other 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.

2. *Directors’ Service Contracts*

Each of our executive Directors has entered into a service contract with our Company on October 13, 2016, and we have issued letters of appointment to each of our non-executive Directors and each of our independent non-executive Directors. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed term of three years commencing from October 13, 2016. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts 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 fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to the Directors for Fiscal 2014, Fiscal 2015 and Fiscal 2016 were approximately RMB5.3 million, RMB4.8 million and RMB5.3 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 in aggregate of RMB800,000 per annum to the independent non-executive Directors, respectively. Save for the director’s fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding his or her office as an independent non-executive Director.

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Under the arrangements currently in force, the aggregate amount of remuneration payable by our Group to our Directors for Fiscal 2017 will be approximately RMB7.0 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 document.

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 “Relationship with Our 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 document:

- (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 [REDACTED] 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 document, 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;

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- (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 document 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

1. RSU Scheme

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Board on May 16, 2014. 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.

(a) *Purposes of the RSU Scheme*

The purpose of the RSU Scheme is to incentivize senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

(b) *RSUs*

A 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 RSUs, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents one underlying Share.

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(c) *Participants in the RSU Scheme*

Persons eligible to receive RSUs under the RSU Scheme are existing employees or officers of our Company or any of our subsidiaries (“**RSU Eligible Persons**”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

(d) *Term of the RSU Scheme*

The RSU Scheme will be valid and effective for a period of ten years, commencing from the date of the first grant of the RSUs, being June 30, 2014 (unless it is terminated earlier in accordance with its terms) (the “**RSU Scheme Period**”).

(e) *Grant and acceptance*

(i) *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 name of the RSU Selected Person, (ii) the RSUs granted, (iii) the exercise price of the RSUs, and (iv) such other details as our Board considers necessary. The RSU Grant Letter should be the only proof for the grant of RSUs.

(ii) *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**”).

(iii) *Restrictions on grants*

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- (a) 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 other requirements imposed by relevant regulatory authorities; or
- (b) where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph (f) below).

(f) *Maximum number of Shares pursuant to RSUs*

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the RSU Nominee for the purpose of the RSU

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Scheme from time to time, and which shall, in any event, be no more than [REDACTED] Shares representing approximately [REDACTED]% of the total issued share capital of our Company immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]).

(g) *Rights attached to RSUs*

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their exercise and, unless otherwise specified by our Board in its entire discretion in the RSU Grant Letter to the RSU Participant, nor do they 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.

(h) *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, 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 holder or the beneficial owners 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.

(i) *Assignment of RSUs*

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 RSU Nominee on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

(j) *Vesting of RSUs*

Our Board can 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 will 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.

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(k) *Appointment of Core Trust and the RSU Nominee*

Our Company has appointed Core Trust as the trustee to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme and Energetic Design Limited, a wholly-owned subsidiary of Core Trust, as the RSU Nominee to hold Shares underlying the RSUs. Our Company may (i) allot and issue Shares to the RSU Nominee to be held by the RSU Nominee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Nominee 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 Core Trust by whatever means as our Board may in its absolute discretion determine to enable the Core Trust 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 RSU Nominee, which, as of the Latest Practicable Date, holds [REDACTED] Shares underlying the RSUs granted under the RSU Scheme, which will be [REDACTED] Shares following the Capitalization Issue and the [REDACTED], for the benefit of eligible participants pursuant to the RSU Scheme.

(m) *Rights on a takeover*

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant’s RSUs will vest immediately, even if the vesting period has not yet commenced.

(n) *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.

(o) *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), all outstanding RSUs shall be treated as having vested immediately.

(p) *Lapse of RSUs*

(i) Any unvested RSU will automatically lapse immediately where:

(a) such RSU Participant’s employment or service terminates for any reason;

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- (b) such RSU Participant involved in businesses that are competing or similar with our Group during his employment period without prior approval from our Company
 - (c) the company employing the RSU Participant ceases to be one of our subsidiaries or any other incident occurs as the Board may at its discretion specify; or
 - (d) such 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 RSUs or any interests or benefits pursuant to the RSUs; or
 - (e) such RSU Participant violates relevant rules under *Labor Law of the PRC*, or breaches the employment agreement or non-disclosure agreement with our Company.
- (ii) If at any time, a RSU Participant ceases to be an employee as a result of termination of his employment with our Group for cause, then all unvested and vested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares. Such cause includes but not limited to the incidents (a) to (e) as listed under (i) above.
- (iii) If at any time, a RSU Participant:
- (a) ceases to be an employee as a result of involuntary termination of his employment with our Group without Cause, then all unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares. However, such RSU Participant has the right to keep all vested RSUs;
 - (b) ceases to be an employee as a result of voluntary termination of his employment with our Group without Cause, then 50% of the vested RSUs and all unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares. However, such RSU Participant has the right to keep the remaining 50% of the vested RSUs.

For the purpose of this paragraph (iii), “Cause” means the RSU Participant is in breach of his contract of employment with or any other obligation to the Group.

- (iv) Prior to the completion of the [REDACTED], if a RSU Participant ceases to be an employee as a result of termination of his 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.

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(q) ***Cancellation of RSUs***

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with our auditors or an independent financial adviser appointed by our Board;
- (ii) our Company or our 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 cancelled; 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.

(r) ***Reorganization of capital structure***

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of the Company, our Board may 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.

(s) ***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).

(t) ***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 Core Trust and all RSU Participants of such termination and of how any property held by the RSU Nominee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

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(u) 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 independent third-party contractors (including Core Trust and the RSU Nominee) 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.

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.

(v) Outstanding RSUs granted

As of the Latest Practicable Date, RSUs in respect of an aggregate of [REDACTED] Shares, representing approximately [REDACTED]% of the total issued share capital of the Company immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED]), had been granted to 87 RSU Participants pursuant to the RSU Scheme. 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 RSU Nominee 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.

There are four vesting schedules under the RSU Scheme: (i) the RSU Participants shall vest as to 20%, 20%, 30% and 30% prior to August 31, 2015, 2016, 2017 and 2018, respectively; (ii) the RSU Participants shall vest as to 25%, 25%, 25% and 25% prior to August 31, 2016, 2017, 2018 and 2019, respectively; (iii) the RSU Participants shall vest as to 25%, 25%, 25% and 25% prior to August 31, 2017, 2018, 2019 and 2020, respectively; and (iv) the RSU Participants shall vest as to 20%, 20%, 30% and 30% prior to August 31, 2017, 2018, 2019 and 2020, respectively. Unless the Company shall otherwise determine and so notify the RSU Participants in writing, the RSU Participants shall vest following their respective vesting schedules described above.

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E. OTHER INFORMATION

1. Estate duty and Deed of Indemnity

Mr. Wu, Ms. Li, Ninth Capital and Ninth Investment (the “**Indemnifiers**”) have entered into a deed of indemnity dated October 13, 2016 with and in favor of our Company (for itself and as trustee for its subsidiaries) (the “**Deed of Indemnity**”) whereby the Indemnifiers have given indemnities in connection with, among other things, any liability for estate duty under the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, or legislation similar thereto in Hong Kong or any jurisdictions outside Hong Kong which might be incurred by any member of our Company on or before the [REDACTED], and other taxation (including all fines, penalties, costs, charges, expenses and interests relating to taxation) which may be made against any member of our Company in respect of, among other things, any income, profits or gains, interest, salaries, estate, gift, property earned, accrued or received on or before the [REDACTED], save:

- (a) to the extent that specific provision or reserve has been made for such taxation in the audited consolidated financial information of our Group as set out in Appendix I (the “**Accounts**”);
- (b) to the extent that the liability for such taxation would not have arisen but for any act or omission of, or delay by, any member of our Group after the [REDACTED];
- (c) to the extent such loss arises or is incurred only as a result of a retrospective change in law or regulations or the interpretation or practice thereof by any relevant authority coming into force after the [REDACTED].

In addition, the Indemnifiers have also given indemnities to our Company (for itself and as trustee for its subsidiaries) against all 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 idle land as disclosed in “Business — Properties — Owned Properties” and non-compliance incidents as disclosed in “Business — Legal and Compliance — Non-compliance”.

2. Litigation

As of the Latest Practicable Date, save as disclosed in “Business — Legal and Compliance”, 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. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the [REDACTED] Committee for the [REDACTED] of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the [REDACTED] (including the additional Shares which may be issued pursuant to the exercise of the [REDACTED]). All necessary arrangements have been made to enable such Shares to be admitted into [REDACTED].

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The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to the section headed “Underwriting — Independence of the Sole Sponsor” for details regarding the independence of the Sole Sponsor.

The fees payable to the Sole Sponsor are US\$1,000,000 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 June 30, 2016 (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 document:

Name	Qualification
CCB International Capital Limited	A licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	Legal advisers as to PRC law
Conyers Dill & Pearman	Legal advisers as to Cayman Islands law
DLA Piper UK LLP	Legal advisers as to the applicability of sanctions administered by OFAC, the laws of other countries and under international law, including U.S., the EU, the United Nations and Australia, on our Group’s activities in certain countries during the Track Record Period
China Insights Consultancy Limited	Industry Consultant

6. Consents of Experts

Each of CCB International Capital Limited, PricewaterhouseCoopers, Jingtian & Gongcheng, Conyers Dill & Pearman, DLA Piper UK LLP and China Insights Consultancy Limited has given and has not withdrawn its consent to the issue of this document 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.

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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 document, within the two years immediately preceding the date of this document, 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 [REDACTED] and the related transactions described in this document.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately HK\$30,000 and were payable by us.

9. Binding Effect

This document shall have the effect, if an application is made in pursuance of this document, 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 Document

The English language and Chinese language versions of this document 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 [REDACTED] 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.

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(b) *Cayman Islands*

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Island companies save for those which hold interests in land in the Cayman Islands.

(c) *Consultation with professional advisers*

Potential investors in the [REDACTED] are urged to consult their professional tax advisers 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 Sole Sponsor, the [REDACTED] or any other person or party involved in the [REDACTED] 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 document, within the two years immediately preceding the date of this document:
- (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 in or debentures of our Company;
 - (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 document, 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;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (c) The branch register of members of the Company will be maintained in Hong Kong by its Hong Kong Share Registrar, [REDACTED]. 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 share register 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 document; 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; and
- (f) The English version of this document shall prevail over the Chinese version.

[REDACTED]

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the [REDACTED] 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 document;
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 5. Consents of Experts” in Appendix IV to this document; and
- (d) the statement of particulars of the [REDACTED].

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, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the audited consolidated financial statements of our Group for the years ended June 30, 2014, 2015 and 2016;
- (c) the Accountant’s Report for the years ended June 30, 2014, 2015 and 2016 and the report on the unaudited pro forma financial information prepared by PricewaterhouseCoopers, Certified Public Accountants, the texts of which are set out in Appendices I and II to this document;
- (d) the legal opinions issued by Jingtian & Gongcheng, 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 document;
- (f) the legal memorandum issued by DLA Piper UK LLP, our legal advisers on the applicability of sanctions administered by OFAC, the laws of other countries and under international law, including U.S., the EU, the United Nations and Australia, on our Group’s activities in certain countries during the Track Record Period;

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (g) 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 document;
- (h) 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 document;
- (i) the statement of particulars of the [REDACTED], details of which are set out in “Appendix IV — E. Other Information — 13. Particulars of the Selling Shareholder”;
- (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 document;
- (k) the Cayman Companies Law; and
- (l) the industry report prepared by China Insights Consultancy Limited, our industry consultant, on China’s apparel market in general and China’s designer brand fashion market in particular.