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La Chapelle

新疆拉夏貝爾服飾股份有限公司

Xinjiang La Chapelle Fashion Co., Ltd.

(formerly known as “Shanghai La Chapelle Fashion Co., Ltd.

(上海拉夏貝爾服飾股份有限公司)”)

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

(Stock code: 06116)

SUPPLEMENTAL ANNOUNCEMENT TO THE 2021 ANNUAL REPORT OF THE COMPANY

Reference is made to (1) the annual results of Xinjiang La Chapelle Fashion Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2021 dated 30 March 2022 (the “**2021 Annual Results**”); and (2) the Company’s annual report for the year ended 31 December 2021 dated 27 April 2022 (the “**2021 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the meanings as defined therein.

AUDIT MODIFICATIONS

As disclosed in the 2021 Annual Results, Da Hua Certified Public Accountants (Special General Partnership), the Company’s auditors, expressed a qualified opinion (the “**Qualified Opinion**”) for the Company’s financial statements for the year ended 31 December 2021 (“**FY2021**”) for the possible financial impact of the following matters (the “**Audit Modifications**”):

I. Financial statements of overseas subsidiaries

As disclosed in the 2021 Annual Results, LaCha Fashion I was taken over by HTI on 25 February 2020 due to its default on the loan, and the Company has therefore lost control over LaCha Fashion I and its subsidiaries. Naf Naf SAS, a subsidiary of LaCha Fashion I, was transferred into judicial liquidation on 19 June 2020 (French time), and the procedure has not been completed. Based on the impact of the above events, Da Hua was unable to obtain the relevant financial information of the foreign subsidiary, audit the financial statements of LaCha Fashion I and its subsidiaries for the year ended 31 December 2020 (“**FY2020**”), and judge the impact of this matter on the comparability of the corresponding data for FY2021.

II. Litigation

As of 31 December 2021, the cumulative amounts involved in litigation and arbitration that had not been judged was RMB465,588 thousand, amongst which the amount involved in respect of the cases for which judgment was handed down as of the date of the audit report (i.e. 30 March 2022) was RMB17,124 thousand. From 1 January 2022 to the date of the audit report, the amount of the Company's new litigation involved was RMB23,625 thousand. In view of the above, Da Hua was unable to obtain sufficient and appropriate audit evidence to identify the potential losses that may be generated from the above litigation events, and the accuracy and completeness of accrued liability in respect of litigation and arbitration.

In respect of the Audit Modifications, the Board would like to provide further information as below.

(i) Details of the audit evidence or supporting documents requested by Da Hua

The audit evidence or supporting documents requested by Da Hua are as follows:

I. Financial statements of overseas subsidiaries

1. The latest progress of the filing of claims and the liquidation of assets from the judicial administrator of Naf Naf SAS;
2. Legal opinion issued by French counsel on (i) the share ownership of the French overseas subsidiary; and (ii) whether it is possible for the Company, as a shareholder and a creditor, to recover any debt receivables, and whether it has any additional commitments or repayment obligations, so as to determine the Company's recoverable amounts from its long-term equity investments and debt receivables;
3. The final status of the liquidation claims and recovered assets of Naf Naf SAS issued by an authoritative authority to determine the recoverable amounts of long-term equity investments and debt receivables, in order to verify the reasonableness of the Company's full provision for impairment in relation to its long-term equity investments in LaCha Fashion I and Naf Naf SAS and debt receivables in 2020; and
4. As the Company endeavours to negotiate with its creditor, HTI, with a view to confirm LaCha Fashion I's disposal arrangements through mediation or execution of litigation proceedings, so as to enable the Company to dispose of LaCha Fashion I and its subsidiary, Naf Naf SAS, and it was required that the Company should reach specific mediation or disposal agreement with HTI.

II. Litigation

1. A list of the litigation cases, detailing for each case, the case number, plaintiff(s), defendant(s), subject matter, claim(s), case type, case progress, trial or mediation outcomes (if any), and any other relevant information;
2. Legal documents in relation to the litigation cases, including but not limited to statements of claim, judgments (if any), settlement agreements (if any), enforcement judgments (if any), etc.;
3. Detailed ledger of transactions with the counterparties involved in the litigations, including invoice numbers, invoice dates, transaction amounts as stated on the invoices, documents and other financial information, as well as the proof of payment related to the cases (if any);
4. Communications and explanations with Da Hua by the Company's finance department, business department and legal department;
5. Opinions or memorandum issued by third party legal counsel engaged by the Company in respect of the monetary amounts and the possible outcome of the legal proceedings; and
6. Arrangements between the Company and the key creditors involved in the litigations for different types of litigation cases:
 - (1) With respect to the adjudicated cases, the possibility of agreeing to debt repayment arrangements or settlement arrangements with the key creditors;
 - (2) With respect to the outstanding and unadjudicated cases, the possibility of the Company reaching debt settlement with the key creditors, so that the legal proceedings can be withdrawn; and
 - (3) With respect to the loans that may be subject to litigation, the Company's discussion with the key creditors for loan extension or settlement.

(ii) Details of the information or documents provided by the Company to Da Hua

I. Financial statements of overseas subsidiaries

1. All information and materials available to the Company and in the Company's possession in relation to the judicial liquidation of Naf Naf SAS, despite only limited information was provided by the judicial administrator of Naf Naf SAS to the Company, including the judicial administrator's confirmation that the filed claims amounted to approximately EUR120 million (which was subject to the final determination of the court as the bankruptcy claims filing process has not been yet completed) and that the liquidated assets amounted to over EUR10 million. LaCha Fashion I has already filed its claim of about EUR12.36 million. However, according to a letter from the judicial administrator, the judicial administrator is of the view that based on the progress of the completed liquidation, the possibility of LaCha Fashion I being able to recover its claim pursuant to its filed claim amount was relatively small;
2. The Company's French counsel having provided telephone or written explanations to Da Hua with respect to matters such as Naf Naf SAS's judicial liquidation procedure, the status of LaCha Fashion I's filed claims, etc.;
3. The receiver appointment letter, loan and pledge agreements, documents available from the Hong Kong Companies Registry, and other information related to the takeover of LaCha Fashion I on 25 February 2020, as well as the statements of claim, defences, summonses and evidence documents, etc., in relation to the litigation concerning the guarantee dispute between the Company and HTI over the loan to fund the acquisition of LaCha Fashion I; and
4. Arranged telephone interviews between Da Hua, HTI and the receiver HTI appointed so as to facilitate Da Hua's understanding of HTI's intention in the taking over and the subsequent disposal of LaCha Fashion I.

II. Litigation

1. A list of litigation cases, detailing for each case the case number, plaintiff(s), defendant(s), subject matter, claim(s), case type, case progress, trial or mediation outcomes (if any) and other relevant information;
2. Information and legal documents of the litigation cases, including but not limited to statements of claim, summonses, contracts, orders, mediation certificates and judgments (if any) relevant to the cases;
3. Detailed ledger of transactions with the counterparties involved in the litigations, including invoice numbers, invoice dates, transaction amounts as stated on the invoices, documents and other financial information;

4. Payment receipts related to the cases (such as bank electronic transfer receipts) as evidence of the Company's liabilities and debt fulfillment progress, and other supporting information;
5. Cooperated with Da Hua's audit work by arranging discussions with the Company's finance department, business department and legal department, so as to provide explanation to Da Hua as to the background and the status of the litigation cases, with a view to provide sufficient and adequate audit evidence to Da Hua;
6. The Company and Da Hua worked with Shanghai TiGem Law Offices, a third party legal counsel of the Company, to verify in detail the status of the litigation cases. Shanghai TiGem Law Offices issued legal opinions on the monetary amounts involved and the possibility of a favourable outcome for litigation cases at different litigation stages; and
7. The Company arranged interviews between Da Hua and certain creditors of the Company to facilitate Da Hua's understanding of the Company's debts, litigation cases, as well as the creditors' intention in relation to the debts, etc.

(iii) The reasons why Da Hua considered the information or documents provided by the Company in (ii) above were insufficient

I. Financial statements of overseas subsidiaries

Da Hua issued a qualified opinion with respect to the effects of the overseas subsidiaries on the financial statement in FY2020. According to Article 14 of the Auditing Standards for Certified Public Accountants of China No. 1511 – Comparative Information: Corresponding Data and Comparative Financial Statements (《中國註冊會計師審計準則第1511號–比較信息：對應數據和比較財務報表》), if a qualified opinion, a disclaimer of opinion or an adverse opinion was expressed for the previous financial report, and the matter leading to the failure to obtain an unqualified opinion remains unresolved, the Certified Public Accountant shall not issue an unqualified opinion for the financial report of the current period (“如果以前針對上期財務報表發表了保留意見、無法表示意見或否定意見，且導致非無保留意見的事項仍未解決，註冊會計師應當對本期財務報表發表非無保留意見。”).

With respect to the Qualified Opinion in respect of the financial statements of overseas subsidiaries, there are two key factors to the resolution of the Qualified Opinion:

- (1) Whether the audit of Naf Naf SAS's financial information for January and February 2020 (i.e. immediately before the Company lost control over Naf Naf SAS) can be completed, or there can be sufficient basis with certainty as to the Company's rights and obligations in respect of its ownership in Naf Naf SAS and the recoverability of its debt receivables from Naf Naf SAS.

Although the Company attempted to liaise continuously with the former management and the judicial administrator of Naf Naf SAS through various means, the former management and the judicial administrator of Naf Naf SAS did not fully cooperate with the audit process and did not provide the Company and Da Hua with the necessary audit evidence for FY2020 (e.g. confirmation from an authoritative authority in relation to the liquidation results, as well as the receivables or additional obligations of the Company). As such, the financial information with respect to Naf Naf SAS for January to February 2020 (i.e. immediately before the Company lost control over Naf Naf SAS) is still inadequate for audit purpose and Da Hua were unable to conduct proper audit on the FY2020 financial report of La Cha Fashion I and its subsidiaries (in particular, Naf Naf SAS).

- (2) Whether the disposal of LaCha Fashion I to HTI can be completed.

At the same time, the Company have been proactively communicating with HTI in relation to the takeover and disposal arrangements of LaCha Fashion I pursuant to the default under the original acquisition loan prior the publication of the 2021 Annual Results. However, no formal agreement on debt settlement or mediation has been reached with HTI, and the litigation between the Company and HTI is still ongoing prior to the publication of the 2021 Annual Results and as at the date of this announcement.

Da Hua is of the view that the abovementioned unresolved matters had material impact to the Company's financial data for FY2020. However, the Qualified Opinion issued by Da Hua has no material impact on the Company's financial position and results of operations for FY2021. Such unresolved matters remained the subject of a qualified opinion only because the matters affect the comparability of FY2021's financial data with that of FY2020.

II. Litigation

Da Hua has carried out the relevant audit procedures, such as obtaining a list of the litigations, verifying the amount of compensation granted in the judgments and the amount recorded on the accounting books, consulting the creditors, consulting the advice of legal counsels, enquiring public information and communicating with the management of the Company. However:

- (1) With respect to the litigation cases that have been adjudicated but not yet enforced, despite the fact that the courts have already handed down the relevant judgments or that the Company has reached debt discount arrangements with the creditors, the Company could not make repayments on time in accordance with such judgments or debt arrangements due to tight cash flow, and further losses (e.g., penalty interests) may be incurred as the cases proceeded to the enforcement stage. As such, the exact amount of losses to be incurred could not be estimated.

- (2) With respect to the litigation cases that have not yet been adjudicated or the newly accumulated litigation cases, Da Hua was unable to estimate the payment obligations to be incurred by the Company as the outcome and enforcement of cases is affected by various factors beyond the Company's control.
- (3) With respect to the creditors who have not yet initiated legal proceedings or a portion of creditors who have initiated legal proceedings, Da Hua could not estimate the amount of penalty interests, damages, litigation costs, etc., payable by the Company, given Da Hua could not determine whether such creditors would initiate new legal proceedings.

To sum up, due to the continuous accumulation of new litigation cases and the increase in the aggregate monetary amount involved, as well as the possible enforcement procedures of adjudicated cases, Da Hua is of the opinion that it could not obtain sufficient and appropriate audit evidence to determine the possible losses arising from the litigation matters and to assess the accuracy and completeness of the estimated liabilities related to litigation and arbitration matters.

MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE AUDIT MODIFICATIONS

The management of the Company has given careful consideration to each of the Audit Modifications and the bases therefor and has had ongoing discussions with Da Hua since preparing the Group's consolidated financial statements for FY2021.

I. Financial statements of overseas subsidiaries

As the Company failed to repay the loan from HTI in a timely manner, HTI took over LaCha Fashion I on 25 February 2020, and the Company was unable to control or exert any influence over it, and thereby lost actual control over LaCha Fashion I and its subsidiaries, including Naf Naf SAS. However, HTI did not clarify the post-takeover arrangements with the Company. In addition, Naf Naf SAS officially entered into judicial liquidation on 19 June 2020 (French time). The failure of the former management and judicial administrator of Naf Naf SAS to cooperate with the Company in providing the audit evidence required by Da Hua and to cooperate in the performance of audit procedures caused difficulties to the Company in obtaining sufficient audit evidence and to the performance of the audit procedures by Da Hua. Although the Company attempted to liaise with the former management and judicial administrator of Naf Naf SAS through various means, and proactively communicated with HTI regarding the takeover arrangements and its cooperation with the Company's audit procedures, Da Hua was ultimately unable to audit the financial statements of LaCha Fashion I and its subsidiaries, in particular Naf Naf SAS, for FY2020 due to (1) the ongoing litigation regarding the guarantee dispute between the Company and HTI over the debts, and (2) the failure of the former management of Naf Naf SAS and the judicial administrator to provide the necessary audit evidence as requested by Da Hua or to assist Da Hua in executing the audit procedures. As the unresolved matters affected or potentially affected the comparability of FY2021's data with that of FY2020, Da Hua issued the Qualified Opinion.

II. Litigation

The Company has faced a relatively large number of litigation cases involving a relatively high amount of monetary claims in the previous years and during FY2021. During FY2021, the Company has made timely and reasonable adjustments and provisions to the liabilities recorded on the Company's financial accounts based on the progress of the outstanding litigation cases (including the progress of court cases or the progress of settlement of debt restructuring proposals with the relevant parties), and established a cumulative litigation statistical ledger to collate and verify the relevant data and information of all litigation cases that have not yet been adjudicated, adjudicated but not yet enforced, and adjudicated and enforced. However, as the adjudication and enforcement of cases are affected by factors beyond the Company's control, it is not possible for the Company to accurately estimate the amount of adjustment of liabilities and the amount of losses to be incurred, and for the amount of expenses to be incurred in order for the Company to meet its current obligations (including late payment interests, liquidated damages, litigation costs, legal fees and other legal costs). In this regard, although Da Hua has carried out the relevant audit procedures, such as obtaining a list of the litigations, verifying the amount of compensation granted in the judgments and the amount recorded on the books, consulting the creditors, consulting the advice of lawyers, enquiring public information and communicating with the management of the Company, they were still unable to fully assess the accuracy and completeness of the Company's estimated liabilities related to litigation and arbitration, and therefore issued the Qualified Opinion in this regard.

In light of the above, the management of the Company respects and agrees with the professional and independent judgment of Da Hua in issuing the Qualified Opinion.

AUDIT COMMITTEE'S VIEW ON THE AUDIT MODIFICATIONS

The Audit Committee confirmed that it had independently reviewed and agreed with the management's position on the Qualified Opinion for the reasons stated above.

After Da Hua formed the preliminary audit opinion, the Audit Committee convened a meeting on 25 March 2022 and communicated with the accountants to discuss the type of opinion to be issued, as well as urged Da Hua to complete the audit on time. The Audit Committee convened another meeting on 29 March 2022, during which it considered the reports and explanations made by Da Hua and the management with respect to the audit opinion for FY2021 consolidated financial statements.

The Audit Committee acknowledged that the relevant audit procedures required to be performed by Da Hua were in fact continuously affected by HTI's takeover of the former wholly-owned subsidiary (i.e. LaCha Fashion I) and the subsequent liquidation of Naf Naf SAS, which in turn affected or potentially affected the comparability of FY2021's data with that of FY2020. In relation to the litigations matter, the Company has in fact faced a relatively large number of litigation cases involving a relatively high amount of monetary claims. Further, in light of the tight cash flow, the Company could not implement the agreed debt restructuring proposals. Moreover, as the adjudication and enforcement of cases are affected by various factors beyond the Company's control, it is not possible for the Company to accurately estimate the amount of losses to be incurred. The bases for the Qualified Opinion objectively reflect the actual situation of the Company, and is in accordance with the requirements of the relevant auditing standards in the PRC.

Based on the above, the Audit Committee does not object to each of the Audit Modifications and the Qualified Opinion issued on the Group's consolidated financial statements for FY2021.

AUDIT MODIFICATIONS FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the Company's announcement dated 26 August 2021 (the "**Announcement**") in respect of (among other things) the qualified opinion on the Company's annual results of FY2020 (the "**2020 Audit Modifications**") and the Company's action plans to address the same.

The Company would like to provide further information in relation to the updated status and progress in addressing the 2020 Audit Modifications.

(i) Updated status and progress in addressing the 2020 Audit Modifications

In relation to the measures disclosed in the Announcement to be adopted endeavoring to address the 2020 Audit Modifications, the Company has followed its action plan to obtain as much information as possible during the auditing of the 2021 Annual Results, in the attempt to obtain all necessary information and documents required by Da Hua, as set out in the above. As further elaborated below, the Company will continue to work with Da Hua to address the 2020 Audit Modifications. In respect of the updated status and progress in addressing the 2020 Audit Modifications:

I. Financial statements of overseas subsidiaries

As disclosed in the Announcement and the above, following the issuance of the qualified opinion by Da Hua with respect to the FY2020 financial statements, the Company continued to follow up on the progress of the judicial liquidation of Naf Naf SAS and to resolve the takeover arrangements with HTI for LaCha Fashion I, and the key factors to be confirmed to remove this qualification are two-fold:

- (1) from the perspective of the financial information relating to Naf Naf SAS, the Company needs to provide sufficient information to Da Hua in order for it to fully confirm the recoverable amounts of the long-term equity investments and debt receivables from LaCha Fashion I and Naf Naf SAS; and consequentially

- (2) from the perspective of the takeover arrangements with HTI, the Company needs to reach a final agreement with HTI as to the arrangements, but the amount the Company may be able to recover from Naf Naf SAS's liquidation would affect the amount of accrued liabilities account from the litigation case against HTI.

With respect to the progress relating to Naf Naf SAS's liquidation:

As disclosed in the Announcement, the Company planned to continue monitoring the judicial liquidation of Naf Naf SAS to understand the recoverable assets of Naf Naf SAS in the judicial liquidation process and to actively consult the legal advisors in France for their professional analysis as a reasonable basis for the accounting measures adopted in relation to the long-term equity investment and debt receivables, and expected to ascertain the final status of the liquidation claims and recovered assets of Naf Naf SAS issued by an authoritative authority prior to publication of the 2021 Annual Results. The implementation of aforementioned plans is dependent upon (i) the progress of the liquidation procedures; and (ii) the level of cooperation by the judicial administrator of Naf Naf SAS.

1. During the period up to the date of the audit report, the Company has repeatedly instructed its French legal counsel to obtain information in relation to the latest progress of the liquidation from the judicial administrator of Naf Naf SAS and to urge the judicial administrator to cooperate with the Company in providing the relevant information required for auditing of Naf Naf SAS's financial statements. The judicial administrator of Naf Naf SAS responded in February 2021, June 2021 and September 2021, and confirmed that as of September 2021, the filed claims amounted to approximately EUR120 million (subject to the final determination of the court) and that the liquidated assets amounted to over EUR10 million. At the same time, LaCha Fashion I has filed claims against Naf Naf SAS in the amount of approximately EUR12.36 million. However, according to the letter issued by the judicial administration, based on the progress of the liquidation so far, the judicial administrator considered LaCha Fashion I's likelihood of recovering of the filed claims amount in full to be low because of the limited assets of Naf Naf SAS available when compared to the total amount of filed claims, as well as the relatively low priority of LaCha Fashion I's debt (being an unsecured debt) when compared to other types of debts. Apart from the aforementioned, the judicial administrator did not provide further information to the Company.
2. Based on the information provided by the judicial administrator as mentioned above, the Company has engaged French legal counsel to advise on the recoverability of the filed claims of Lacha Fashion I. The receiver appointed by HTI has, on behalf of LaCha Fashion I, filed with the judicial administrator claims including loans of EUR10 million, interests and liquidated damages of approximately EUR0.9 million and letter of credit claims of approximately EUR1.46 million. However, as the judicial liquidation of Naf Naf SAS was still in progress, the French counsel were unable to give a definitive opinion on the recoverability of the long-term equity investment and the debt receivables.

With respect to the progress relating to the takeover arrangements by HTI:

As disclosed in the Announcement, the Company planned to continue with the litigation with HTI, and at the same time, planned to continue negotiating with HTI and to obtain funds to repay at least part of the debt owed to HTI as a debt settlement arrangement. Further, the Company also planned to conduct a self-examination in relation to the external guarantees of the Group.

3. The litigation case concerning the guarantee dispute between the Company and HTI was heard by the courts on 19 January 2021 and 13 July 2021, in which the Company has pleaded the takeover of LaCha Fashion I by HTI to the court as the subject matter of the litigation. However, the court has not yet made a judgment on the dispute prior to the issuance of the 2021 Annual Results and the date of this announcement.
4. In the meantime, during the process of the annual audit for the 2021 financial results, the Company has continued to negotiate with HTI on the disposal arrangements for LaCha Fashion I in an attempt to reach a definitive arrangement with them. However, due to the restraints in the Company's financing channels and its tight cash flow, the Company has been unable to reach a settlement arrangement for the loans owed to HTI to fund the acquisition by LaCha Fashion I and has not been able to reach any formal agreement for debt settlement or settlement of the litigation with HTI prior to the issuance of the 2021 Annual Results and the date of this announcement.
5. By checking the corporate credit reports issued by domestic banks, the Company was able to confirm that, except for the guarantee provided to the former wholly-owned subsidiary LaCha Fashion I in relation to the acquisition loan with HTI and guarantees provided for its wholly-owned subsidiaries, the Company has not provided any other guarantee.

II. Litigation

As disclosed in the Announcement, while the Company will continue to keep an updated and detailed record with respect to litigation matters, the Company will seek to resolve the litigations through proactively negotiating with its creditors for alternative settlement proposals, and through obtaining extra funds by leasing or sale properties, sales of existing inventories and seeking external financing.

1. During the period between 1 January 2021 and the date of the 2021 Annual Results, the Company has proactively prepared for litigation and has engaged legal counsels as necessary based on the actual circumstances of each case. At the same time, the Company has proactively communicated with the creditors with a view to promptly reach solutions in the best interests of the Company. As of the date of the 2021 Annual Results, the number of accumulated unresolved litigation cases has reduced significantly as compared to the end of 2020:

- (i) As at 31 December 2020, there were 83 ongoing litigation cases in which the Group is the defendant that have not yet been adjudicated or settled. In contrast, as at 1 April 2022, there were 30 ongoing litigation cases in which the Group is the defendant that have not yet been adjudicated or settled, representing a decrease of over 60%.
 - (ii) During the period from early 2021 to the date of the announcement of the 2021 Annual Results, and upon the Company's proactive communication with the relevant courts and creditors, over 80% of the Company's newly accumulated litigation cases have been resolved through obtaining court judgments, mediation or withdrawal of cases by the plaintiff.
 - (iii) For the newly accumulated cases during the period from early 2021 to the date of the announcement of the 2021 Annual Results that have already been concluded, approximately 70% were concluded by way of reaching debt restructuring arrangements with the creditors. The debt restructuring arrangements adopted generally involve the creditors offering a certain percentage of debt discount to the Company, with the precondition that the Company pays the remaining portion of the debt. Depending on the nature of the creditor, the amount of the debt involved and the circumstances faced by the creditor, the percentage of discount offered by different creditors varies. In 2021, the Company has realised a debt restructuring-related investment income amounting to approximately RMB43.83 million through partial payment of such debt, which has alleviated the Company's debt burden and litigation pressure. However, due to the high number of litigation cases and the monetary amount involved, as well as the limited cash flow of the Company available to make payments, the Company was unable to meet a portion of its remaining payment obligations in a timely manner and the preconditions relating to the debt restructuring were not fulfilled.
2. Due to the continuous accumulation of new litigation cases in 2021, the number of seizures or asset freeze over the property assets of the Company also continued to increase. This has in turn generated practical and legal obstacles to the Company's effort to sell or dispose of certain of its properties to obtain liquidity, and such contemplated sale or disposal of property assets could not be completed prior to the issuance of the 2021 Annual Results and the date of this announcement. Nevertheless, the Company has engaged in more leasing transactions of its property assets in order to improve the efficiency of asset use. In 2021, the Company recorded a leasing income of RMB51.92 million, representing a year-on-year increase of nearly 227% as compared with the leasing income of RMB15.80 million in 2020. As at 31 December 2021, the Company has leased out property assets with a carrying value of RMB630 million, which effectively relieved some of the Company's liquidity pressure and provided financial support for the development of its main business and the settlement of debts.

3. In 2021, the Company increased its efforts in inventory clearance through various initiatives. On the one hand, the Company proactively negotiated with suppliers to offset debts with inventory goods, through which a total debt restructuring gain of approximately RMB103 million was realised in 2021. On the other hand, the Company has continued to rearrange the inventory structure by reducing the inventory level through online and offline channels in FY2021. Through the sale of aged inventory stocks, the Company realised an operation income of approximately RMB230 million, of which (i) over RMB21 million was through the online channel “Aikucun” and approximately RMB14 million was through other online channels; (ii) approximately RMB65 million was realised through the inventory clearance by various regional partners of the Company; and (iii) approximately RMB130 million was sold through the Company’s direct sales channels. The aforementioned measures have reduced the risk of asset impairment and provided support for alleviating the Company’s liquidity and debt pressures.
4. As a step to proactively address the qualified opinion on litigation matters, the Company has set up a special litigation and debt clearance team in 2021 to investigate in and resolve the Company’s litigation matters. For certain cases, the Company has engaged legal counsels to take effective measures to deal with the litigation cases, as well as the related asset freezes, seizures, and execution.
5. In order to maintain proper records of the litigation cases and to assess the possible financial impact of these litigations, the Company has set up a litigation statistical ledger so as to collate in a timely manner specific information required to be disclosed concerning litigation cases (including the time of knowledge, case number, parties involved, amount involved, subject of the petition, amount of enforcement and subsequent progress, etc.).
6. The Company has engaged third-party legal counsels to provide legal opinions or explanations on the monetary amounts involved and the possibility of a favourable outcome based on the stages and progress of different litigation cases, and the Company has accordingly adjusted the liability data recorded on the Company’s financial accounts.

The table below sets forth the status of the litigation matters involving the Group as at different points in time:

Types of cases	Group's role	As at 31 December 2020		As at 31 December 2021		As at 31 March 2022	
		No. of cases	Amount involved (RMB million)	No. of cases	Amount involved (RMB million)	No. of cases	Amount involved (RMB million)
Ongoing litigation cases	Defendant	83	782	13	466	26	425
	Plaintiff	0	0	8	70	4	41
Subtotal		83	782	21	536	30	466
Litigation cases adjudicated but not yet enforced	Defendant	252	888	439	1,971	389	1,972
	Plaintiff	0	0	4	1	7	3
Subtotal		252	888	442	1,972	396	1,975
Litigation cases that were enforced or resolved	Defendant	117	253	218	426	265	453
	Plaintiff	0	0	4	5	4	5
Subtotal		117	253	222	431	269	458

(ii) The reasons for deviating from the original action plan

I. Financial statements of overseas subsidiaries

As mentioned above, the Company has taken relevant measures endeavouring to remove the 2020 Audit Modifications with respect to the financial statements of overseas subsidiaries for FY2020. Nonetheless, despite the Company's continuous effort to communicate with the former management of Naf Naf SAS and the judicial liquidation administrator, the Company was only provided with a portion of the information and materials required, and given the judicial liquidation of Naf Naf SAS is still in progress, no definitive information in relation to, e.g. the final amount of filed debt claims against Naf Naf SAS, the recoverable amount of LaCha Fashion I's debt, the final outcome of the judicial liquidation proceedings, etc., has been provided to the Company. As such, the Company has not been able to obtain all necessary audit evidence or conduct the relevant procedures. Meanwhile, due to the restrictions in the Company's financing channels and the tight cash flow, the Company has been unable to satisfy the acquisition loan from HTI. The litigation case with HTI in relation to the guarantee dispute is also in progress, and the Company has not been able to reach a formal agreement for debt settlement or litigation settlement prior to the issuance of the 2021 Annual Results and the date of this announcement.

II. Litigation

The Company has (1) improved its cumulative litigation statistical ledger as planned, (2) collated and verified all relevant data and information on litigation cases that have not yet been adjudicated, adjudicated but not yet enforced, and adjudicated and enforced, and (3) engaged third party legal counsel to provide the Company with professional advice and legal opinions and adjusted the liability data recorded on the Company's financial accounts accordingly. However, as the litigation cases that have been decided and not yet enforced in 2020 have not been settled or resolved and the Company could not make repayments on time due to its tight cash flow, further losses (e.g., penalty interests) may be incurred as the cases proceeded to the enforcement stage. As such, the exact amount of losses to be incurred could not be estimated. In addition, in 2021, the Group continued to accumulate new litigation cases in which the Group is a defendant and the aggregate monetary amount of unenforced judgment debt and settlement sum of the Group has continued to increase. As such, and considering that the trial of the cases is affected by various factors beyond the Company's control, it was not possible for the Company to accurately estimate the expected amount of losses to be incurred. This has caused difficulties for Da Hua to determine the expenses required to meet the relevant existing obligations of the Company (including late interest, liquidated damages, litigation costs, legal fees and other legal costs).

Separately, although the Company has used ways such as the leasing of properties and selling of aged inventories to improve its liquidity position, the limited liquidity resources and originally decreasing financing performance of the Group in recent years constrained the Group's ability to obtain more substantial amount of new funding through the sale of properties or introducing new investors into the Company, which further restricted the Company's channels to obtain new funding to resolve its outstanding judgment debts.

REVISED ACTIONS PLAN BY THE COMPANY TO ELIMINATE THE AUDIT MODIFICATIONS

I. Financial statements of overseas subsidiaries

As LaCha Fashion I was taken over by HTI on 25 February 2020, LaCha Fashion I and its subsidiary Naf Naf SAS have ceased to be included in the scope of the Company's consolidated financial statements from the date of the takeover. The Qualified Opinion issued by Da Hua in 2021 only concerns the possible impact on the comparability between FY2021 figures and FY2020 figures. It does not directly affect FY2021 financial data and is not expected to affect the Group's financial statements for the year ending 31 December 2022. Notwithstanding this, the Company will be actively pursuing the following in order to remove the audit qualifications for the previous years' financial statements:

1. *Obtaining further data or information from Naf Naf SAS*

Contemplated actions of the Company include:

- (1) Maintaining ongoing communication with the former management and the judicial administrator of Naf Naf SAS to obtain the complete notes to the FY2020 financial statements of Naf Naf SAS and the working papers on certain key financial statement items, so as to provide the Company's auditors with sufficient and appropriate audit evidence. However, based on the results of the Company's previous efforts, the chances of achieving the above are small.
- (2) The Company hopes to obtain the final status of Naf Naf SAS's insolvency claims and asset liquidation as confirmed by an authoritative authority within 2022, the timing of which is subject to the actual progress of the judicial liquidation of Naf Naf SAS and the extent of cooperation from the judicial administrator. If Naf Naf SAS's liquidation process is completed within 2022, the Company's accounting treatment of its long-term equity investments and debt receivables can be validated. Alternatively, if Naf Naf SAS's liquidation process is not completed within 2022, but its claims declaration and asset verification processes are substantially completed, it is expected that the French legal counsel of the Company is likely to be able to issue a legal opinion accordingly based on their professional judgments.

2. *Divesting the rights and obligations that continue to be involved in the judicial liquidation of Naf Naf SAS through the conclusion of the disposal of LaCha Fashion I*

Based on the court proceedings in the guarantee dispute, the Company expects that the first instance judgement in relation thereto will be issued within 2022, and the Company will seek to reach a debt settlement or enforcement settlement with HTI based on the outcome of the court judgement to facilitate its clarification of the disposal arrangements for LaCha Fashion I.

II. Litigation

As mentioned above, the Company has been able to achieved progress in terms of the reduction in the number of new cases in 2021, as demonstrated by the significant decrease in number of ongoing cases in which the Group was a defendant, as compared with that as at the end of 2020. The alleviation in the Group's trading debts situation is demonstrated by the decrease in the Company's accounts payable from RMB1,134.6 million as at 31 December 2020 to RMB826.5 million as at 31 December 2021, i.e. a year-on-year decrease of approximately RMB308.1 million or 27%, of which the Company's major accounts payable aged over one year has decreased from RMB614.4 million as at 31 December 2020 to RMB235.1 million as at 31 December 2021, i.e. a year-on-year decrease of approximately RMB379.3 million or 62%. In addition, the outstanding litigation cases and newly accumulative litigation cases are primarily related to the debts owed to the creditors or suppliers of the Group for arrangements or business dealings entered into in prior years, while the Group's cash flow was generally able to cover payments required to be made under its current supplier contracts.

Based on the litigation cases at different stages and their progress, the Company has engaged third-party legal counsels to issue legal opinions on the estimated amount involved in the litigation cases and the potential losses to be incurred, and to make professional judgments on the likelihood of success in the pending litigation cases. In respect of the litigation cases that have been adjudicated but not yet enforced, the Company may not be able to settle on time due to its tight cash flow, and thus, may result in additional losses. If the creditors who have not yet initiated litigation against the Company subsequently do so, an adjustment to the amount of debt recorded on the Company's books may occur as a result. As such, the Company considers that the key to resolving the Qualified Opinion on litigation matters would be to reach a unified arrangement for the settlement of the debts incurred.

In 2022, the Company will continue to plan for a viable solution for its debt problems. On the one hand, it will continue to negotiate with the courts, its creditors and relevant financial institutions, etc. to seek a certain percentage of debt discount or instalment payment arrangements to avoid new litigation cases which would cause additional uncertainty to the Company. On the other hand, the Company will concurrently and proactively explore overall solutions to its debt problems, including but not limited to exploring the viability of proposing an overall debt restructuring, reaching settlement agreements through judicial reorganisation and creditors' arrangements, with a view to eliminating the debt burden of the Company through a packaged solution and promoting the Company's return to a sound development track. As of the date of this announcement, the Company has started the negotiation with certain of its creditors and have reached agreement with a portion thereof on debt discount or instalment payment arrangements.

Expected timetable for removing the Audit Modifications

Having considered the action plan described as above, the Company will use its best endeavours to remove the Audit Modifications in next year's auditor's report. Specifically:

- (1) In respect of the Audit Modifications relating to the overseas subsidiaries, given the Qualified Opinion issued by Da Hua on the FY2021 financial statements only concerns the possible impact on the comparability between FY2021 figures and FY2020 figures, the Company expects that the Qualified Opinion in respect of overseas subsidiaries would not impact its 2022 financial statements. Furthermore, if the judicial liquidation of Naf Naf SAS is completed within 2022, or if the Company obtains the final status of Naf Naf SAS's insolvency claims and asset liquidation as confirmed by an authoritative authority, or if a formal disposal arrangement is reached with HTI concerning LaCha Fashion I, the qualification in respect of the foreign subsidiary in the previous years' financials of the Company is expected to be removed.
- (2) If the Company is able to reduce its litigation risks by e.g., negotiating with the relevant courts, creditors and financial institutions for debt discount or instalment payment arrangements, and resolve its debt problems so that the Company can settle the judgment debts in a timely manner, the Audit Modifications in relation to litigation matters is expected to be removed.

Da Hua's view on the Company's remedial measures taken/to be taken and on the expected timeline

Da Hua understands the measures taken and proposed to be taken by the Company and the timetable to resolve the previous non-standard audit opinion on the annual financial report. Da Hua believes that so long as the measures taken and proposed to be taken by the Company can achieve (1) and (2) above, the concerns regarding the Audit Modifications are expected to be removed.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Xinjiang La Chapelle Fashion Co., Ltd.
Mr. Zhao Jinwen
Chairman

Shanghai, the People's Republic of China
14 June 2022

As of the date of this announcement, the executive directors of the Company are Mr. Zhao Jinwen and Ms. Zhang Ying, the non-executive director of the Company is Mr. Yang Heng, the independent non-executive directors of the Company are Mr. Xing Jiangze, Ms. Chow Yue Hwa Jade and Mr. Zhu Xiaozhe.

* *For identification purposes only.*