



亞東

Yadong Group Holdings Limited
亞東集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1795

ANNUAL

REPORT

2020

CONTENTS

- 2 Corporation Information
- 4 Financial Summary
- 5 Chairman's Statement
- 7 Management Discussion and Analysis
- 13 Biographies of Directors and Senior Management
- 17 Report of Directors
- 33 Corporate Governance Report
- 45 Environmental, Social and Governance Report
- 77 Independent Auditor's Report
- 82 Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 83 Consolidated Statement of Financial Position
- 85 Consolidated Statement of Changes in Equity
- 86 Consolidated Statement of Cash Flows
- 88 Notes to the Consolidated Financial Statements



CORPORATION INFORMATION

Board of Directors:

Executive Directors

Mr. Xue Shidong (*Chairman of the Board*)
Mr. Wang Bin
Mr. Qiu Jianyu
Ms. Zhang Yeping
Mr. Jin Rongwei

Independent Non-Executive Directors

Mr. Zhu Qi
Mr. Ho Kin Cheong Kelvin
Mr. Wang Hongliang

Board Committees:

Audit Committee

Mr. Ho Kin Cheong Kelvin (*Chairman*)
Mr. Zhu Qi
Mr. Wang Hongliang

Remuneration Committee

Mr. Zhu Qi (*Chairman*)
Mr. Xue Shidong
Mr. Ho Kin Cheong Kelvin

Nomination Committee

Mr. Xue Shidong (*Chairman*)
Mr. Zhu Qi
Mr. Wang Hongliang

Company Secretary

Ms. Chou Kwai Wah

Authorised Representatives

Mr. Qiu Jianyu
Ms. Chou Kwai Wah

Principal Place of Business in the PRC

No. 381 Laodong East Road
Tianning District, Changzhou
Jiangsu Province
China

Headquarters and Principal Place of Business in Hong Kong

Unit B, 11/F
Eton Building
288 Des Voeux Road Central
Hong Kong

Registered Office in the Cayman Islands

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar

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

CORPORATION INFORMATION

Compliance Adviser

Fortune Financial Capital Limited
41/F, Cosco Tower
183 Queen's Road Central
Central
Hong Kong

Auditor

SHINEWING (HK) CPA limited
Certified Public Accountants
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Legal Advisers

as to Hong Kong laws

David Fong & Co.
Solicitors, Hong Kong
Unit A, 12/F
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

Principal Bank

Jiangnan Rural Commercial Bank

Stock Code:

1795

Company Website

www.yadongtextile.com

FINANCIAL SUMMARY

Results

	Year ended 31 December			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	771,461	866,674	861,477	661,726
Cost of sales	(644,525)	(737,131)	(748,293)	(580,036)
Gross profit	126,936	129,543	113,184	81,690
Profit before tax	56,865	73,909	65,104	42,838
Profit for the year	35,992	52,664	49,085	30,563
Profit attributable to owners of the Company	35,992	52,664	49,085	30,563

Assets and Liabilities

	As at 31 December			
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	565,113	395,835	411,985	394,722
Total liabilities	(356,607)	(300,910)	(257,458)	(278,337)
Equity attributable to owners of the Company	208,506	94,925	154,527	116,385

Notes:

- (a) The financial figures for the year ended/as at 31 December 2020 were extracted from the consolidated financial statements in this annual report.
- (b) The financial figures for each of the three years ended 31 December 2019/as at the respective year-end were extracted from the prospectus dated 30 October 2020 (the "Prospectus").

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

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Yadong Group Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”, “**we**”, “**ours**” or “**us**”), I am pleased to present to our valued shareholders the annual report of our Group for the year ended 31 December 2020, being our first annual report after the successful listing (the “**Listing**”) of our Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Group principally engages in the design, process and sale of textile fabric products. The Group's textile fabric products can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. Those textile fabric products feature a variety of different colours, patterns, textures and functionalities. The Group sells our textile fabric products mainly to garment manufacturers as well as trading companies.

On 18 November 2020, our Group was successfully listed on the Main Board of the Stock Exchange. I wish to express my sincere gratitude to the hard work of everyone in our sales, marketing, research and development, production, finance, and management teams as well as our investors, customers, suppliers, professional parties and bankers. I look forward to seeing more opportunities open up to our business through new platforms in future, and create additional value for our investors, shareholders and supporters.



CHAIRMAN'S STATEMENT

Business Review

The year 2020 was destined to be an extraordinary year, as the COVID-19 pandemic continued to wide-spread globally. Attributed to the high attention of the government and the concerted efforts in fighting against the pandemic nationwide, the COVID-19 pandemic has been gradually under control in the People's Republic of China (“**PRC**”) since March 2020. As for the Company, the management team played an active role in the prevention and control of the COVID-19 pandemic, and each and every staff was on high alert, which made the Group one of the first batch of companies in its region that resumed operations successfully. In order to mitigate the impact of the COVID-19 pandemic, the management team adjusted the business strategies in a timely manner, which shed some light despite the challenges. The Group attaches great importance to both domestic and international market share by proactively collecting market information and selectively enhancing development efforts, while actively optimising the process solutions and eliminating the outdated production capacity for technological innovation and upgrade, so as to maximise the production capacity. Nonetheless, compared with 2019, the revenue and profit of the Group for the year ended 31 December 2020 decreased by approximately 11.0% and 31.7%, respectively.

Outlook

In 2021, a milestone victory is expected for the control of the COVID-19 pandemic under the accelerated supply of vaccines. It will be followed by the decline in uncertainties related to the economic and social development, and hence, the global economy will gradually pick up, and the consumer activities will become more active. Consequently, it will bring a stable and upward demand in the textile industry. The Group will focus on enhancing quality and efficiency, primarily implementing structural reform of the supply front, emphasising the “three qualities strategy (三品戰略)” (namely, increasing variety (品種), improving quality (品質) and creating brand (品牌)), so as to strengthen industrial innovation, optimise industrial structure, implement intelligent manufacturing and green manufacturing, establish new momentum for development, create new competitive advantages, and promote enterprises to explore a new scenario.

Moreover, as a mature enterprise with a clear development plan, the Group will also commit to increasing the market share as well as exploring new opportunities and addressing new challenges. The Group will strive to expand the production capacity in line with the established mid- to long-term goals to accommodate the core customer groups which will grow rapidly in the future.

Appreciation

Taking this opportunity, I would like to extend my gratitude to the Board, the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support to the Group during the Year.

Mr. Xue Shidong

Chairman of the Board

PRC, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Company Profile

The Group is principally engaged in the design, process and sale of textile fabric products, which can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. These textile fabric products feature a variety of different colours, patterns, textures and functionalities. The Group sells its textile fabric products mainly to garment manufacturers as well as trading companies for further processing into finished garments for apparel brand operators. These textile fabric products are mainly sold or distributed in the PRC, Japan and certain other markets in Asia, such as Taiwan, Vietnam, Bangladesh and Indonesia.

Industry Review

Given the COVID-19 pandemic, the overall market value of the dyeing and finishing industry in the PRC is expected to decrease in 2020. The decrease is mainly attributed to the temporary drop in the demand for apparel in both domestic and export markets while the adverse impact is not perceived to persist as the COVID-19 pandemic is expected to be gradually under control, especially in some Asian countries, such as the PRC and Japan, and a recovery in retail market has been taking place in the domestic market in the PRC. Recovery has been taking place in the Chinese retail market since March 2020. According to the statistics published by the National Bureau of Statistics of China, the total retail sales of consumer goods in the PRC had bounced back since March 2020. The retail market of apparel in the PRC also witnessed a recovery, with the retail sales of apparel reaching approximately RMB55.7 billion in April 2020 at a monthly growth rate of approximately 16.5%. The market value of the dyeing and finishing industry in the PRC is projected to recover with a more positive outlook in 2021 and 2022, supported by the substantial domestic demand and the continued maturation and accelerated shift to the online retail channels across the world.

In particular, the recovery in the domestic retail market in the PRC, despite the lowered consumption power and negatively impacted market sentiment as a consequence of the COVID-19 pandemic, is supported by an expected change in consumer preference resulting from the decline of global economy, and lockdown and social distancing measures adopted by many countries. The new form of working environment with a rising trend of telecommunication and flexible working hours has created a new norm in the apparel market, in which consumers are now focusing more on the level of comfort and practicality when purchasing clothing, leading to a shift of demands on and preference to essential and affordable clothing consumables. As supported by the promising market forecast of the casual wear and activewear segments for the period from 2020 to 2024, it is expected that the market for essential and affordable clothing consumables will revive quicker and achieve a higher growth rate than other apparel product segments during the forecast period.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The year 2020 was destined to be an extraordinary year, as the COVID-19 pandemic continued to wide-spread globally. Attributed to the high attention of the government and the concerted efforts in fighting against the pandemic nationwide, the COVID-19 pandemic has been gradually under control in the PRC since March 2020. As for the Company, the management team played an active role in the prevention and control of the COVID-19 pandemic, and each and every staff was on high alert, which made the Group one of the first batch of companies in its region that resumed operations successfully. In order to mitigate the impact of the COVID-19 pandemic, the management team adjusted the business strategies in a timely manner, which shed some light despite the challenges. The Group attaches great importance to both domestic and international market share by proactively collecting market information and selectively enhancing development efforts, while actively optimising the process solutions and eliminating the outdated production capacity for technological innovation and upgrade, so as to maximise the production capacity. Nonetheless, compared with 2019, the revenue and profit of the Group for the year ended 31 December 2020 decreased by approximately 11.0% and 31.7%, respectively.

Prospect

In 2021, a milestone victory is expected for the control of the COVID-19 pandemic under the accelerated supply of vaccines. It will be followed by the decline in uncertainties related to the economic and social development, and hence, the global economy will gradually pick up, and the consumer activities will become more active. Consequently, it will bring a stable and upward demand in the textile industry. The Group will focus on enhancing quality and efficiency, primarily implementing structural reform of the supply front, emphasising the “three qualities strategy (三品戰略)” (namely, increasing variety “品種”, improving quality “品質” and creating brand “品牌”), so as to strengthen industrial innovation, optimise industrial structure, implement intelligent manufacturing and green manufacturing, establish new momentum for development, create new competitive advantages, and promote enterprises to explore a new scenario.

Moreover, as a mature enterprise with a clear development plan, the Group will also commit to increasing the market share as well as exploring new opportunities and addressing new challenges. The Group will strive to expand the production capacity in line with the established mid- to long-term goals to accommodate the core customer groups which will grow rapidly in the future.

Financial Review

Revenue

The revenue of the Group decreased by approximately RMB95.2 million or approximately 11.0% from approximately RMB866.7 million for the year ended 31 December 2019 to approximately RMB771.5 million for the year ended 31 December 2020. Such decrease was primarily attributable to the impacts of the COVID-19 pandemic, which resulted in (i) the Group resumed to its fully normal production only until the end of March 2020 from suspension of production for approximately a week after the Lunar Chinese New Year holiday, while some of the Group’s regular customers in the PRC had suspended their production for approximately a month and a half since February 2020, finally resulting in a delay in placing orders to the Group; and (ii) the decrease in overseas sales due to the outbreak of COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

The cost of sales of the Group decreased by approximately RMB92.6 million or approximately 12.6% from approximately RMB737.1 million for the year ended 31 December 2019 to approximately RMB644.5 million for the year ended 31 December 2020. Such decrease was primarily attributable to (i) the decrease in the cost of materials from approximately RMB596.8 million to approximately RMB524.0 million during the same period, which was in line with the decrease in the total sales and processing volume by approximately 10.2%; (ii) the decrease in the subcontracting costs from approximately RMB29.3 million to approximately RMB17.7 million during the same period, which was due to a lower demand of subcontracting resulted from the decrease of sales; (iii) the decrease in the utility cost from approximately RMB55.2 million to approximately RMB50.9 million during the same period; and (iv) the decrease in the direct labour cost from approximately RMB33.0 million to approximately RMB30.3 million during the same period, which was due to the lower level of production activities taken place for the textile fabric product.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased by approximately RMB2.6 million or approximately 2.0% from approximately RMB129.5 million for the year ended 31 December 2019 to approximately RMB126.9 million for the year ended 31 December 2020. Such decrease was primarily attributable to the decrease in both the revenue and the cost of sales of the Group as discussed above. The gross profit margin of the Group increased from approximately 14.9% for the year ended 31 December 2019 to approximately 16.4% for the year ended 31 December 2020. Such increase was primarily attributable to the increase in the gross profit margin for plain weave fabric products from approximately 15.6% to approximately 17.4% during the same period, which was due to the decrease in the average unit cost of the textile fabric products by approximately 5.6% while the average unit price only decreased by approximately 3.4%.

Other Income

Other income of the Group increased from approximately RMB1.9 million for the year ended 31 December 2019 to approximately RMB6.7 million for the year ended 31 December 2020. Such increase was primarily attributable to (i) the increase in exchange gain from approximately RMB0.2 million to approximately RMB1.6 million; and (ii) the increase in government subsidies to approximately RMB3.7 million from approximately RMB0.3 million during the same period.

Selling and Distribution Expenses

The selling and distribution expenses of the Group increased by approximately RMB2.8 million or approximately 13.5% from approximately RMB20.8 million for the year ended 31 December 2019 to approximately RMB23.6 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in costs for exploring new customers.

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB31.3 million for year ended 31 December 2019 to approximately RMB47.6 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in the listing expenses of the Group from approximately RMB4.4 million to approximately RMB16.5 million during the same period.

Finance Costs

Finance costs of the Group increased from approximately RMB5.4 million for year ended 31 December 2019 to approximately RMB5.6 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in the average bank borrowings during the same period, including the additional bank borrowing of RMB25.0 million drawn down in April 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expenses

Income tax expenses of the Group decreased from approximately RMB21.2 million for year ended 31 December 2019 to approximately RMB20.9 million for the year ended 31 December 2020. Such decrease was primarily attributable to the decrease in the current tax from approximately RMB18.0 million to approximately RMB17.1 million during the same period, which was mainly due to the decrease in the profit before tax leading to the decrease in the taxable profit.

The effective income tax rate of the Group increased from approximately 28.7% for the year ended 31 December 2019 to approximately 36.7% for the year ended 31 December 2020, which was primarily attributable to the increase in the non-tax deductible listing expenses from approximately RMB4.4 million to approximately RMB16.5 million during the same period.

Profit

As a result of the foregoing, the profit for the year of the Group decreased by approximately RMB16.7 million or approximately 31.7% from approximately RMB52.7 million for the year ended 31 December 2019 to approximately RMB36.0 million for the year ended 31 December 2020.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

Save for the Group reorganisation as disclosed in the Prospectus, there were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2020.

Capital Commitments

As at 31 December 2020, the Group had capital commitments of approximately RMB12.9 million, which were mainly related to the acquisition of the plant and machineries, and the development of the design and research centre.

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: nil). The Group is currently not a party to any litigation that is likely to have a material adverse effect on the business, results of operations or financial condition.

Foreign Exchange Exposure

The Group's major operating subsidiary has foreign currency sales, which expose the Group to foreign currency risk. The Group also exposes to foreign currency risk relates principally to its trade receivables, trade and bills payables, other payables and bank balances denominated in foreign currencies other than the functional currency of the relevant Group entities. Foreign currencies are also used to settle expenses for overseas operations, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

As at 31 December 2020, the gearing ratio of the Group (defined as borrowings and lease liabilities divided by total equity and multiplied by 100%) was approximately 46.7% (2019: approximately 77.8%). Such decrease was mainly due to the increase in total equity of the Group.

Liquidity and Financial Resources and Capital Structure

The Group has principally funded the liquidity and capital requirements through capital contributions from the shareholders, bank borrowings and net cash generated from operating activities. As at 31 December 2020, the Group had bank balances and cash of approximately RMB129.2 million (2019: approximately RMB62.1 million). As at 31 December 2020, the current ratio of the Group was approximately 1.4 times (2019: approximately 1.1 times). Such increase was mainly due to the net proceeds from the Listing. The financial resources are presently available to the Group including bank borrowings and the net proceeds from the Listing, the Directors believe that the Group have sufficient working capital for the future requirements.

Upon the Listing, the Company had an issued share capital of HK\$6,000,000 divided into 600,000,000 shares (the “Share(s)”). The Company’s Shares were successfully listed on the Stock Exchange on 18 November 2020 (the “Listing Date”). There has been no change in the capital structure of the Group since the Listing Date up to the date of this annual report.

Charge on Assets

As at 31 December 2020, the Group’s assets amounted to approximately RMB30.4 million was charged (2019: approximately RMB27.3 million) to secure certain banking facilities for the Group.

	2020 RMB'000	2019 RMB'000
Right-of-use assets	6,372	6,518
Machineries	24,038	20,814
	30,410	27,332

Significant Investments Held

Except for the Company’s investment in various subsidiaries, the Company did not hold any significant investments as at 31 December 2020.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this annual report, during the Year, the Group had no future plan for material investments and capital assets.



MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Policies

As at 31 December 2020, the Group had a total of 472 full-time employees (2019: 468). The Group believes that employees are valuable assets that are crucial to the success of the Group. The Group generally pays its employees a fixed salary and discretionary year-end bonus and other allowances based on their respective positions and responsibilities. For the year ended 31 December 2020, staff costs of the Group amounted to approximately RMB39.1 million, representing mainly salaries, allowances and other benefits, and contributions to retirement benefit scheme.

Dividend

The Board recommended the payment of a final dividend of HK\$3.0 cents per Share for the year ended 31 December 2020. The final dividend is subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting of the Company to be held on Tuesday, 29 June 2021 (the “**AGM**”) and the final dividend will be payable on Wednesday, 18 August 2021 to the Shareholders whose names appear on the register of members of the Company on Thursday, 8 July 2021.

Subsequent Event after Reporting Period

After the financial year ended 31 December 2020, as at the date of this annual report, the Group has no significant event occurred which require additional disclosures or adjustments.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out as follows:

Executive Directors

Mr. Xue Shidong (薛士東), aged 58, is the founder of our Group. Mr. Xue was appointed as a Director on 22 September 2016 and re-designated as the chairman of our Board and an executive Director on 22 November 2019. He is mainly responsible for formulating the overall corporate directions, development strategies and business plans and overseeing the operations of our Group.

Mr. Xue had accumulated years of experience in the textile dyeing and finishing industry prior to the forming of our Group in 2011. He currently is a director of each subsidiary of our Group.

Mr. Wang Bin (王斌), aged 50, has joined our Group since April 2016. Mr. Wang was appointed as an executive Director on 22 November 2019. He is mainly responsible for operations and production management of our Group.

From April 1998 to January 2001, he worked for Jiangyin Kangyuan Printing & Dyeing Company Limited (江陰市康源印染有限公司) as a workshop manager. From February 2001 to December 2003, he worked for Changzhou Dongheng Weaving and Dyeing Group Company Limited (常州東恒染織集團有限公司) as a workshop manager. From April 2004 to February 2016, he worked for Changzhou Shengyu Textile Printing and Dyeing Company Limited (常州市盛宇紡織印染有限公司) as the head of production department. In April 2016, Mr. Wang joined our Group and worked as the vice production manager of Yadong (Changzhou) Science & Technology Co., Ltd. (“**Yadong (Changzhou)**”). He currently is a director of Ya Dong (Hong Kong) International Trading Company Limited (“**Yadong (Hong Kong)**”) and Yadong (Changzhou).

Mr. Qiu Jianyu (邱建宇), aged 48, has joined our Group since March 2014. Mr. Qiu was appointed as an executive Director on 22 November 2019. He is mainly responsible for budgeting, financial and accounting management of our Group.

Mr. Qiu attended secondary education in the PRC. From September 2001 to September 2003, he worked for Changzhou Wujin branch of PICC Property and Casualty Company Limited (中國人民財產保險股份有限公司常州市武進支公司) as a department head. Prior to joining our Group, Mr. Qiu has worked for Changzhou Dongxia Real Estate Agency Ltd. (常州市東霞房地產代理有限公司) (“**Changzhou Dongxia**”) as the head of finance department since September 2003. In March 2014, Mr. Qiu joined our Group and served as supervisor of Yadong (Changzhou) until August 2016. He was also appointed as the vice financial manager of Yadong (Changzhou) in January 2015. He currently is a director of Yadong (Hong Kong) and Yadong (Changzhou).

Mr. Qiu obtained the Chief Financial Officer Position Certificate (財務總監崗位證書) issued by Cambridge International Partner in 2011.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang Yeping (張葉萍), aged 51, has joined our Group since March 2014. Ms. Zhang was appointed as an executive Director on 22 November 2019. She is mainly responsible for marketing and sales and customer relationship management of our Group.

Ms. Zhang completed the professional studies in weaving at Jiangsu Changzhou Textile Industry School (江蘇省常州紡織工業學校) in July 1988 and the professional studies in computer information management at Nanjing University (南京大學) in the PRC in July 2001. Prior to joining our Group, Ms. Zhang has worked for Changzhou Dongxia as a sales manager since April 2004. Ms. Zhang has concurrently served as a director and a vice sales manager of Yadong (Changzhou) since March 2014 and January 2015, respectively. Ms. Zhang currently is also a director of Yadong (Hong Kong).

Mr. Jin Rongwei (金榮偉), aged 46, has joined our Group since January 2015. Mr. Jin was appointed as an executive Director on 22 November 2019. He is mainly responsible for procurement and fixed assets management and maintenance of our Group.

From May 2004 to December 2014, he worked for Changzhou Dongxia as the head of electrical and mechanical department. In January 2015, Mr. Jin joined our Group and has been the vice administrative manager of Yadong (Changzhou) since then. He currently is also the supervisor of Yadong (Changzhou).

Independent Non-Executive Directors

Mr. Zhu Qi (朱旗), aged 49, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Zhu obtained a university diploma in economic management from Nanjing Institute of Politics (南京政治學院) in the PRC in June 2007. Since February 2010, he has worked for Changzhou Sheng Rui Tax Advisory Company Limited (常州市升瑞稅務師事務所有限公司) as an executive director and general manager. Mr. Zhu currently is an independent director of Jiangsu Lidao New Material Co., Ltd. (江蘇麗島新材料股份有限公司) (stock code: 603937), the shares of which are listed on the Shanghai Stock Exchange.

Mr. Zhu was admitted as member of The Chinese Institute of Certified Public Accountants in November 2009.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Kin Cheong Kelvin (何建昌), aged 53, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Ho obtained a bachelor degree of business administration from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in November 1990. From December 2000 to October 2003, he worked for Hanny Magnetics Limited, a subsidiary of Hanny Holdings Limited (currently known as Master Glory Group Limited) (stock code: 0275) at which his last position was financial analyst. From April 2004 to September 2005, he worked for Garron International Limited (currently known as China Investment and Finance Group Limited) (stock code: 1226) as the company secretary and financial controller. From August 2008 to January 2010, he worked for FU JI Food and Catering Services Holdings Limited (currently known as Fresh Express Delivery Holdings Group Co., Ltd) (stock code: 1175) as company secretary and chief financial officer. From April 2010 to March 2012 and from May 2012 to December 2014, he worked for Greens Holdings Ltd (stock code: 1318) at which his last position was company secretary and chief financial officer. From January 2016 to December 2017, he worked for Sand River Golf Club Limited as chief financial officer. From April 2019 to May 2020, he worked for Richly Field China Development Limited (stock code: 0313) as company secretary and chief financial officer. Since August 2020, Mr. Ho has been the company secretary and chief financial officer of HongDa Financial Holding Limited (currently known as China Wood International Holding Co., Limited) (stock code: 1822).

Mr. Ho was an independent non-executive director of Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) (stock code: 0199) from October 2001 to May 2003 and a non-executive director of HongDa Financial Holding Limited (currently known as China Wood International Holding Co., Limited) (stock code: 1822) from April 2016 to April 2017. Since 6 August 2018, Mr. Ho has been an independent non-executive director of CECEP COSTIN New Materials Group Limited (In Provisional Liquidation) (stock code: 2228). Since 1 July 2020, Mr. Ho has been an independent non-executive director of Rosan Resources Holdings Limited (stock code: 0578). Since 5 August 2020, he has been an independent non-executive director of Green Leader Holdings Group Limited (stock code: 0061). Since 22 October 2020, he has been an independent non-executive director of JW (Cayman) Therapeutics Co. Ltd (stock code: 2126).

Mr. Ho was admitted as an associate member of the Hong Kong Society of Accountants (currently known as The Hong Kong Institute of Certified Public Accountants) in June 1997 and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom in April 2002.

Mr. Wang Hongliang (王洪亮), aged 48, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Wang obtained a bachelor degree in law from Northwest University of Political Science and Law (西北政法大學) in the PRC in July 1995. He subsequently obtained a master degree and a doctoral degree in law from China University of Political Science and Law (中國政法大學) in the PRC in July 1998 and July 2001, respectively. He obtained a doctoral degree in law from Albert Ludwig University of Freiburg in Germany in July 2004. Since October 2004, he has worked for School of law of Tsinghua University and currently is a professor. From June 2016 to March 2021, Mr. Wang had been an independent director of CITIC Guoan Information Industry Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000839). Since October 2018, Mr. Wang has been an independent director of Inner Mongolia First Machinery Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600967). Since January 2020, Mr. Wang has been an independent director of Guangxi Wuzhou Zhongheng Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600252).



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Lu Jigang (魯積剛), aged 49, is the head of our technical department. He is mainly responsible for overseeing textile dyeing, printing and finishing processes of our Group in the PRC.

Mr. Lu completed the professional studies in dyeing works at Hubei Textile Industrial School (湖北省紡織工業學校) in July 1992. From March 2006 to December 2014, he worked for Changzhou Dongxia as the head of technical department. In January 2015, Mr. Lu joined our Group and has worked as the head of technical department of Yadong (Changzhou) since then.

Ms. Zhou Jie (周潔), aged 44, is the head of our administration department. She is mainly responsible for overseeing the administration and human resources management of our Group.

Ms. Zhou attended the Chinese Trainee Senior Technical Institute (中國研修生高等技能學院) in Japan between 1999 and 2002. From June 2007 to December 2011, she worked for Changzhou Mingqi Garment Company Limited* (常州茗企服飾有限公司) as a manager. From February 2012 to December 2014, she worked for Changzhou Dongxia as a management associate. In January 2015, Ms. Zhou joined our Group and has worked as the head of administration department of Yadong (Changzhou) since then.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended 31 December 2020.

Principal Business

Our Group principally engage in the design, process and sale of textile fabric products. Our textile fabric products can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. Our textile fabric products feature a variety of different colours, patterns, textures and functionalities. We sell our textile fabric products mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the year ended 31 December 2020, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators. During the year ended 31 December 2020, our textile fabric products were mainly sold or distributed in the PRC, Japan and certain other markets in Asia, such as Taiwan, Vietnam, Bangladesh and Indonesia.

Results

The results of the Group for the year ended 31 December 2020 are set out in the consolidated financial statements on pages 82 to 136 of this annual report.

Dividends Distribution

The Company has adopted a dividend policy (the “**Dividend Policy**”) on 21 October 2020. The Company currently does not have any predetermined dividend payout ratio. The Board shall take into account the followings when proposing any dividend payout as written in the Dividend Policy:

- the actual and expected financial performance of the Group;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- economic conditions and other internal and external factors that may have an impact on the business or financial performance and position of the Group;
- business strategies of the Group, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;
- the current and future operations, liquidity position and capital requirements of the Group;
- statutory and regulatory restrictions; and
- other factors that the Board deems appropriate.

In accordance with the articles of association of the Company (the “**Articles of Association**”), 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.



REPORT OF DIRECTORS

The Board has resolved to declare a final dividend of HK\$3.0 cents per Share for the year ended 31 December 2020. The proposed final dividend is subject to the consideration and approval by the Shareholders at the AGM. The final dividend is payable to the Shareholders whose names are listed in the register of members of the Company on Thursday, 8 July 2021, in an aggregate amount of approximately HK\$18.0 million. Once approved by the AGM, the final dividend is expected to be distributed on or before Wednesday, 18 August 2021.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

Annual General Meeting

The AGM will be held on Tuesday, 29 June 2021. The notice of the AGM will be published and dispatched to the Shareholders in due course in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Closure of Register of Members

In order to determine the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 24 June 2021 to Tuesday, 29 June 2021, both days inclusive, during which period no transfer of Shares will be registered. The record date for entitlement to attend and vote at the AGM is Tuesday, 29 June 2021. In order to be qualified to attend and vote at the AGM, all completed transfers forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 23 June 2021.

In order to determine the entitlement to the proposed final dividends, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Tuesday, 6 July 2021 to Thursday, 8 July 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order to be qualified to obtain final dividends, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 5 July 2021.

Business Review

A fair review of the business and a discussion and analysis of the Group's performance during the year ended 31 December 2020 and the material factors underlying its results and financial position as well as the outlook of the Group's business are provided in the "Management Discussion and Analysis" on pages 7 to 12 of this annual report. Description of the principal risks and uncertainties faced the Group can be found throughout this annual report. Particulars of important events affecting the Group that have occurred after 31 December 2020, if any, can also be found in the notes to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

In addition, more details regarding the Group's performance by reference to financial key performance indicators and environmental policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in the "Management Discussion and Analysis" of this annual report. Each of the above-mentioned relevant contents form an integral part of this Report of Directors.

Environmental Policy

With an aim to improve our sewage treatment efficiency, uphold our values in maintaining an environmentally friendly manufacturing process, and reduce our sewage treatment fees, we carried out technical upgrade of our on-site sewage treatment system. Such technical upgrade mainly involved the acquisition of sewage treatment equipment and upgrade of technology. Such upgrade of our sewage treatment system had not caused any major interruption to our operations and production. As advised by our Directors, our business operations have had no significant adverse impact on the surrounding environment during the year ended 31 December 2020, which our Directors believe is mainly attributable to the implementation of the aforesaid environmental policies and measures and the effectiveness of the continuous technical upgrade carried out to our on-site sewage treatment system and our adherence to our environmental policies and measures.

Financial Summary

A summary of the Company's results, assets and liabilities for the last four financial years are set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

Compliance with Laws and Regulations

To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries during the year ended 31 December 2020.

Relationship with Stakeholders

Employees

As at the date of this annual report, we had a total of 472 employees, of which 471 were based in the PRC and one was based in Hong Kong. We generally pay our employees a fixed salary and discretionary year-end bonus and other allowances based on their respective positions and responsibilities. We recruit our employees through external recruitment and internal referral based on a number of factors such as their experience in the textiles and dyeing industry, their educational background, our operational needs and vacancies available. In particular, we require our accounting and finance, technical support personnel to have the relevant qualifications, certificates and/or licences requisite to discharge the job duties prior to joining our Group.

We have a labour union to protect our employees' interest and benefits, assist us in attaining our economic objectives, encourage employees to participate in management decisions and assist us in resolving disputes, if any, with the union members.



REPORT OF DIRECTORS

We generally enter into employment contracts with each of our employees covering matters such as wages, employee benefits, employment scope and grounds for termination. We also enter into confidentiality and non-compete agreements with members of our senior management, personnel responsible for the design and development activities and/or other employees who have access to secrets or confidential information of our Group.

Our employees undergo internal training to enhance, among others, their technical skills, knowledge of industry quality standards, procedures and protocols relating to quality control, environmental protection, production safety, occupational health and safety standards and the applicable laws and regulations.

We believe that we have maintained a good working relationship with our employees. We do not outsource our labour services. During the year ended 31 December 2020 and up to the date of this annual report, we did not experience any major labour disputes with our employees, disruption to our operations due to labour disputes, work stoppages or strikes, or work safety-related incidents that led to disruptions in our Group's operations, or receive any notices or orders from relevant government authorities or third parties, or receive any claims from our employees.

Customers

Our customers purchasing our textile fabric products principally consisted of garment manufacturers as well as trading companies. Our customers were mainly textile manufacturers and trading companies. We have established stable relationships with our major customers.

We have established good business relationships with some apparel brand operators that are internationally or nationally well-known. Some of our customers (including major customers) are the designated garment manufacturers or the designated trading companies of apparel brand operators who procure raw materials from us at the instructions of such apparel brand operators.

For the year ended 31 December 2020, the Group's sales to its five largest customers accounted for 33.6% of the Group's total sales and sales to the largest customer accounted for 8.4%.

Suppliers

The principal raw materials for our production process comprise two broad categories, namely (i) greige fabrics; and (ii) textile dyes and additives such as colourants and dyeing auxiliaries. We purchase our raw materials from local suppliers in the PRC. Our principal raw materials are available from a large number of local suppliers and we have more than one supplier for each type of raw material to reduce reliance on any single supplier.

We consider that it is commercially beneficial to maintain a stable and close business relationship with our suppliers. We have maintained stable business relationships with our top five suppliers during the year ended 31 December 2020.

While it is our strategy to concentrate our purchases of raw materials from a few reliable suppliers so as to ensure the quality and reliability of our raw materials, we generally obtain price quotations from at least three potential suppliers and compare the pricing and terms offered by such suppliers before we place our purchases. We also maintain a list of readily available alternative suppliers for each type of raw materials to reduce over-reliance on any one supplier and to avoid having any disruptions to our supply of raw materials. To avoid any reliance on any one supplier, it is our policy that we generally will not procure from any one single supplier for more than 30% of our total purchasing needs at any one time.

REPORT OF DIRECTORS

Since 2018, we had been engaging a supplier (a group of companies whose holding company is listed on the Stock Exchange and whose permitted scope of business includes the manufacturing and sales of yarns, grey fabrics, garment fabrics as well as garments, with production facilities located in the PRC and Vietnam) as a supplier to supply the raw materials and manufacture the textile fabric products. Such supplier sources raw materials on its own and manufactures textile fabric products in accordance with our specifications.

For the year ended 31 December 2020, purchases from the Group's five largest suppliers accounted for 66.7% of the Group's total purchases and purchases from the largest supplier accounted for 23.1%.

Save as disclosed in this annual report, during the year ended 31 December 2020, none of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors own more than 5% of the number of issued Shares) had any interest in the Company's five largest customers and suppliers.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 31 to the consolidated financial statements.

As at 31 December 2020, the issued share capital of the Company was 600,000,000 Shares.

Reserves

Details of movements in the reserves of the Group during the year ended 31 December 2020 are set out in note 32 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2020, pursuant to the relevant laws and regulations, the Company has distributable reserves of RMB188.6 million in total available for distribution, of which RMB15.1 million has been proposed as final dividend payment for the Year.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company as at 31 December 2020 are set out in note 26 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements.



REPORT OF DIRECTORS

Sufficiency of Public Float

As at the date of this annual report and based on the information publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

Directors and Senior Management

The Directors and senior management of the Company during the year ended 31 December 2020 and up to the date of this annual report are set out below:

Name	Position in the Company
Directors	
Mr. Xue Shidong	Chairman and executive Director
Mr. Wang Bin	Executive Director
Mr. Qiu Jianyu	Executive Director
Ms. Zhang Yeping	Executive Director
Mr. Jin Rongwei	Executive Director
Mr. Zhu Qi	Independent non-executive Director
Mr. Ho Kin Cheong Kelvin	Independent non-executive Director
Mr. Wang Hongliang	Independent non-executive Director
Senior management	
Mr. Lu Jigang	Head of technical department
Ms. Zhou Jie	Head of administration department

To the best of the Board's knowledge, information and belief, the Directors and senior management do not have any relationship amongst them.

In accordance with articles 83(3) and 84(1) of the Articles of Association, Mr. Xue Shidong, Mr. Wang Bin, Mr. Qiu Jianyu, Ms. Zhang Yeping, Mr. Jin Rongwei, Mr. Zhu Qi, Mr. Ho Kin Cheong Kelvin and Mr. Wang Hongliang will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the AGM.

None of the retiring Directors has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Biographical details of the Directors and senior management are set out on pages 13 to 16 of this annual report.

Directors' Service Contracts and Appointment Letters

Each of the executive Directors has entered into a service agreement with the Company under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the independent non-executive Director or the Company. The appointment of Directors is subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors has or is proposed to have a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent and remain so as of the date of this annual report.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in Shares and underlying Shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares/underlying Shares held ⁽¹⁾	Approximate percentage of shareholding interest in the Company (%) ⁽¹⁾
Mr. Xue Shidong	Interest in a controlled corporation ⁽²⁾	450,000,000 (L)	75%

REPORT OF DIRECTORS

Interests in associated corporation of the Company

Name of Director	Associated Corporation	Capacity/Nature of interest	Number of shares held/ interested	Percentage of shareholding
Mr. Xue Shidong	Oriental Ever Holdings Limited	Beneficial interest	1	100%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Oriental Ever Holdings Limited, which is owned as to 100% by Mr. Xue Shidong, directly held 450,000,000 Shares. By virtue of the SFO, Mr. Xue Shidong was deemed to have an interest in the Shares held by Oriental Ever Holdings Limited.

Save as disclosed above, as at 31 December 2020, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2020, to the best knowledge of the Directors or chief executives of the Company, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests in Shares and underlying Shares of the Company

Name of Shareholder	Capacity/Nature of interest	Total number of Shares/underlying Shares held ⁽¹⁾	Approximate percentage of shareholding interest in the Company (%) ⁽¹⁾
Oriental Ever Holdings Limited	Beneficial interest	450,000,000 (L)	75%
Ms. Hu Beixia	Interest of spouse ⁽²⁾	450,000,000 (L)	75%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Ms. Wu Beixia is the spouse of Mr. Xue Shidong. By virtue of the SFO, Ms. Wu Beixia is deemed to be interested in all the Shares held by Mr. Xue Shidong.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any other persons (other than the Directors) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2020, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Issuance of Debentures

During the year ended 31 December 2020, no issuance of debentures was made by the Company.

Directors' and Controlling Shareholders' Interests in Competing Businesses

To the knowledge of the Board, none of the Directors or their associates had any interests in any business which competes or is likely to compete, directly or indirectly, with the businesses of the Group for the year ended 31 December 2020.

Further, Oriental Ever Holdings Limited (東永控股有限公司), a controlling shareholder of the Company, and Mr. Xue Shidong, the executive Director and a controlling shareholder of the Company (collectively, the “**Controlling Shareholder**”) have entered into a deed of non-competition in favour of the Company (for itself and as trustee for the benefit of each of its subsidiaries) on 21 October 2020 (the “**Deed of Non-competition**”), under which the Controlling Shareholders have undertaken to the Company that they will not, and will procure that none of their respective close associates (other than members of our Group) will, directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, partnership, joint venture or other contractual arrangement, among other things, carry on, participate or be interested, engaged, concerned or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently engaged by the Group, and any other new business which the Group may undertake from time to time after the Listing (the “**Restricted Business**”), provide support in any form to persons or entities (other than members of our Group) to engage in the restricted business and where they become aware of such engagement of the Restricted Business they shall notify our Company in writing immediately. For details of the Deed of Non-competition, please refer to “Relationship with Controlling Shareholders — Non-competition Undertakings” in the Prospectus.

The independent non-executive Directors have reviewed the compliance with non-competition undertaking by the Controlling Shareholders under the Deed of Non-competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2020. Each of the Controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-competition.

REPORT OF DIRECTORS

Connected Transaction

Leasing of factory premises, office buildings, ancillary dormitory buildings and underlying land to our Group

Changzhou Dongxia, which was wholly-owned by Mr. Xue Shidong (one of the controlling shareholders of the Company), had leased and sub-leased certain premises in Changzhou city, Jiangsu province, the PRC (the “**Properties**”) to Yadong (Changzhou).

The Lease Agreements between Yadong (Changzhou) and Changzhou Dongxia

On 30 December 2018, Yadong (Changzhou) (as lessee) entered into a lease agreement and a sub-lease agreement, the latter of which was renewed on 3 May 2020 (collectively, the “**Lease Agreements**”) with Changzhou Dongxia (as lessor), to lease the Properties stated below in accordance with the Lease Agreements. The following table summarises the major terms of the Lease Agreements:

Lessor	Lessee	Properties	Annual rent	Term
Changzhou Dongxia	Yadong (Changzhou)	1. Factory premises, office buildings, ancillary dormitory buildings and the underlying land located in No. 381, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC (中國江蘇省常州市天寧區勞動東路381號)	RMB3.2 million	31 December 2018 to 30 December 2021 with an option to renew the lease on the same terms
		2. Certain parts of the factory premises and dormitory building located in No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC* (中國江蘇省常州市天寧區勞動東路379號)	RMB0.8 million	1 July 2020 to 30 June 2023 with an option to renew the lease on the same terms

For details of our leased properties from Changzhou Dongxia please refer to “Business — Land and property interest — Leased properties” in the Prospectus.

Listing Rules implications

Since Mr. Xue Shidong is an executive Director and one of the controlling shareholders of the Company, and that Changzhou Dongxia is wholly-owned by Mr. Xue Shidong, Changzhou Dongxia is a connected person of the Company under the Listing Rules. As such, the transaction contemplated under the Lease Agreements constitutes connected transaction of our Company under Chapter 14A of the Listing Rules.

Our Directors (including the independent non-executive Directors) consider that the Lease Agreements were entered into in the ordinary and usual course of business of our Group and are on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Related Party Transactions

Details of the related party transactions entered into by the Company during the year ended 31 December 2020 are set out in note 35 to the consolidated financial statements.

During the year ended 31 December 2020, save for the transactions as set out above and note 35(c) to the consolidated financial statements for which the relevant disclosure requirements under Chapter 14A of the Listing Rules have been complied with, no other related party transactions listed in note 35 to the consolidated financial statements constituted a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, the Group had not entered into any connected transaction which was required to be disclosed under the Listing Rules.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in this annual report, no Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significance in relation to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year ended 31 December 2020 or at the end of the year ended 31 December 2020.

Contract of Significance

Save as disclosed in this annual report, no contract of significance was entered into between the Company, or one of its subsidiary companies, and a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2020.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020 between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

Directors' Permitted Indemnity Provision

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions arising out of corporate activities against the Directors and officers of the Company and its associated companies during the year ended 31 December 2020.

Except for such insurances, at no time during the year ended 31 December 2020 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company or associated companies.



REPORT OF DIRECTORS

Staff, Emolument Policy and Directors' Remuneration

As of the date of this annual report, we had a total of 472 employees, of which 471 were based in the PRC and one was based in Hong Kong. We generally pay our employees a fixed salary and discretionary year-end bonus and other allowances based on their respective positions and responsibilities. We recruit our employees through external recruitment and internal referral based on a number of factors such as their experience in the textiles and dyeing industry, their educational background, our operational needs and vacancies available. In particular, we require our accounting and finance, technical support personnel to have the relevant qualifications, certificates and/or licences requisite to discharge the job duties prior to joining our Group.

The remuneration committee of the Company (the “**Remuneration Committee**”) was set up for reviewing the Group's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

Details of the emoluments of the Directors and five highest paid individuals for the year ended 31 December 2020 are set out in notes 11 and 12 to the consolidated financial statements.

Share Option Scheme

The Company adopted a share option scheme (the “**Share Option Scheme**”) on 21 October 2020 (the “**Adoption Date**”).

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(a) Who may join and basis of eligibility

Our Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(b) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the highest of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(c) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

(d) Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) and (iii) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the date of this annual report. Therefore, it is expected that our Company may grant options in respect of up to 60,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 60,000,000 Shares from time to time) representing 10% of Share in issue as at the date of this annual report, to the participants under the Share Option Scheme.
- (ii) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.
- (iii) Our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.
- (iv) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.



REPORT OF DIRECTORS

(e) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of our Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(f) Performance targets

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(g) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof. As at 31 December 2020, the remaining life of the Share Option Scheme is approximately nine years and nine months.

(h) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

During the year ended 31 December 2020, no share option was granted, exercised, lapsed or cancelled.

Equity-Linked Agreements

Save as disclosed in this annual report, no equity-linked agreement was entered into by the Company at any time during or subsisted at the end of the year ended 31 December 2020.

Charitable Donations

There was no donation made by the Group during the year ended 31 December 2020.

Purchase, Sale or Redemption of Listed Securities

During the period from the Listing Date to 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Use of Net Proceeds from Listing

The net proceeds from the Listing received by the Company, after deducting the underwriting commissions and expenses paid by the Company, are approximately HK\$81.9 million (the “**Net Proceeds**”). The Net Proceeds are intended to be applied in accordance with the proposed application set out in the “Future plans and use of proceeds” in the Prospectus. The below table sets out the proposed application and actual usage of the Net Proceeds as at 31 December 2020:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Balance of		
			Amount of Net Proceeds utilised up to 31 December 2020	Net Proceeds unutilised as at 31 December 2020	Intended timetable for use of the unutilised Net Proceeds
(i) Expansion of production capacity and product coverage by upgrading and improving the existing production lines and technical capabilities	HK\$51.7 million	63.1%	—	HK\$51.7 million	By 31 December 2021
(ii) Acquisition of a company with existing production plant in Jiangsu province, the PRC	HK\$22.0 million	26.9%	—	HK\$22.0 million	By 31 December 2021
(iii) General corporate purposes and working capital	HK\$8.2 million	10%	—	HK\$8.2 million	By 31 December 2021

Since the Listing Date and up to the date of this annual report, the Net Proceeds had not yet been utilised. The Group will start to utilise the Net Proceeds in accordance with the intended purposes as set out in the Prospectus.

Compliance with the Corporate Governance Code

The Company is committed to maintaining high corporate governance standards. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 33 to 44 of this annual report.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”), together with the management and the external auditor, had reviewed the accounting policies and practices adopted by the Group as well as the internal control matters, and had also reviewed the Group’s consolidated financial statements for the year ended 31 December 2020.



REPORT OF DIRECTORS

Auditor

The consolidated financial statements of the Group for the ended 31 December 2020 have been audited by SHINEWING (HK) CPA Limited.

SHINEWING (HK) CPA Limited shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the AGM.

The auditor of the Company has not changed in the past three years.

On behalf of the Board

Mr. Xue Shidong

Chairman of the Board

PRC, 30 March 2021

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders and to enhance corporate value and accountability.

Since the Shares were listed on the Main Board of the Stock Exchange on the Listing Date, the Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and complied with the applicable code provisions throughout the period from the Listing Date to the date of this annual report.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

Board of Directors

The Board oversees the Group’s businesses, strategic decisions and performance and takes decisions objectively in the best interest of the Company.

The Board has delegated the authority and responsibilities for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company’s affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the nomination committee (the “**Nomination Committee**”). The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. All Board committees are provided with sufficient resources to perform their duties.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises eight Directors, consisting of five executive Directors and three independent non-executive Directors. The current members of the Board are listed as follows:

Name	Position in the Company
Mr. Xue Shidong	Chairman and executive Director
Mr. Wang Bin	Executive Director
Mr. Qiu Jianyu	Executive Director
Ms. Zhang Yeping	Executive Director
Mr. Jin Rongwei	Executive Director
Mr. Zhu Qi	Independent non-executive Director
Mr. Ho Kin Cheong Kelvin	Independent non-executive Director
Mr. Wang Hongliang	Independent non-executive Director

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.



CORPORATE GOVERNANCE REPORT

The biographical information of the Directors is set out in the section headed “Biographies of Directors and Senior Management” of this annual report.

Save as disclosed in the Prospectus and this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be segregated and should not be performed by the same individual. However, the Company at present does not have a chief executive officer. The chairman of the Company is Mr. Xue Shidong.

The overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels and the Board believes that the current management structure enables effective and efficient overall strategic planning for the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Independent Non-Executive Directors

Since the Listing Date to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent and remain so as of the date of this annual report.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which are subject to termination in accordance with their respective terms.

Each of the independent non-executive Directors was engaged on a letter of appointment for a term of three years commencing from the Listing Date and shall be subject to retirement by rotation once every three years.

All executive Directors and independent non-executive Directors will hold office subject to provision of retirement and rotation of directors under the Articles of Association. Pursuant to the Articles of Association, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation and be eligible for re-election, provided that every Director is subject to retirement at least once every three years. Any person appointed by the Board to fill a temporary vacancy on or as an addition to the Board shall hold office only until the next general meeting of the Company, and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decisions on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Board has clearly set out the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the above said circumstances and ensures they remain appropriate.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal action taken against them arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

CORPORATE GOVERNANCE REPORT

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2020, the Company organised training sessions conducted by the legal advisers for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, continuing connected transaction, disclosure of interests and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors for the year ended 31 December 2020 are summarised as follows:

Name of Directors	Attending training, briefings, seminars, conferences and workshops relevant to the Company's industry and business, director's duties and/or corporate governance	Reading news alerts, newspapers, journals, magazines and publications relevant to the Company's industry and business, director's duties and/or corporate governance
Executive Directors		
Mr. Xue Shidong	√	√
Mr. Wang Bin	√	√
Mr. Qiu Jianyu	√	√
Ms. Zhang Yeping	√	√
Mr. Jin Rongwei	√	√
Independent non-executive Directors		
Mr. Zhu Qi	√	√
Mr. Ho Kin Cheong Kelvin	√	√
Mr. Wang Hongliang	√	√

Board Committees

The Board has established three committees namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which has been delegated responsibilities and reports back to the Board. The roles and functions of these committees are set out in their respective terms of reference. The terms of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the CG Code where applicable. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee comprises three members, including three independent non-executive Directors, namely Mr. Ho Kin Cheong Kelvin, Mr. Zhu Qi and Mr. Wang Hongliang. Mr. Ho Kin Cheong Kelvin is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, provide advice and comments to the Board and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the period from the Listing Date and up to 31 December 2020, the Audit Committee held one meeting, during which matters such as significant issues on the financial reporting, operational and compliance controls, effectiveness of the risk management and internal control systems and internal audit function were discussed.

The Audit Committee also met the external auditors once without the presence of the executive Directors.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors, namely Mr. Zhu Qi and Mr. Ho Kin Cheong Kelvin and one executive Director, namely Mr. Xue Shidong. Mr. Zhu Qi is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management; establishing a formal and transparent procedure for developing remuneration policy to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the period from the Listing Date and up to 31 December 2020, the Remuneration Committee held one meeting, during which matters such as the remuneration packages of the Directors and other related matters were discussed.

Nomination Committee

The Nomination Committee comprises three members, including one executive Director, namely Mr. Xue Shidong and two independent non-executive Directors, namely Mr. Zhu Qi and Mr. Wang Hongliang. Mr. Xue Shidong is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and diversity required of the Board annually and making recommendations on any proposed change to the Board to complement the Company's corporate strategy; monitoring the implementation of diversity policy for Board members, and assessing the independence of independent non-executive Directors.

During the period from the Listing Date and up to 31 December 2020, the Nomination Committee held one meeting, during which matters such as structure, size and composition of the Board were discussed. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.



CORPORATE GOVERNANCE REPORT

In accordance with the Articles of Association, Directors shall be elected by the general meeting with a term of three years and may serve consecutive terms if re-elected. Any person appointed by the Board to fill a temporary vacancy or as an addition to the Board shall hold office only until the next general meeting of the Company, and shall then be eligible for re-election.

At the expiry of a Director's term, the Director may stand for re-election and re-appointment for further term. Subject to the compliance of the provisions of the relevant laws and administrative regulations, the general meeting of the Shareholders may dismiss by ordinary resolution any Directors of whom the term of office has not expired (the claim for compensation under any contracts shall however be not affected).

The procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee will identify individuals suitably qualified to become Directors and make recommendations to the Board on the selection of individuals. The Nomination Committee will determine the composition of Board members based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will also make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular the chairman of the Board and the general manager), taking into account the Company's corporate strategy and mix of skills, knowledge, experience and diversity needed in the future.

Board Diversity Policy and Nomination Policy

The Board has adopted the board diversity policy (the "**Board Diversity Policy**") which sets out the basic principles to be followed to ensure that the board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

The Board has also adopted the nomination policy (the "**Nomination Policy**") which sets out the nomination procedures for selecting candidates for election as Directors. The policy is adopted by the Board and administered by the Nomination Committee.

Selection of Board candidates shall be based on amongst others, character and integrity, qualifications, willingness to devote adequate time and a range of diversity perspectives with reference to the Company's business model and specific needs.

Selection and recommendation of candidates will be based on the nomination procedures and the process and criteria adopted by the Nomination Committee and a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services, personal integrity and time commitments of the proposed candidates. The Company should also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee shall review the Board Diversity Policy and the Nomination Policy and the measurable objectives periodically, and as appropriate, to ensure the continued effectiveness of the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the period from the Listing Date to the date of this annual report, the Board had reviewed the Company's policies and practices on compliance with legal and regulatory requirements, training and continuous professional development of Directors and senior management, the corporate governance policies and practices, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

Board Meetings and Directors' Attendance Records

Since the Listing Date, the Company had adopted the practice of holding Board meetings regularly with at least four times a year, and at approximately quarterly intervals with active participation of majority of the Directors, either in person or through electronic means of communication.

The attendance records of each Director at the Board and Board committee meetings of the Company held during the year ended 31 December 2020 and up to the date of this annual report are set out below:

Name of Directors	Attendance/Number of Meeting(s)				
	Board meeting(s)	Audit Committee Meeting(s)	Remuneration Committee meeting(s)	Nomination Committee meeting(s)	General meeting(s)
Executive Directors					
Mr. Xue Shidong	1/1	N/A	1/1	1/1	N/A
Mr. Wang Bin	1/1	N/A	N/A	N/A	N/A
Mr. Qiu Jianyu	1/1	N/A	N/A	N/A	N/A
Ms. Zhang Yeping	1/1	N/A	N/A	N/A	N/A
Mr. Jin Rongwei	1/1	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Zhu Qi	1/1	1/1	1/1	1/1	N/A
Mr. Ho Kin Cheong Kelvin	1/1	1/1	1/1	N/A	N/A
Mr. Wang Hongliang	1/1	1/1	N/A	1/1	N/A

Note: The Company was listed on 18 November 2020, and hence no annual general meeting was held in 2020.

Notices of not less than 14 days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and Board committee meetings, reasonable notice will be generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.



CORPORATE GOVERNANCE REPORT

The senior management attends all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The company secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have potential or actual conflicts of interests.

Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. Our internal control and risk management systems cover, among others, corporate governance, operations, management, legal matters, finance and auditing. We engaged an independent internal control consultant to review our internal control system and we have implemented and will continue to implement the relevant suggestions they proposed/propose. We engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review of the adequacy and effectiveness of the risk management and internal control systems over our major business processes.

The Internal Control Consultant conducted a follow-up review (the "**Internal Control Review**") on, among others, control environment, risk management, information and communication, monitoring of controls, operation level controls such as revenue cycle, procurement cycle, expenditure cycle, etc. and provided recommendations to enhance the internal control system of our Group.

We have adopted and implemented the recommendations provided by the Internal Control Consultant and the Internal Control Consultant has not identified any material findings which may have material impact on the effectiveness of our internal control system.

CORPORATE GOVERNANCE REPORT

Based on the result of the Internal Control Review, the Board, as supported by the Audit Committee, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, internal audit function, adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

Whistleblowing Policy

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee shall review such arrangement regularly and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

Inside Information

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date up to the date of this annual report.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code.

Directors' Responsibility in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements relating to disclosure of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.



CORPORATE GOVERNANCE REPORT

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

Auditor's Remuneration

The total fee paid/payable to the external auditors of the Company, SHINEWING (HK) CPA Limited, in respect of audit services and non-audit services for the year ended 31 December 2020 is set out below:

Category of services	Fee paid/ payable RMB'000
Audit services	818
Non-audit services	—
Total	818

Company Secretary

Ms. Chou Kwai Wah is the company secretary of the Company. Ms. Chou joined corporate services department of Trident Corporate Services (Asia) Limited in August 2010 and currently serves as a senior manager. Ms. Chou has over 22 years of experience in the company secretarial field. The primary contact person in the Company for Ms. Chou in relation to corporate secretarial matters is Mr. Qiu Jianyu, an executive Director.

During the year ended 31 December 2020, Ms. Chou has undertaken not less than 15 hours of relevant professional training.

Communications with Shareholders and Investors

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The general meetings of the Company provide a platform for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees, are available to answer Shareholders' questions at general meetings. The external auditor of the Company is also invited to attend the annual general meetings of the Company to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company maintains a website (www.yadongtextile.com), where information and updates on the Company's financial information, corporate governance practices, biographical information of the Board and other information are available for public access.

Shareholders' Rights

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene Extraordinary General Meeting

Article 58 of the Articles of Association provides that any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

If the Board does not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting to be held two months after the deposit of such requisition, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for shareholders to propose a person for election as a director

For proposal of a person for election as Director, pursuant to Article 85 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless proposed by the Board pursuant to the recommendation of the Nomination Committee, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Based on this, if a Shareholder wishes to propose a person (the "**Candidate**") for election as a Director at a general meeting, he/she shall deposit a written notice at the Company's principal place of business in Hong Kong at Unit B, 11/F, Eton Building, 288 Des Voeux Road Central, Hong Kong. The notice must (i) include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) be signed by the Shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or in the Companies Law of the Cayman Islands putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move forward a resolution may request the Company to convene a general meeting in accordance with the procedures mentioned above. For proposing a person for election as a Director, please refer to the procedures set out in the preceding paragraph.



CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

For putting forward any enquiry to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: No. 381 Ladong East Road
 Tianning District, Changzhou
 Jiangsu Province
 China
 (For the attention of the Board)

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Change in Constitutional Documents

The Company adopted amended and restated Articles of Association on 21 October 2020, which has been effective from the Listing Date. During the period from the Listing Date to the date of this annual report, no other changes have been made to the said Articles of Association. The Articles of Association is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About This Report

The Environmental, Social and Governance Report (the “Report”) provides an overview of the efforts and achievements made in fulfilling responsibilities by Yadong Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) in respect of the environmental, social and governance (the “ESG”) matters in 2020, and focuses on responding to and disclosing, issues on sustainable development that stakeholders are mainly concerned about by serving as a way and a platform for the Group to communicate with stakeholders. The Report has been reviewed and approved by the board of directors of the Company.

Reporting Scope

Unless otherwise specified, the Report mainly covers Yadong Group Holdings Limited and its subsidiaries, focusing on reporting the environmental and social performance and related policies in relation to the core businesses of the Group. Yadong (Changzhou) Science & Technology Co., Ltd. (“Yadong (Changzhou)”) is the key operating entity of the Group in China, and the core environmental and social impacts of the Group mainly come from Yadong (Changzhou). The reporting period is from 1 January 2020 to 31 December 2020 (the “Reporting Period”, the “Year”).

Preparation Standards

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) in Appendix 27 of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and follows the reporting principles of materiality, quantitative, balance and consistency, as well as the “comply or explain” provisions as required in the ESG Guide. Unless otherwise specified, the amounts in the Report are in RMB.

Access and Feedback

This Report has been published in both Traditional Chinese and English. In case of any discrepancies between the Traditional Chinese version and the English version, the Traditional Chinese version will prevail. The electronic copy of this Report is downloadable for reading in the Group’s website at <http://www.yadongtextile.com>.

Responsibility Management

ESG Governance

In order to create a sustainable business pattern and management model, and integrate strategic consideration on environment, society and governance into the daily operation of the Company, the Company has established a three-level ESG governance structure composed of the board of directors, the ESG committee and the ESG working group. The board of directors of the Company’s has the highest authority and ultimate responsibility for the ESG work, and is responsible for improving the corporate governance system of the Company, guiding and approving ESG implementation plans and overall goals, as well as ESG risk assessment and the formulation of response measures. The ESG committee is responsible for guiding and supervising the daily work of the ESG working group and providing the board of directors with decision-making suggestions. The ESG working group tracks the carrying out and implementation of ESG-related work and reports the same to the ESG committee.

The Company has formulated the ESG Management System (《ESG管理制度》), which clearly stipulates its responsibilities in eight fields of protection of employees’ rights and interests, work safety, environmental protection, air pollution control, water pollution control, solid waste prevention, external donations and sponsorship and social responsibility. Meanwhile, the Company has established specific ESG goals and indicators at the departmental level, and incorporated ESG performance indicator and level of indicator information collection into the evaluation system for managers of the departments.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Governance Structure



Stakeholder Engagement

The Group attaches great importance to stakeholder engagement and communication, and has established diversified communication channels in the hope of obtaining the expectations for and suggestions on the Group's sustainable development of stakeholders including shareholders, employees, customers, suppliers, government departments, social organizations, media, communities, etc.

Concerns and expectations of major stakeholders and communication channels:

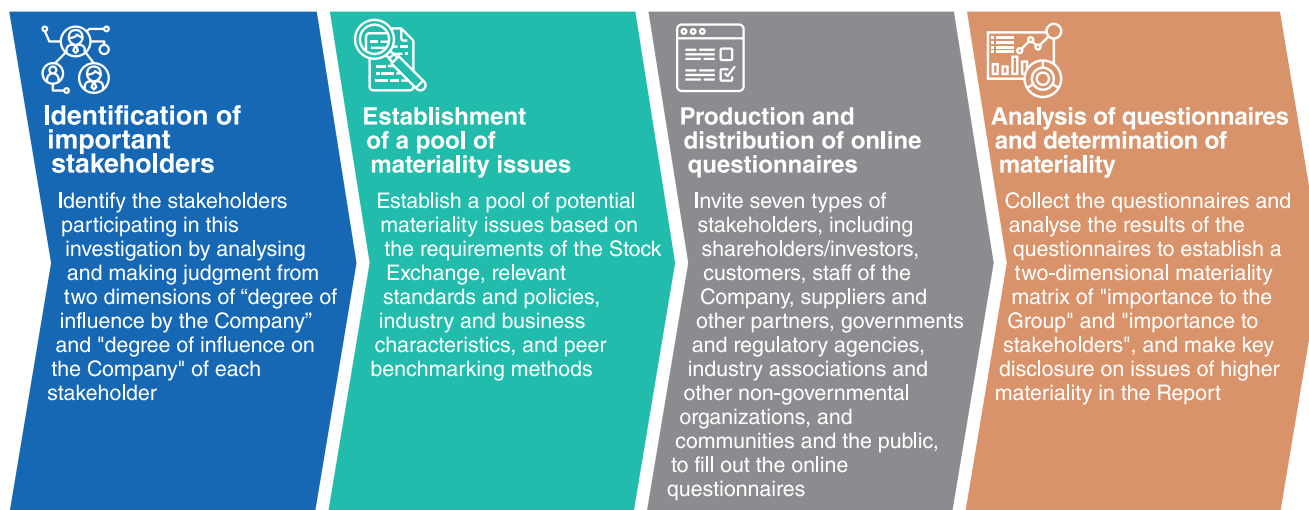
Stakeholders	Concerns and Expectations	Communication Channels
Shareholders/investors	<ul style="list-style-type: none"> Earnings and returns Compliance operation Information transparency Risk control 	<ul style="list-style-type: none"> General meeting Roadshow Annual report and regular financial report
Customers	<ul style="list-style-type: none"> Quality and safety of products and services Protection of consumers' rights and privacy 	<ul style="list-style-type: none"> Official website Customer communication meeting
Staff of the Company	<ul style="list-style-type: none"> Responsible marketing Equal employment and rights protection Remuneration and benefits Occupational health and safety Development and training 	<ul style="list-style-type: none"> Employee satisfaction survey Labor-management consultation meeting Complaint hotline Anonymous mailbox

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Concerns and Expectations	Communication Channels
Suppliers and other partners	<ul style="list-style-type: none"> Sustainable supply chain management Fair competition 	<ul style="list-style-type: none"> Prenatal communication meeting On-site assessment and communication
Governments and regulatory agencies	<ul style="list-style-type: none"> Compliance with national laws and regulations Economic performance Conservation of ecosystem 	<ul style="list-style-type: none"> Regular communication Official website Annual report
Industry associations and other non-governmental organizations	<ul style="list-style-type: none"> Innovation in research and development Promotion of industrial development 	<ul style="list-style-type: none"> Participation in industry forums Investigation and exchange visits
Community and the public	<ul style="list-style-type: none"> Supporting of the community public welfare undertakings Protection of the community environment 	<ul style="list-style-type: none"> Official website Community co-development activities

Materiality Assessment

In order to understand the stakeholders' views on sustainable development issues, the Group commissioned a third-party consulting company to carry out the investigation on the environmental, social and governance materiality for 2020. The materiality investigation process specifically includes:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A pool of materiality issues was formed after 154 questionnaires were analysed:

Materiality Issues Matrix of Yadong Group



Based on the results of the materiality investigation, the following 7 issues are identified as issues with high materiality to which key responses are made in the Report:

Aspect	Issues with High Materiality	Relevant Section
Environment	<ul style="list-style-type: none"> Pollutant emission and management Hazardous waste disposal and management Use of resources and use efficiency 	<ul style="list-style-type: none"> Green Production — Emissions Management Green Production — Solid Waste Treatment Green Production — Use of Resources
Labor	<ul style="list-style-type: none"> Occupational health and safety 	<ul style="list-style-type: none"> Responsible Employment — Occupational Health and Safety
Operations	<ul style="list-style-type: none"> Quality and safety of products and services Compliance operation Innovation in research and development 	<ul style="list-style-type: none"> Reliable Operation — Quality Assurance, Customer Service and Privacy Protection Reliable Operation — Anti-corruption Reliable Operation — Innovation in Research and Development

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Recognitions of the Company



- 1 Yadong (Changzhou) was awarded the Private Science and Technology Enterprise of Jiangsu Province (江苏省民营科技企业) by Jiangsu Association of Private Technology Enterprise(江苏省民营科技企业协会)
- 2 Yadong (Changzhou) was awarded the Listed Company Award (上市公司奖) by CPC Changzhou Municipal Committee and Changzhou Municipal People's Government
- 3 Yadong (Changzhou) was included in the list of enterprises of the Changzhou Industrial Design Center (常州市工业设计中心) by Changzhou Bureau of Industry and Information Technology in 2020
- 4 Yadong (Changzhou) was awarded the Five-star Advanced Enterprise for Building Harmonious Labour Relations in Changzhou City (常州市创建和谐劳动关系五星先进企业) by the Work Leading Group of Enterprises for Building Harmonious Labour Relations in Changzhou City (常州市创建和谐劳动关系企业工作领导小组)
- 5 Yadong (Changzhou) was awarded the Excellent AAA Enterprise in Quality, Service and Integrity in Jiangsu Province (江苏省质量服务诚信AAA级优秀企业) by Jiangsu Market Product Quality Supervision and Investigation Office (江苏市场产品质量监督调查办公室), Jiangsu Famous Brand Business Promotion Association (江苏名牌事业促进会) and Jiangsu Economic Newspaper Office (江苏经济报社)

- 6 Yadong (Changzhou) was awarded the Changzhou Smart Workshop (常州市智能车间) by Changzhou Bureau of Industry and Information Technology
- 7 Yadong (Changzhou) was awarded the Vice President (副会长单位) by Changzhou Textile Industry Association (常州市纺织工业协会)
- 8 Yadong (Changzhou) was awarded the 2020 Advanced Group Award (2020年度先进集体奖) by Changzhou Textile Engineering Society (常州市纺织工程学会)
- 9 Yadong (Changzhou) was awarded the Excellent Enterprise of Jiangsu Province (江苏省优秀企业) by Jiangsu Famous Brand Business Promotion Association (江苏名牌事业促进会) and Jiangsu Economic Newspaper Office (江苏经济报社)
- 10 Yadong (Changzhou) was awarded the Credible Demonstration Enterprise on Labour Security (劳动保障诚信示范企业) by Changzhou Municipal Human Resources and Social Security Bureau

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Green Production

The Group strictly abides by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) and other national and local laws and regulations, and implements the concept of green development consistently throughout the entire production and operation process. Yadong (Changzhou) has formulated a sound Environmental Protection Management System (《環境保護管理制度》) so as to clarify the responsible department, responsible personnel and related responsibilities of environmental protection work and improve the ability and performance of emissions and energy management on an ongoing basis, thus establishing an environmental management system that is in compliance with GB/T 24001-2016 and ISO 14001:2015 standard certifications, and being selected into the list of national green factories.



▲ Environmental Management System Certification of Yadong (Changzhou)

▼ National Green Factory Scutcheon of Yadong (Changzhou)



Emissions Management

Waste Gas Treatment

The Group strictly abides by the Air Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》) and other national and local laws and regulations. Yadong (Changzhou) has clarified the supervision and management methods for air pollution control in the Environmental Protection Management System (《環境保護管理制度》), and the waste gas it discharges mainly comes from the shaping process and the singeing process of the production workshops, as well as automobile exhaust emissions. According to characteristics, volume and treatment and up-to-standard emission requirements of waste gas from workshops, Yadong (Changzhou) installed a waste gas treatment system consisting of full-automatic oil fume cleaning and purification equipment, bag filter precipitator and exhaust gas purification equipment, realizing effective waste gas emission and management. Yadong (Changzhou) advocates the use of new energy vehicles instead of fuel vehicles in its operation to reduce automobile exhaust emissions.



▲ Waste Gas Treatment Installation

Air Pollutant Emission ¹	Unit	2020
Sulfur oxide (SO _x)	Kg	0.20
Nitrogen oxide (NO _x)	Kg	149.67
Particulate matter ²	Kg	24.74

Greenhouse Gas Emission ³	Unit	2020
Scope 1 (Direct emissions)	Tonnes	4,668.92
Scope 2 (Indirect emissions)	Tonnes	55,254.95
Total emissions	Tonnes	59,923.87
Emission density	Tonnes/revenue of RMB1 million	77.67

¹ The air pollutant emission came from the vehicles owned by the Company, and exhaust discharged by the engineering machineries. The measurement of air pollutant emission produced by vehicles was reference to the "Technical Guidelines on the Compilation of List of Air Pollutant Emission by Vehicles on Roads (Trial)" (《道路機動車大氣污染物排放清單編製技術指南(試行)》); and the measurement of air pollutant emission produced by engineering machineries was reference to the "Technical Guidelines on the Compilation of List of Air Pollutant Emission by Moving Objects Not on Roads (Trial)" (《非道路移動源大氣污染物排放清單編製技術指南(試行)》).

² Emissions of particulate matter includes PM_{2.5} and PM₁₀.

³ The emission of greenhouse gas in Scope 1 came from the vehicles owned by the Company, emission from engineering machineries, and the use of natural gas produced. The emission of that in Scope 2 came from the outsourced electricity and outsourced steam by the Group. The measurement of greenhouse gas emission was reference to the "Assessment Methods and Reporting Guidelines on Greenhouse Gas Emission by Land Transit and Transportation Enterprises (Trial)" (《陸上交通運輸企業溫室氣體排放核算方法與報告指南(試行)》), the "Assessment Methods and Reporting Guidelines on Greenhouse Gas Emission by Enterprises of Other Industrial Sectors (Trial)" (《工業其他行業企業溫室氣體排放核算方法與報告指南(試行)》), and the average emission factor of the State Grid in 2015 of 0.6101tCO₂/MWh as set out in the "Notice in Relation to the Report on Carbon Emission and the Development Work on the Inspection and Emission Monitoring Plan in 2018" (《關於做好二零一八年碳排放報告與核查及排放監測計劃制定工作的通知》).



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sewage Treatment

The Group strictly abides by the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and other laws and regulations, and has formulated the Pollutant Control Procedures (《污染物控制程序》) to effectively control the pollutants generated in production, operation and management activities. Yadong (Changzhou) has established a sewage pretreatment station to have a comprehensive treatment of the printing and dyeing wastewater generated during the production process, and installed online monitoring equipment for PH (level of acidity and alkalinity), COD (chemical oxygen demand), and ammonia nitrogen at the discharge outlet, which has been networked for filing to ensure real-time online monitoring. Sewage treatment personnel operate in strict accordance with the Operational Norms for Sewage Treatment (《污水處理操作規範》), Safety Operating Rules for Sewage Treatment (《污水處理安全操作規程》), Sewage Treatment Processes (《污水處理工藝》) and other relevant regulations, and check the running status of the wastewater treatment system on a daily basis according to the Shift Relief System (《交接班制度》) by measuring the PH value of the adjusting tank, coagulation basin, primary sedimentation tank, hydrolysis tank, aeration tank, and secondary sedimentation tank, and testing the settling ratio of the deaeration tank and hydrolysis tank and the dissolved oxygen in the aeration tank and hydrolysis tank, and recording the measurement and test results above in the Sewage Treatment Daily Report (《污水處理日報表》). The water quality analysis personnel conduct water sampling for the primary sedimentation tank and the secondary sedimentation tank every day to test and analyze the COD value, and fill in the Water Quality Analysis Report (《水質分析報告單》) with the analysis results, while the sewage treatment personnel make appropriate adjustments based on the analysis results of the Water Quality Analysis Report, and record the adjustment results in the Sewage Treatment Daily Report. During the Reporting Period, Yadong (Changzhou) had significantly reduced the amount of light alkali sewage by reducing the amount of alkali needed for automatic preparation of sodium hydroxide and by improving the scouring process.

Volume of Wastewater Discharged	Unit	2020
Total volume of Wasterwater Discharged	Tonnes	672,092

Solid Waste Treatment

The Group strictly abides by the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Measures for the Administration of Duplicate Forms for Transfer of Hazardous Wastes (《危險廢棄物轉移聯單管理辦法》) and other relevant regulations, and conducts classified storage and treatment for solid wastes. The hazardous wastes produced by Yadong (Changzhou) during production and operation include waste oil gloves, waste rubber gloves, scrap rubber gloves, used toner cartridges, waste oil, dye packaging bags, and sludge; non-hazardous wastes mainly include waste paper, waste plastics, scrap metal, and household garbage, etc. Hazardous waste, recyclable and non-recyclable waste areas and garbage disposal bins are set up in offices and production sites. Hazardous are handed over to a qualified third party for processing, and a hazardous waste treatment agreement is signed, and the responsible persons and related responsibilities for the classified collection, handling, storage, and transfer of hazardous wastes are further clarified in the System of Post Responsibility for Hazardous Waste Warehouse (《危險廢物倉庫崗位責任制》); recyclable wastes are sold to waste recycling units who operate legally; non-recyclable wastes are recycled by the local environment and sanitation departments or other recycling departments on a regular basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hazardous Wastes Produced	Unit	2020
Waste cartridge, toner cartridges	Kg	14
Dye packaging bags	Kg	29,300
Waste oil	Kg	7,400
Waste oil gloves and waste rubber gloves	Kg	40
Sludge	Tonnes	2,533
Total hazardous wastes produced	Tonnes	2,570
Emission density of hazardous wastes	Tonnes/revenue of RMB1 million	3.33

Non-hazardous Wastes Produced	Unit	2020
Waste paper ⁴	Kg	464
Waste plastics	Kg	1,568
Scrap metal	Kg	3,312
Household garbage	Kg	155,100
Total non-hazardous wastes produced	Kg	160,444
Emission density of non-hazardous wastes	Kg/revenue of RMB1 million	207.96

⁴ Waste paper includes waste newspaper, delivery box, etc.

Noise Control

The Group strictly abides by the Environmental Noise Pollution Prevention and Control Law of the PRC (《中華人民共和國環境噪聲污染防治法》) and other relevant laws and regulations. The Pollutant Control Procedures (《污染物控制程序》) formulated by Yadong (Changzhou) internally stipulates a number of noise control measures, including provision of mechanized and automation equipment by relevant departments as much as possible to replace high-noise equipment with low-noise equipment, and active adoption of measures on sound insulation and noise reduction; strict implementation by operators at all level of equipment operation manual and operating procedures for various safety technologies to reduce noise as much as possible; strict compliance with the Equipment Management Procedures (《設備管理程序》) by the production department to inspect the integrity of various equipment and facilities so as to repair defective one when found on a timely manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

In order to strengthen resource management and improve energy utilization rate, Yadong (Changzhou) has formulated the Energy Management System (《能源管理制度》) to clarify the institutional framework and responsibilities for energy management, pursuant to which standardized management is conducted from four aspects of electricity, water, steam and natural gas, energy consumption quota and related assessment rules are set up, and energy-saving technological transformation projects are carried out actively and employees' initiative in energy saving, emission reduction and consumption reduction are fully stimulated by establishing rules on energy-saving rewards and punishments. During the Reporting Period, Yadong (Changzhou) obtained ISO 50001:2018; RB/T 102-2013 standard certification for its energy management system.

Energy Consumption

The Group's energy consumption mainly comes from electricity, steam and natural gas. In order to improve the use efficiency of electricity, Yadong (Changzhou) stipulates that high-efficiency energy-saving lamps must be used within the Company, and the power supply circuit and power supply equipment must be checked regularly to reduce power consumption; step tariff shall be taken into full consideration in reasonable production, and production operators shall try to reduce no-load operations; lights should be turned off in production and office spaces when personnel are leaving; the application of various power-saving measures and new technologies should be actively promoted to gradually eliminate substandard electric equipment and facilities.

In terms of steam and natural gas management, the Group stipulates that key energy-consuming equipment must be equipped with metering devices, and monthly inspection shall be conducted to check whether the devices are operating normally to ensure accurate metering, while the routine maintenance and repair works of steam and gas pipelines shall be done to reduce the loss of steam heat and eliminate hidden safety hazards of fuel gas.



▲ Energy Management System Certification of Yadong (Changzhou)

Energy Consumption	Unit	2020
Gasoline	Liter	286
Diesel oil	Liter	11,830
Natural gas	Cubic metre	2,144,795
Total direct energy consumption	MWh	23,313.59
Density of direct energy consumption	MWh/revenue of RMB1 million	30.22
Outsourced steam	Tonnes	152,299
Outsourced electricity	KWH	12,458,640
Total indirect energy consumption	MWh	132,796.85
Density of indirect energy consumption	MWh/revenue of RMB1 million	172.13

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Management

The Group consumes water from municipal water supply, thus does not have any difficulties in sourcing water. The Group is committed to the saving and efficient use of water resources by equipping metering devices for all water supply and water consumption units, strictly managing water consumption near water sources, and continually improving the recycling of water resources through water-saving and water-recycling projects. Yadong (Changzhou) has achieved water saving and better efficiency through the implementation of the following water-saving projects and measures:



Yadong (Changzhou) won the STWI (Swedish Textile Water Initiative) Advanced Award for Water Conservation (节水先进奖)



High and low temperature water division project:

The water below 40°C is stored in the water tank for recycling after being cooled by cooling tower, and the water above 40°C is recycled to the hot pool for use by machines. This project saves about 160,000 tonnes of water throughout the year



Sewage thermal energy recovery project:

Transport the sewage of 80°C produced to the thermal energy recovery equipment to raise the normal temperature industrial water to about 60 degrees Celsius and collect the same in the hot pool for use by machines. About 80kg of steam can be saved by recovery of a tonne of hot water, which can save about 12,320 tonnes of steam a year



Water-saving technological transformation project:

Recycle the steam condensate and cooling water from 10 units of high temperature airflow atomization dyeing machine, the steam condensate from the sueding machine and the setting machine, and the cooling water from the pre-shrinking machine and the dyeing machine, which can save about 400 tonnes of steam and about 150,000 cubic meters of water a year



Alkali recycling project:

The light alkali after being used by the workshops enters the evaporation system to produce alkali with a concentration of about 150 grams for use by machines, and the condensate water produced during the evaporation process is collected in the hot pool for use by machines. This project can reduce the purchase of about 7,000 tonnes of finished alkali and save about 20,000 tonnes of water each year

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Resource Consumption	Unit	2020
Water consumption	Tonnes	750,078
Water intensity	Tonnes/revenue of RMB1 million	972.23

Packaging Materials

The primary packaging materials of the Group are paper tubes, cylindrical material and weaved bags used in the packaging of finished products. The support crew will re-screen and classify the used paper tubes, cylindrical material and weaved bags for recycling in cooperation with the production department. The factory has a specific scrapyards for storing waste and provides waste collection bins at targeted locations. For packaging materials that cannot be recycled are handed over to a third party for waste recycling and disposal.

Packaging materials consumption in 2020



Totak packaging materials consumption

249 tonnes

Density of packaging materials consumption

0.32 tonnes/RMB1 million of revenue

Energy Conservation and Consumption Reduction

Yadong (Changzhou) has achieved its goal of energy conservation and emission reduction by continuously optimizing technological process and increasing production capacity. During the Reporting Period, under the premise of guaranteeing quality, Yadong (Changzhou)'s pad dyeing workshop experienced a full-scale boost in its production by 10% to 15%, which increased production capacity and reduced energy consumption; by optimizing the technological processes for polyester and viscose linen, viscose linen and other varieties, the water required for the desizing and gas-cooled processes was reduced; through the adjustment of the temperature of the steam box, the waste of steam from the steam overflow in the seal caused by the excessive air supplement of the steam box was reduced under the premise of the process requirements being met.

The Environment and Natural Resources

The Group is committed to reducing the environmental impacts of factory production on the surrounding areas. Yadong (Changzhou) has formulated a pollution source monitoring program in accordance with the General Rules of Technical Guidelines for Self-monitoring by Pollutant Discharging Unit (《排污單位自行監測技術指南總則》) HJ 819-2017, setting up monitoring points for waste gas and wastewater discharge produced during the production process, and strictly implementing the monitoring program to ensure the quality of monitoring.

The environmental impact assessments will be performed for new construction, expansion and reconstruction projects before the commencement of construction, while the possible adverse effects on the surrounding environment will be investigated, predicted, and evaluated after the site selection, design, completion and putting into operation of the construction projects, and prevention and control measures will be proposed in this regard. In the process of project construction, relevant departments will supervise the implementation of prevention and control measures and propose better control plan. After the project equipment are put into use, the parts and processes that may cause more serious pollution shall be investigated for the causes of pollution, and the technological operation and personnel operation shall be improved to avoid pollution.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Responsible Employment

The sustainable development of an enterprise is closely related to each and every employee. The Group is committed to safeguarding equal employment, respecting the diverse background of employees, and creating a working environment that is free of discrimination; eliminating the use of child and forced labor; facilitating communication channels with employees; ensuring occupational health and safety of employees; improving employees' career development and training systems; strengthening the humanistic care for employees, and building up a delightful workplace with them.

Employment Management

Employment Policy

The Group strictly complies with employment-related laws and regulations including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》), the Law of the People's Republic of China on the Protection of Rights and Interests of Women (《中華人民共和國婦女權益保障法》), the Law of the People's Republic of China on the Protection of People with Disabilities (《中華人民共和國殘疾人保障法》), and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), and with reference to the above-mentioned laws and regulations, Yadong (Changzhou) has established the Human Resource Management System (《人力資源管理制度》) to provide employees with equal employment opportunities and competitive salaries and benefits, and to protect their lawful rights and interests.

The Group strictly complies with the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), Provisions on Prohibition of Child Labor (《禁止使用童工規定》), Provisions on Special Protection of Minors (《未成年人特殊保護規定》), and strictly prohibits the employment of child and forced labor. Yadong (Changzhou) has set up the Child Labor and Juvenile Labor Control Procedures (《童工及未成年工控制程序》) and Child Labor Remedial Management Procedures (《童工補救管理程序》) internally. During the recruitment process, applicants are required to provide original ID cards. After being employed, employees are regularly checked for their actual age and employees are encouraged to report any non-compliance. Once accidental recruitment of child labor is discovered, the child labor's employment will be suspended and report it to the local labor bureau immediately, while ensuring the proper placement of the child labor.

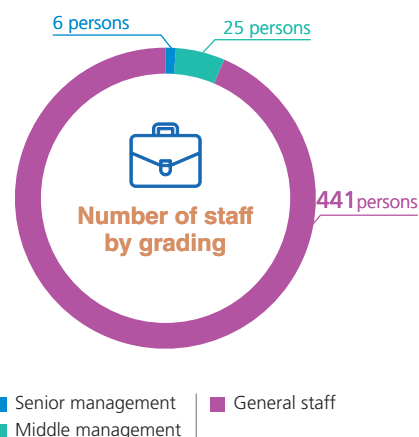
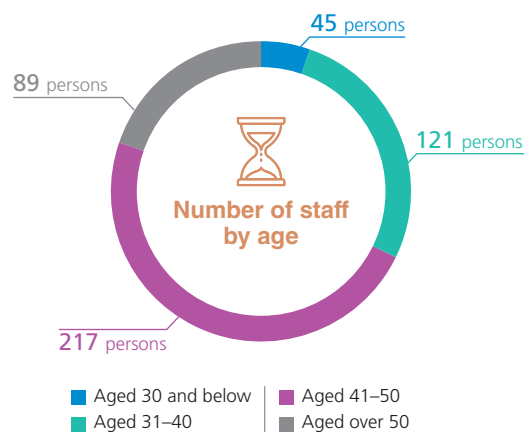
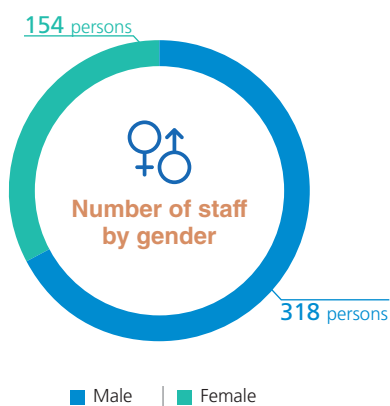
The Group adheres to the principle of equal employment and equal pay for equal position for men and women, and makes recruitment decisions based on the principle of merit-based enrolment during the recruitment process to avoid discrimination such as gender, age, race, and belief in recruitment. After being employed, exclusive employee files will be established for new employees, and social security and housing provident funds will be paid in full and in a timely manner. At the same time, we ensure that all employees enjoy various rights and benefits, and fair and just treatment in accordance with the law, and respect the diverse background of employees. In terms of employee promotion, Yadong (Changzhou) assesses employees' performance, abilities and attitudes, etc. at work, and the results are used as a basis for grading, which will be used for job promotion, training, annual bonuses, and salary adjustment.

The Group's remuneration packages comprise wages for the position, annual performance-related wages, and various benefits and allowances. In accordance with national and local laws and regulations, housing provident fund, pension, unemployment, medical, work-related injury and maternity insurances are paid for employees, and all employees are entitled to paid holidays, statutory holidays, marriage leave, funeral leave, and maternity leave. Employees of the Group enjoy various benefits, such as annual physical examination services, free lunch, holiday benefits, holiday allowance, and overtime subsidies, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Total number of staff in 2020:

472 persons



Total staff turnover in 2020: 66 persons

Indicator		Unit	2020
Staff Turnover Rate by Gender	Male	%	13.52%
	Female	%	14.94%
Staff Turnover Rate by Age	Aged 30 and below	%	57.78%
	Aged 31-40	%	28.10%
	Aged 41-50	%	2.76%
	Aged over 50	%	0%
Staff Turnover Rate by Region	China Mainland	%	14.01%
	Hong Kong, Macao and Taiwan	%	0%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Communication Among Employees

The Group attaches great importance to maintaining smooth communication with employees and building up harmonious labor relations. Through labor-management consultation meetings, Yadong (Changzhou) arranges employee representatives to negotiate with the Company concerning working environment, production issues, workplace safety, labor benefits, and reform of employee complaint channels, and put forward reasonable advice. If employees have complaints, they can directly raise their concern to the management of the Company where they work, or make a complaint to the management through their employee representative. Management representatives of the Company or relevant functional departments are responsible for handling employees' complaints and developing the "Employee Complaint Handling Record Form" (《員工申訴處理記錄表》). Major complaints will be handled by the Company's general manager. The Company has set up a special complaint hotline and an anonymous mailbox to be the employees' complaint channels.

Occupational Health and Safety

Safe Production Management

The Group attaches great importance to occupational health and safety, and strictly complies with other relevant laws and regulations including the Safety Production Law of the People's Republic of China (《中華人民共和國安全生產法》), the Occupational Disease Prevention and Control Law the People's Republic of China (《中華人民共和國職業病防治法》), Workplace Occupational Health Supervision and Management Regulations (《工作場所職業衛生監督管理規定》), the Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》), and the Measures for Production Safety Accident Emergency Plan Management (《生產安全事故應急預案管理辦法》). The Group also adheres to the principle of "People-oriented, Safety first, and Prevention as Primary", and insists on the principle that production and operation management must comply with safety requirements. Yadong (Changzhou) has established Safety Production Management System (《安全生產管理制度》) with safety production responsibility system, production safety training, safety training for special types of workers, safety production operation management, labor site safety management, production equipment safety management, fire management, occupational health and safety management, production safety inspections and rectification and emergency mechanism as the its content. And a safety management committee directly led by the Company's general manager has been set up to be responsible for the leadership, supervision, inspection, and appraisal of safety production, and the relevant functional departments perform relevant duties under the leadership of the safety management committee. In the past three years, including this Reporting Period, there had been no work-related deaths.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health Management

The Group strictly complies with laws and regulations such as the Law on the Prevention and Control of Occupational Diseases of the People's Republic of China (《中華人民共和國職業病防治法》) and Regulations on the Supervision and Management of Workplace Occupational Health (《工作場所職業衛生監督管理規定》), Yadong (Changzhou) has formulated internal management systems such as the Occupational Health Management System (《職業健康管理制度》) and the Occupational Disease Prevention and Control Plan and Implementation Plan (《職業病防治計劃與實施方案》), established a comprehensive occupational health management system, and obtained standard certifications of OHSAS 18001:2007 and GB/T 28001-2011 management systems. The specific systems include:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health Education and Training

During the Reporting Period, Yadong (Changzhou) invested about RMB1.9 million in occupational health and safety, and conducted 72 hours of occupational health and safety education and training for each employee, and the total number of participants in relevant training activities amounted to 463. The training specifically covered occupational health laws, regulations and standards; basic occupational health knowledge; occupational health management systems and operating specifications; proper use and maintenance of occupational hazard protective equipment and personal protective equipment; emergency rescue measures and basic skills in the event of an accident and occupational hazard accident cases. Yadong (Changzhou) has set up a variety of measures to prevent safety accidents to the greatest extent: for new workers entering the factory, three-level safety production education and training are required, and only after passing the examination can they start their job. For the personnel in their new positions and those who involve using new equipment or adopting new processes, they have to re-take occupational health education and training again, and only after passing the examination can they start work. For general employees, the Company conducts safety management and occupational health knowledge and safety education training for grassroots leaders, team leaders, and full-time safety personnel once a year, and archives the examination. Meanwhile, no less than 20 hours of safety education and training are received by in-service employees every year.



▲ Employees participate in safety education and training



▲ Yadong (Changzhou)'s Occupational Health and Safety Management System Accreditation Certification



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, Yadong (Changzhou) organized and carried out comprehensive emergency plan drills, handling drills for on-site workshop fire, handling drills for on-site electric shock accidents, and handling drills for on-site mechanical injury. Through various drills, the safety awareness, emergency operation proficiency and the ability to escape and self-rescue in an emergency of all employees have been strengthened.



▲ A scene at the electric shock accident handling drill

Resumption of Work and Production

Under the impact of the COVID-19 pandemic, in order to resume work and production smoothly, Yadong (Changzhou) has formulated the “Four in-places and Eight One-System” for the enterprise to resume working, established a pandemic prevention and control team, and formulated a pandemic prevention and control plan, and an emergency response plan to ensure prevention and control systems are in place, established a register for each employee to check on the returnees from other places, strengthen the health isolation of the returnees, and ensure that the screening of employees are in place; sets up anti-pandemic areas, ensures the availability of anti-pandemic materials, facilities and materials; strengthens safe production, and all kinds of places are subject to cleaning and disinfection twice a day. Personnel temperature measurement information are registered and ensures that internal management is in place. At the same time, a resumption plan was formulated to clarify the responsibilities of the pandemic prevention and control leading group, guards, canteens, factory sanitation and disinfection, employee management, production resumption plans and pandemic control measures.



▲ Putting up posters at Yadong (Changzhou)



▲ Providing free nucleic acid tests for employees at Yadong (Changzhou)

Employee Development and Training

The Group attaches great importance to the development and training of employees, and is committed to achieving the mutual growth of the Company and employees. With a view to improving employees' knowledge, work skills, and subjective initiative, following the principles of systematization, institutionalization, initiative, diversification and effectiveness, Yadong (Changzhou) has established the Employee Training Management System, which stipulates the specific responsibilities of the department in charge of employees' training, while standardize the basic process of training activities: to determine training programs, to establish training standards, to formulate training plans, to implement training plans, and to analyse and evaluate training results.

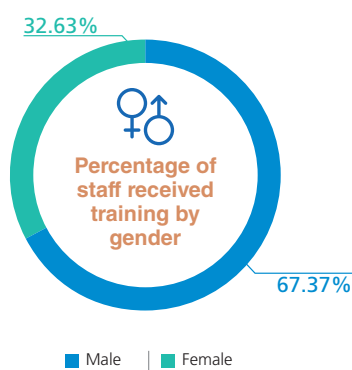
Based on the training requirements as submitted by different departments, combined with corporate strategic planning, employees' career management, etc., Yadong (Changzhou) has also conducted employee training requirement surveys to finalize corporate training requirements. Annual training plans, training implementation plans, and training schedules are formulated based on training needs. The design of each training project is carried out in accordance with the training plan and the design content includes training objects, training objectives, detailed training content, training teachers, training methods, assessment methods, training budgets and training time. The training content are divided into knowledge training, management skills training, special skills or qualification training, new employee training, academic and professional title training, strategic training, professional service training, etc. Different training contents are carried out for employees at different levels. Training methods include self-training, internal company training, external company training, comprehensive training and participatory training, among others. After each training session, Trainee Opinion Survey Form will be distributed by the host department to gather and combine the opinions of the trainees.

During the Reporting Period, Yadong (Changzhou) organized four types of training courses, namely senior management and middle management capability improvement projects, internal experience sharing projects, professional title examination planning training projects, and professional quality and skill improvement courses. In addition, a sales training one-on-one competition entitled "How to Improve the Quality of Communication" was held. Participating employees shared their communication experience on sales based on their own work practice and experience; and training on corporate labor law knowledge was carried out to enhance employees' awareness of compliance and knowledge of relevant laws.



▲ Training on the Knowledge of Enterprise Labor Law at Yadong (Changzhou)

Number of staff received training during the Reporting Period in 2020: **472** persons

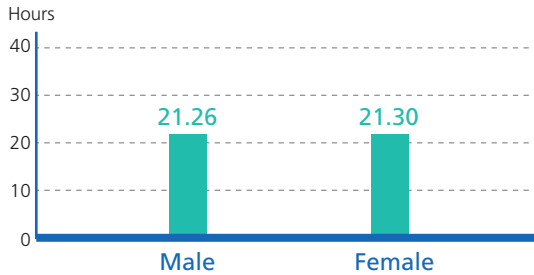


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

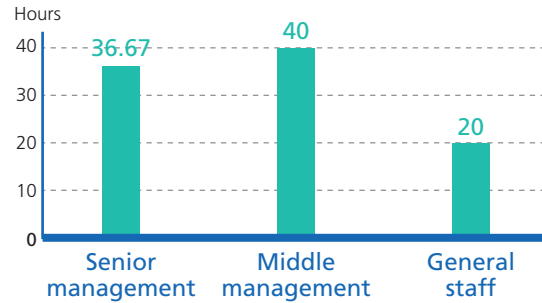
Total number of hours for staff receiving training during the Reporting Period in 2020 10,040hours



Average number of hours of training received per staff by gender



Average number of hours of training received per staff by employment category



Caring for Employees

The Group attaches great importance to non-remuneration welfare benefits for employees, such as employee travel, holiday benefits, and health check-ups. At the same time, it organizes various activities for employees to help them continuously enhance team spirit and strengthen the construction of corporate culture. During the Reporting Period, Yadong (Changzhou) organized various employee activities, including a six-day tour of outstanding employees in Hainan, outdoor development training activities, tug-of-war competitions, etc., and giving away of fruits, grocery and daily necessities to employees on Christmas Day, Mid-Autumn Festival, Women’s Day and during summer.



▲ A 6-day tour of the annual outstanding employees of Yadong (Changzhou) in Hainan

▼ Yadong Group Outdoor Development Training Activities



◀ Women’s Day Welfare Distribution

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year, Yadong (Changzhou) conducted an employees' satisfaction survey, and they were asked to score on 10 items including Company's welfare, management system, factory environment and facilities, life and leisure activities, training programs and effects, among others, each with a maximum score of 10 points. A total of 400 employees participated in this survey. The satisfaction survey score was the sum of all individual scores, and the final employees' satisfaction score as 83.2 points/100 points. Relevant departments have conducted rectification analysis on the projects with low scores from employees to ensure that the problems reported by employees were resolved in a timely manner.

Reliable Operations

The Group has earned the trust of consumers and the market through high quality products, responsible supply chain management, outstanding capability in research and development as well as responsible and compliant operations.

Supply Chain Management

The Group complies with relevant laws and regulations such as the Bidding Law of the People's Republic of China. Yadong (Changzhou) has formulated a comprehensive Procurement Management System (《採購管理制度》), with its major procurement materials including greige fabrics, dyes, auxiliaries, ancillaries, measurement instruments, tools, office supplies and fixed assets. The procurement staff select suppliers based on quality, service, delivery time and price, and at least three suppliers are selected for each new procurement for comparison. When selecting suppliers, it is necessary to determine whether the purchased items comply with national laws and regulations and safety requirements. For toxic and dangerous items, suppliers are required to provide relevant documentation.

For major procurement such as greige fabrics, Yadong (Changzhou) requires suppliers of greige fabric to pass the inspection, and will only place an order for greige fabric after approval is obtained from the general manager. A pre-production meeting must be held before the production of the greige fabric, and the greige fabric manufacturer's business representatives, the responsible person of procurement business and relevant personnel must attend such meeting. Upon delivery of the purchased goods, the quality control department and the departments using them shall inspect the name, specification, quantity and quality of the procured goods. A "Laboratory Report" must be completed for dyes and auxiliaries, and "Greige Fabric Inspection Record" is required to complete for greige fabric upon delivery. It is stipulated in the procurement contract for dyes and auxiliaries that suppliers are required to provide an inspection report including the composition and ingredients of the dyes upon delivery and to ensure the actual goods delivered are of the same composition as the inspection report.

The Group has established a supplier assessment and evaluation system, and put great importance to the environmental and social performance of its suppliers. At the end of each year, the responsible team of procurement operations of Yadong (Changzhou) conducts an assessment and evaluation of suppliers in terms of quality, safety management, environmental protection, occupational safety and environmental and safety penalties, and compiles a "Supplier/Business Outsourcing Factory Evaluation Form" to update the list of qualified suppliers. For major procurement such as greige fabric, Yadong (Changzhou) will organize on-site visits and evaluations of the suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Total number of suppliers in 2020: **643**

Indicator		Unit	2020
Number of suppliers by region	Jiangsu province	Individual	445
	Other province in Mainland China	Individual	195
	Hong Kong, Macau and Taiwan	Individual	1
	Overseas regions	Individual	2

Product Responsibility

Quality Assurance

The Group firmly believes that greige fabric in good quality is a pre-requisite for the product quality of the dyed factory, and an enhanced inspection of greige fabric is a necessary control measure for the factory to improve the quality of its products. Yadong (Changzhou) has internally established and implemented a Quality Management System (《質量管理制度》), which sets up a strict quality control procedures in all aspects, from the procurement of raw materials, production process, finished products to the production process, and have obtained quality management system certification of GB/T 19001-2016 and ISO 9001:2015.

Certificate of Quality Management System
Certification of Yadong (Changzhou)



The greige fabric delivery control procedure requires an inspector to carry out random inspection against the belly file and fabric width, to verify with the information of factory, and to carry out fabric inspection strictly in accordance with the four point system (美標四分制) and the factory's internal standards. If common defects are found in a fabric batch, a sample must be kept for the fabric factory to confirm. For each type of goods for inspection, a sample must be sent to a physical laboratory for a physical index test such as strength test. The production process control procedure requires the sales department to issue a dyeing and finishing instruction order to the production department, and to hold a pre-production analysis meeting to conduct a detailed analysis according to a customer's requirements, so as to anticipate and prevent possible product problems during the production process. The final product operation control procedure strictly regulates inspection operation standards to eliminate mixed and over-distribution. The production process follows the principles of self-inspection for each machine, random inspection by the department and cooperation with the physicochemical laboratory, and the production process standards and inspection are strictly controlled.

Yadong (Changzhou) has formulated a sales return management system. When confirming the receipt of a return request from a customer, the personnel in-charge is required to complete a "Quality Handling Report". The quality inspection department conducts a quality inspection on the returned goods and will give its comments on the "Quality Handling Report". The warehouse keeper will re-count the quantity of returned goods and issue a "Return Repair Order" to send them to the warehouse. After an analysis is performed on the reasons for the return, the responsibility of relevant department staff will be determined. During the Reporting Period, there was no recall of goods due to product quality and safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Service and Protection of Privacy

The Group's customers are mainly finished garment manufacturers, and its business is no direct relationship with consumers. In order to regulate sales practices and to strengthen the supervision and management of sales business to improve the quality of customer services, Yadong (Changzhou) has a Sales Management System (《銷售管理制度》) in place, regulating the management of sales contracts, goods delivery management, goods return management, and the supervision and inspection of sales business. After signing a contract with a customer, the implementation of the contract will be followed up, understand the production progress and supervise the goods delivery according to the customer's requirements. In addition to issuing invoices in accordance with the prescribed procedures, goods delivery also requires the follow-up personnel, warehouse keeper and third-party transportation staff to verify the name and quantity of the goods to be delivered, and will be packed and shipped upon no mistakes made. The sales department strictly complies with internal systems such as the "Responsibilities of Sales Director" (《銷售部長崗位職責》) and "Responsibilities of Salesman" (《業務員崗位職責》), and conducts regular assessment on salesmen. Through the above measures, we ensure the quality of customer services and continuously improve service standards to reduce customers' complaints. During the Reporting Period, Yadong (Changzhou) conducted a customers' satisfaction survey to understand the level of customers' satisfaction with the Company in four aspects, being quality, price, delivery, and service. Ten enterprises participated in the survey and the final satisfaction score was 97.2 out of 100.

The Group highly values the protection of consumers' information and privacy. In its Staff Management System (《員工管理制度》), Yadong (Changzhou) clearly stipulates that staff must keep confidential to the confidential data provided by the Company and customers, prohibiting any staff from using or communicating confidential data to the others. We require our staff, department heads or directors to sign confidentiality agreements when necessary to confirm their agreement to non-disclosure of confidential information.

Innovation in Research and Development

The Group attaches great importance to the innovation in research and development of products and technologies, and continues to break through bottlenecks in the development of multi-fibre blending fabrics to create product features. In order to encourage staffs to actively engage in technological innovation, inventive creation and industry and academic research activities. Yadong (Changzhou) has formulated the "Incentive Methods of Patent Applications for Yadong Staff", which provides bonus incentives to staff who obtain patented inventions related to the Company's business and are authorised by the National Intellectual Property Administration. As at the end of the Reporting Period, Yadong (Changzhou) has obtained 22 patents of various inventions, including 1 invention patent, 15 utility models and 6 design patents.

Protection of Intellectual Property

The Group places great emphasis on the protection of intellectual property rights, and strictly follows the Trademark Law of the People's Republic of China and the Patent Law of the People's Republic of China, as well as internal systems such as the Intellectual Property Management Manual (《知識產權管理手冊》) and the Compendium of Intellectual Property Procedures (《知識產權程序文件匯編》). Yadong (Changzhou) has formulated and implemented various control documents for intellectual property rights, including: document control procedures, records and document control procedures, legal and other requirements control procedures, management and assessment control procedures, information resources control procedures, acquisition control procedures, maintenance control procedures, internal audit control procedures, implementation/licensing/transfer control procedures, evaluation management control procedures, risk warning and response procedures, and confidentiality system.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Yadong (Changzhou) adopts the following measures to avoid or reduce the risk of infringement of others' intellectual property rights. In the procurement process of office equipment and software, the procurement department evaluates and determines the intellectual property rights status of suppliers and the products procured, and will enter into formal contracts when necessary. In the commissioning production process, the procurement department specifies the production trademarks ownership in the commission contract, and determine the responsibility to be assumed for intellectual property rights infringement. If necessary, the commission party will be required to issue a warranty disclaimer for suspected intellectual property rights infringement. In commercial activities such as sales, promotions, exhibitions of products, the sales department is required to file a review application to the intellectual property management department regarding the intellectual property rights status of the product under research and development, as so to avoid legal disputes arising from intellectual property infringement and improper commercial terminology. During daily sales activities, the sales department regularly collects information on possible infringement and submits them to the information department for information selection. The information department then formulates specific counter-measures for matters involving infringement risks such as payment of premium, design circumvention, and cross-licensing.

Anti-corruption

The Group strictly complies with relevant laws and regulations such as the Anti-Money Laundering Law of the People's Republic of China on, the Anti-Unfair Competition Law of the People's Republic of China, and the Company Law of the People's Republic of China to prohibit bribery, extortion, fraud, money laundering and other illegal behaviors. Yadong (Changzhou) has established the "Regulations on Anti-Fraud and Reporting Management" (《反舞弊與舉報管理辦法》), which clearly defines the concept and forms of anti-fraud, investigation and reporting, standing bodies and functions, guidance and supervision, and remedial measures and penalties. At the same time, an Anti-Commercial Bribery Pledge (《反商業賄賂承諾書》) with suppliers is in place to ensure strict compliance with national laws and regulations regarding the construction of a clean and honest administration and anti-commercial bribery.

In order to prevent frauds, Yadong (Changzhou) promotes a corporate culture of honesty and integrity, and builds up a corporate culture of anti-fraud. It also assesses the risk of fraud and establishes specific control procedures and mechanisms to reduce the chance of fraud occurrence; establishes a standing anti-fraud body to receive, investigate, report and advise; communicates effectively with staff through staff handbooks, publication of corporate rules and regulations, intranet publicity and training activities to ensure staff are aware of the relevant laws and regulations, codes of ethics and responsibilities on anti-fraud. During the Reporting Period, Yadong (Changzhou) conducted anti-corruption training sessions to help staff understand the various forms of commercial bribery and the Company's internal policies and constitutions.

Yadong (Changzhou) has established a email for whistle-blowing to report cases on professional ethics and frauds, and a standing anti-fraud body, together with the legal and human resources department, to assess and decide whether to investigate suspected but unsubstantiated reports involving general staff. If the report involves senior management of the Company, a special investigation team comprises the staff from the standing anti-fraud body and the management staff from relevant departments, after approval is obtained from the Board of Directors and the Audit Committee of the Company, to conduct a joint investigation, assessing the internal control of the affected business unit and make recommendations for improvement. For the reporting materials on fraud cases after reporting and investigation, the Company's standing anti-fraud body will file the reports in a timely manner according to the filing requirement. As for the investigation findings of the fraud cases, and the work report from the standing anti-fraud body will be reported to the Board of Directors and the audit committee of the company quarterly. During the Reporting Period, there was no litigation case on corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Community Investment

The Group has always attached great importance to giving back to the local community and residents, actively participating in social welfare activities and striving to create a better home with the community. Yadong (Changzhou) has established internal documents for external donations, specifying the management bodies and responsibilities on external donations, the scope of donations, the types of donations, the follow-up on donations and the filing of donation receipts. The types of external donations made by the Group include charitable donations, those are donations on education, science, culture, health and medical care, sports, environmental protection and construction of social and public utilities; relief donations, that is relief donations and life relief to those affected by natural disasters and socially disadvantaged groups; and other donations, those are the donations for other social and public welfare and utilities for the purpose of promoting humanitarianism or to promote social development and progress, other than the donations mentioned above. During the Reporting Period, supplies valued at over RMB30,000 was donated to children and the elderly living in poverty regions, as well as the orphans and disabled children.

Clothes Donation Activity of “Old Clothes Donation with Empathy for Green Charity” (綠色公益·衣舊情深)

During the Reporting Period, Yadong (Changzhou)’s Party Sub-branch and the Labor Union jointly launched a clothes donation activity namely “Old Clothes Donation with Empathy for Green Charity” (綠色公益·衣舊情深) for the families living in poverty at the Lancang Lahu Autonomous County, Pu'er City, Yunnan Province, bringing concern and warmth. This donation activity primarily comprising clothes suitable for Spring, Summer and Autumn, targeted at the children as well as the senior and elderly groups. A total of over 500 pieces of clothes valued at RMB30,000 was donated under this activity.



▲ Staff participating the charitable activity of clothes donation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The volunteer activity of “Caring for Orphaned and Disabled Children for Green Charity” (綠色公益·情系孤殘兒童)

In order to enhance the sense of social responsibility among our staff, we have been calling more and more staff to take part in volunteer activities. The Group has organized our staff to visit a children welfare house in Changzhou, bringing supplies including diapers, wet tissue, napkins and milk at a total value of RMB3,000 for the children who are in need.



▲ Our volunteering staff donating supplies for a children welfare house in Changzhou.

“Kangning Safety Bridge” (康寧安全橋)

In order to better realize the “Village and Enterprise Co-construction” (村企共建), Yadong (Changzhou) participated in the “Kangning Safety Bridge” (康寧安全橋) project and jointly set up a “production safety pioneer team” (安全生產先鋒隊) comprised safety person-in-charge of enterprise, party members’ representatives and key technical personnels. Leading by the party members, this team aims at enhance the safety production awareness of the public and affect other “safety production sub-teams” from other enterprises. At the same time, through seminars given by experts, safety inspections and site visits, we learned about the new production safety management methods from outstanding enterprises, to facilitate safety production of enterprises, and create a safety production environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Appendix: Environmental, Social and Governance Reporting Guide Content Index

A. Environmental		Chapter
Subject Areas, Aspects, General Disclosures and KPIs		
Aspect A1: Emissions		
General Disclosure	Information on:	Green Production — Emissions Management
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to waste gas and greenhouse gas emissions, pollutants discharged to water and lands, and hazardous and non-hazardous waste produced	
KPI	A1.1 The types of emissions and respective emissions data.	Green Production — Emissions Management
	A1.2 Total greenhouse gas emissions and, where appropriate, intensity	Green Production — Emissions Management
	A1.3 Total hazardous waste produced and, where appropriate, intensity	Green Production — Emissions Management
	A1.4 Total non-hazardous waste produced and, where appropriate, intensity	Green Production — Emissions Management
	A1.5 Description of emission reduction measures and results achieved	Green Production — Emissions Management
	A1.6 Description of how hazardous and non-hazardous wastes are handled, and a description of emission reduction measures and the results achieved	Green Production — Emissions Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. Environmental		Chapter
Subject Areas, Aspects, General Disclosures and KPIs		
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources	Green Production — Use of Resources
KPI	A2.1 Direct and/or indirect energy consumption in total and intensity by type	Green Production — Use of Resources
	A2.2 Water consumption in total and intensity	Green Production — Use of Resources
	A2.3 Description of energy use efficiency plans and results achieved	Green Production — Use of Resources
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, and plans to improve water efficiency and results achieved	Green Production — Use of Resources
	A2.5 Total packaging material used for finished products and, if applicable, per unit produced	Green Production — Use of Resources
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources	Green Production — The Environment and Natural Resources
KPI	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Green Production — The Environment and Natural Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
Subject Areas, Aspects, General Disclosures and KPIs		Chapter
Aspect B1: Employment		
General Disclosure	Information on:	Responsible Employment — Employment Management
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	
KPI	B1.1 Total workforce by gender, employment type, age group and geographical region	Responsible Employment — Employment Management
	B1.2 Employee turnover rate by gender, age group and geographical region	Responsible Employment — Employment Management
Aspect B2: Health and Safety		
General Disclosure	Information on:	Responsible Employment — Occupational Health and Safety
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	
KPI	B2.1 Number and rate of work-related fatalities	Responsible Employment — Occupational Health and Safety
	B2.2 Lost days due to work injury	Responsible Employment — Occupational Health and Safety
	B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored	Responsible Employment — Occupational Health and Safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
Subject Areas, Aspects, General Disclosures and KPIs		Chapter
Aspect B3: Development and Training		
General Disclosure	Policies on improving knowledge and skills for discharging duties at work. Description of training activities	Responsible Employment — Staff Development and Training
KPI	B3.1 The percentage trained employees by gender and employee category (e.g. senior management, and middle management, etc)	Responsible Employment — Staff Development and Training
	B3.2 The average training hours completed per employee by gender and employee category	Responsible Employment — Staff Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour 	Responsible Employment — Employment Management
KPI	B4.1 Description of measures to employee review employment practices to avoid child and forced labour	Responsible Employment — Employment Management
	B4.2 Description of steps taken to eliminate such practices when discovered	Responsible Employment — Employment Management
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Reliable Operations — Supply Chain Management
KPI	B5.1 Number of suppliers by geographical region	Reliable Operations — Supply Chain Management
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	Reliable Operations — Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
Subject Areas, Aspects, General Disclosures and KPIs		Chapter
Aspect B6: Product Responsibility		
General Disclosure	Information on:	Reliable Operations — Product Responsibility
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	
KPI	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons	Reliable Operations — Product Responsibility
	B6.2 Number of products and service related complaints received and how they are dealt with	Reliable Operations — Product Responsibility
	B6.3 Description of practices relating to observing and protecting intellectual property rights	Reliable Operations — Product Responsibility
	B6.4 Description of quality assurance process and recall procedures	Reliable Operations — Product Responsibility
	B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored	Reliable Operations — Product Responsibility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
Subject Areas, Aspects, General Disclosures and KPIs		Chapter
Aspect B7: Anti-corruption		
General Disclosure	Information on:	Reliable Operations — Anti-corruption
	(a) the policies; and	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	
KPI	B7.1 Number of concluded legal cases regarding corruption practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases	Reliable Operations — Anti-corruption
	B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	Reliable Operations — Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the districts where the issuer operates and to ensure that its activities take into consideration the communities' interests	Community Investment
KPI	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community Investment
	B8.2 Resources contributed (e.g. money or time) to the focused areas	Community Investment

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF YADONG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Yadong Group Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 82 to 136, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITOR'S REPORT

Expected Credit Loss (“ECL”) of Trade and Bills Receivables

Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 98 to 101.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the Group had trade and bills receivables of approximately RMB248,364,000, representing 53% of the Group's total current assets.</p> <p>Loss allowance for trade and bills receivables is estimated based on lifetime ECL model, which is estimated using a provision matrix with appropriate grouping based on shared credit risk characteristics with reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort.</p> <p>We have identified ECL of trade and bills receivables as a key audit matter because the amount is significant to the Group and the impairment assessment of trade and bills receivables involved a significant degree of management estimation and may be subject to management bias.</p>	<p>Our procedures were designed to review the management's judgement and estimates used in assessment process and challenge the reasonableness of inputs and assumptions used in estimating the ECL of trade and bills receivables.</p> <p>We obtained an understanding of how the ECL of trade and bills receivables were assessed by the management.</p> <p>We have challenged management's assumption and judgement in determining ECL on trade and bills receivables as at 31 December 2020, the reasonableness of management's grouping of the trade debtors in the provision matrix, and the basis of expected credit loss rates applied with reference to historical default rates and forward looking information.</p> <p>We have tested, on sample basis, payment history, past due status of the trade and bills receivables, and the settlements subsequent to the end of the reporting period.</p>

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Company and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	771,461	866,674
Cost of sales		(644,525)	(737,131)
Gross profit		126,936	129,543
Other income	7	6,685	1,877
Selling and distribution expenses		(23,582)	(20,819)
Administrative expenses		(47,553)	(31,287)
Finance costs	8	(5,621)	(5,405)
Profit before tax		56,865	73,909
Income tax expenses	9	(20,873)	(21,245)
Profit for the year	10	35,992	52,664
Other comprehensive (expense) income for the year: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating a foreign operation		(3,791)	1,253
Total comprehensive income for the year attributable to owners of the Company		32,201	53,917
Earnings per share			
Basic and diluted (RMB cents)	14	7.68	11.70

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current Assets			
Property, plant and equipment	15	73,170	70,239
Right-of-use assets	16	11,530	13,208
Intangible assets	17	415	313
Deposits paid for acquisition of property, plant and equipment		9,050	1,149
Deferred tax assets	27	183	164
		94,348	85,073
Current Assets			
Inventories	18	74,250	65,618
Trade and bills receivables	19	248,364	172,130
Prepayments and other receivables	20	18,853	9,569
Amount due from a related company	21	65	1,321
Bank balances and cash	22	129,233	62,124
		470,765	310,762
Current Liabilities			
Trade and bills payables	23	199,102	162,519
Accruals and other payables	24	34,873	25,924
Contract liabilities	25	1,467	1,533
Income tax payable		10,729	23,476
Amount due to the controlling shareholder	21	—	4,263
Lease liabilities	16	898	3,153
Borrowings	26	95,590	70,590
		342,659	291,458
Net current assets		128,106	19,304
Total assets less current liabilities		222,454	104,377

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current Liabilities			
Lease liabilities	16	864	119
Deferred tax liabilities	27	13,084	9,333
		13,948	9,452
Net assets		208,506	94,925
Capital and Reserves			
Share capital	31	5,035	1
Reserves	32	203,471	94,924
Total Equity		208,506	94,925

The consolidated financial statements on pages 82 to 136 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Xue Shidong

Qiu Jianyu

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital RMB'000 (Note 31)	Share premium RMB'000	Capital reserve RMB'000 (Note 32(a))	Exchange reserve RMB'000	Statutory reserve RMB'000 (Note 32(b))	Retained profits RMB'000	Total RMB'000
At 1 January 2019	1	—	(1)	4,087	6,754	143,686	154,527
Profit for the year	—	—	—	—	—	52,664	52,664
Exchange difference arising on translating a foreign operation	—	—	—	1,253	—	—	1,253
Total comprehensive income for the year	—	—	—	1,253	—	52,664	53,917
Appropriation to statutory reserve	—	—	—	—	3,616	(3,616)	—
Dividends paid (Note 13)	—	—	—	—	—	(113,519)	(113,519)
As at 31 December 2019	1	—	(1)	5,340	10,370	79,215	94,925
At 1 January 2020	1	—	(1)	5,340	10,370	79,215	94,925
Profit for the year	—	—	—	—	—	35,992	35,992
Exchange difference arising on translating a foreign operation	—	—	—	(3,791)	—	—	(3,791)
Total comprehensive (expense) income for the year	—	—	—	(3,791)	—	35,992	32,201
Issue of new shares upon the initial public offering ("IPO")	1,259	104,454	—	—	—	—	105,713
Transaction cost attributable to issue of new shares	—	(12,333)	—	—	—	—	(12,333)
Capitalisation issue	3,775	(3,775)	—	—	—	—	—
Appropriation to statutory reserve	—	—	—	—	4,542	(4,542)	—
Dividends paid (Note 13)	—	—	(4,312)	—	—	(7,688)	(12,000)
As at 31 December 2020	5,035	88,346	(4,313)	1,549	14,912	102,977	208,506

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax	56,865	73,909
Adjustments for:		
Amortisation of intangible assets	125	89
Depreciation of property, plant and equipment ("PPE")	7,972	7,828
Loss on disposal of PPE	—	35
Finance costs	5,621	5,405
(Reversal of impairment loss) on trade and bills receivables	(160)	(290)
Depreciation of right-of-use assets	4,233	3,948
Gain on early termination of a lease	(5)	—
Government subsidies	(3,723)	(347)
Bank interest income	(130)	(158)
Operating cash flows before working capital changes	70,798	90,419
Increase in inventories	(8,632)	(11,038)
Increase in trade and bills receivables	(77,091)	(8,683)
(Increase) decrease in prepayments and other receivables	(10,393)	1,559
Increase in trade and bills payables	36,841	35,093
Increase in accruals and other payables	9,011	4,189
Decrease in contract liabilities	(66)	(309)
Cash generated from operations	20,468	111,230
Income taxes paid	(29,885)	(14,083)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(9,417)	97,147
INVESTING ACTIVITIES		
Advances to a related company	(13,990)	(71,204)
Payments for purchase of PPE	(9,754)	(19,480)
Payments for deposits paid for PPE	(9,050)	(1,149)
Payments for purchase of intangible assets	(227)	(265)
Interest received	130	158
Repayments from a related company	3,256	16,418
Proceeds received from disposal of PPE	—	186
Advances to the controlling shareholder	—	(6,200)
Repayments from the controlling shareholder	—	8,242
Advances to directors	—	(66)
Repayments from directors	—	66
NET CASH USED IN INVESTING ACTIVITIES	(29,635)	(73,294)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of shares by placing and public offer	105,713	—
New borrowings raised	95,590	70,590
Government subsidies received	3,723	347
Payments of lease liabilities	(4,056)	(3,225)
Repayments from the controlling shareholder	(4,263)	—
Interest paid	(5,615)	(5,427)
Expenses directly attributable to issue of shares	(12,333)	—
Repayments of borrowings	(70,590)	(74,800)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	108,169	(12,515)
NET INCREASE IN CASH AND CASH EQUIVALENTS	69,117	11,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	62,124	50,063
Effect of foreign exchange rate changes	(2,008)	723
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	129,233	62,124



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Corporate Information

Yadong Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 22 September 2016 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 18 November 2020 (the “Listing”). Its immediate and ultimate holding company is Oriental Ever Holdings Limited (“Oriental Ever Holdings”), a company with limited liability incorporated in the British Virgin Islands (the “BVI”). Oriental Ever Holdings is wholly and directly owned by Mr. Xue Shidong, who is also a director of the Company (the “Controlling Shareholder”).

The address of the registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and the principal place of business of the Company is located at No. 381 Laodong East Road, Tianning District, Changzhou, Jiangsu Province, China.

The Company is an investment holding company and its subsidiaries (together referred to as the “Group”) are principally engaged in sales of fabrics products and provision of dyeing and processing services. Particulars of the subsidiaries have been set out in Note 37.

The consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards (“HKFRSs”) and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to Hong Kong Accounting Standard (“HKAS”) 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. Application of New and Amendments to Hong Kong Financial Reporting Standards (Continued)

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendment to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and related Amendments ⁵
Amendments to HKFRS 3	Reference to Conceptual Framework ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between in Investor and its Associate or Joint Venture ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁵
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ¹
Amendments to HKFRS 16	COVID-19-Related Rent Concessions ⁴
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle ³

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2023.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income or expenses of subsidiaries are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

The Group recognised revenue from the following major sources:

- sales of plain weave fabrics and corduroy fabrics
- provision of dyeing and processing services

The revenue from the sale of plain weave fabrics and corduroy fabrics are recognised at a point in time when the control of products is transferred to the customer upon delivery.

The revenue from the provision of dyeing and processing services is recognised according to the terms of service contracts. The terms of these contracts do not create an enforceable right to payment for the performance completed to date. Accordingly, such revenue is recognised at a point in time when the control of the final products is transferred to the customers.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties and sales related taxes.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the People's Republic of China (the "PRC") state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("the MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Taxation (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

The Group's intangible assets are all separately acquired computer software, with finite useful lives of five years and are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Impairment losses on property, plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash at banks and on hand, as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated on a straight-line basis over the shorter period of lease term and the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Investment in a subsidiary

Investment in a subsidiary is stated on the statement of financial position of the Company at cost less accumulated impairment loss, if any.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade and bills receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Amortised cost and interest income

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the “other income” line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for expected credit loss (“ECL”) on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, amount due from a related company and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and bills receivables. The Group determines the ECL collectively by using a provision matrix estimated based on shared credit risk characteristics, the Group’s historical credit loss experience based on the past default experience with reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread and the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade and bills receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Except the ECL on the amount due from a related company is determined on an individual basis, ECL on other financial assets are determined collectively by using a provision matrix estimated based on shared credit risk characteristics, the Group's historical credit loss experience based on the past default experience with reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade and bills receivables

The management of the Group uses provision matrix to estimate the lifetime ECL for the trade and bills receivables. The ECL of trade and bills receivables are estimated using a provision matrix with appropriate grouping based on shared credit risk characteristics with reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables are disclosed in Note 19.

As at 31 December 2020, the carrying amount of trade and bills receivables, net of accumulated impairment loss, was approximately RMB248,364,000 (2019: RMB172,130,000).

During the year ended 31 December 2020, the reversal of ECL impairment on trade and bills receivables was approximately RMB160,000 (2019: RMB290,000). As at 31 December 2020, the accumulated impairment losses of trade and bills receivables was approximately RMB309,000 (2019: RMB469,000).

Estimated impairment of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2020, the carrying amount of inventories was approximately RMB74,250,000 (2019: RMB65,618,000). No impairment of inventories was recognised during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. Revenue

Revenue represents the amounts received and receivable arising from sales of fabric products and provision of dyeing and processing services, net of sales related taxes for the year. The Group's revenue is recognised at a point in time. An analysis of the Group's revenue disaggregated by major products or service lines is as follows:

	2020 RMB'000	2019 RMB'000
Sales of plain weave fabrics	499,418	625,430
Sales of corduroy fabrics	229,369	197,221
Provision of dyeing and processing services	42,674	44,023
	771,461	866,674

6. Segment Information

The directors of the Company, being the chief operating decision makers, review the Group's internal reporting in order to assess performance and allocate resource. The Group is principally engaged in sales of fabrics products and provision of dyeing and processing services. Information reported to the chief operating decision makers, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group's manufacturing and operations are all located in the PRC. Non-current assets of the Group are all located in the PRC.

An analysis of the Group's revenue from external customers is presented based on the locations of customers.

	Revenue from external customers	
	2020 RMB'000	2019 RMB'000
The PRC	622,769	669,189
Japan	49,959	101,106
Others	98,733	96,379
	771,461	866,674

Information about major customers

There are no customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. Other Income

	2020 RMB'000	2019 RMB'000
Bank interest income	130	158
Exchange gain, net	1,620	246
Government subsidies (Note i)	3,723	347
Reversal of impairment loss on trade and bills receivables	160	290
Sundry income (Note ii)	1,052	836
	6,685	1,877

Notes:

- (i) The government subsidies represent the one-off government subsidies that were received from local government authorities of which the entitlements were unconditional and under the discretion of the relevant authorities. The amounts were therefore immediately recognised as other income during the years ended 31 December 2020 and 2019.
- (ii) Sundry income in 2020 included gain on early termination of a lease of approximately RMB5,000 (2019: nil). Details are set out in Note 16.

8. Finance Costs

	2020 RMB'000	2019 RMB'000
Interests on:		
Borrowings	5,291	4,784
Lease liabilities	245	381
Guarantee fees	85	240
	5,621	5,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. Income Tax Expenses

	2020 RMB'000	2019 RMB'000
Current tax:		
Hong Kong Profits Tax	2,539	4,727
PRC Enterprise Income Tax ("EIT")	14,602	13,236
	17,141	17,963
Deferred tax (Note 27):		
Current year	3,732	3,282
	20,873	21,245

- (i) Pursuant to the rules and regulation of the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.
- (ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. For the years ended 31 December 2020 and 2019, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.
- (iii) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, Yadong (Changzhou) Science and Technology Co., Ltd. ("Yadong (Changzhou)"), a subsidiary of the Group established in the PRC, the tax rate is 25% from 1 January 2008 onwards.
- (iv) A tax concession of 100% was granted to the Group under Hong Kong tax jurisdiction which is subject to a ceiling of HK\$10,000 (2019: HK\$20,000) per company for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. Income Tax Expenses (Continued)

The income tax expenses for the years ended 31 December 2020 and 2019 can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	56,865	73,909
Tax at the domestic income tax rate of 25%	14,216	18,477
Tax effect of expenses not deductible for tax purpose	3,071	1,242
Tax effect of income not taxable for tax purpose	(6)	(2)
Effect of two-tiered profits tax rates regime	(147)	(145)
Hong Kong Profits Tax concession	(9)	(18)
Withholding tax on undistributed earnings of a PRC subsidiary (Note 27)	3,751	3,254
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3)	(1,563)
Income tax expenses	20,873	21,245

10. Profit for the Year

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 11)	2,158	1,763
Salaries, allowances and other benefits (excluding directors' emoluments)	33,687	42,888
Contributions to retirement benefits scheme (excluding directors' emoluments) (Note)	3,297	5,261
Total staff costs	39,142	49,912
Auditor's remuneration	818	74
Listing expenses	16,544	4,424
Amortisation of intangible assets	125	89
Loss on disposal of property, plant and equipment	—	35
Amount of inventories recognised as an expense	608,093	700,274
Depreciation of property, plant and equipment	7,972	7,828
Depreciation of right-of-use assets	4,233	3,948

Note: According to the policies on reduction of social insurance fees announced by the Ministry of Human Resources and Social Security of the PRC during the year ended 31 December 2020, the Company's PRC subsidiary was entitled to waivers of the social insurance fees during February to December 2020 of approximately RMB3,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. Directors' Emoluments

Details of directors' emoluments are as follows:

	Fees RMB'000	Discretionary performance related bonus RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Year ended 31 December 2020					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	100	341	21	462
Mr. Qiu Jianyu (邱建宇)	—	165	191	15	371
Ms. Zhang Yeping (張葉萍)	89	165	186	6	446
Mr. Wang Bin (王斌)	—	100	340	15	455
Mr. Jin Rongwei (金榮偉)	—	165	190	15	370
<i>Independent non-executive Directors</i>					
Mr. Ho Kin Cheong Kelvin (何建昌) (note iii)	18	—	—	—	18
Mr. Zhu Qi (朱旗) (note iii)	18	—	—	—	18
Mr. Wang Hongliang (王洪亮) (note iii)	18	—	—	—	18
	143	695	1,248	72	2,158
Year ended 31 December 2019					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	50	364	20	434
Mr. Qiu Jianyu (邱建宇) (note ii)	—	50	184	14	248
Ms. Zhang Yeping (張葉萍) (note ii)	88	50	180	14	332
Mr. Wang Bin (王斌) (note ii)	—	80	378	14	472
Mr. Jin Rongwei (金榮偉) (note ii)	—	65	198	14	277
	88	295	1,304	76	1,763

Notes:

- (i) The executive directors' emoluments shown above were mainly paid for their services in connection with the management of the affairs of the Company and the Group. The discretionary bonus for the years ended 31 December 2020 and 2019 were determined by the board of directors with reference to the duties and responsibilities of the relevant individuals within the Group and the Group's performance.

No directors of the Company waived or agreed to waive any emoluments during the years ended 31 December 2020 and 2019. No emoluments were paid by the Group to any of these directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2020 and 2019.

No chief executive was appointed during the years ended 31 December 2020 and 2019.

- (ii) Mr. Qiu Jianyu, Ms. Zhang Yeping, Mr. Wang Bin and Mr. Jin Rongwei were re-designated as executive directors of the Company on 22 November 2019.
- (iii) Mr. Zhu Qi, Mr. Ho Kin Cheong Kelvin and Mr. Wang Hongliang were appointed as independent non-executive directors of the Company on 21 October 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. Employees' Emoluments

Three (2019: three) of the five individuals with the highest emoluments in the Group were the directors of the Company, whose emoluments are set out in Note 11 above. The emoluments of the remaining two (2019: two) highest paid individuals were as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and other benefits	973	754
Contributions to retirement benefits scheme	23	34
	996	788

Their emoluments were within the following band:

	2020 Number of individuals	2019 Number of individuals
Nil to HK\$1,000,000 (equivalent to approximately: 31/12/2020: Nil to RMB839,000, 31/12/2019: Nil to RMB895,000)	2	2

No emoluments were paid by the Group to any of the five highest paid individuals of the Group including the directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. Dividends

During the year ended 31 December 2019 and before Listing on the Stock Exchange, the Company declared dividend of RMB113,519,000 to the shareholder, which was settled through the current accounts with the Controlling Shareholder and a related company at approximately RMB19,638,000 and approximately RMB93,881,000 respectively.

During the year ended 31 December 2020 and before Listing on the Stock Exchange, the Company declared dividend of RMB12,000,000 to the shareholder, which was settled through the current account with a related company.

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

Subsequent to the end of the reporting period, a final dividend of HK\$3.0 cents per share in respect of the year ended 31 December 2020 has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

14. Earnings Per Share

The calculation of the basic earnings per share during the years ended 31 December 2020 and 2019 is based on the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares in issue.

	2020 RMB'000	2019 RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	35,992	52,664
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	468,443	450,000

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2020 and 2019 has been adjusted for the effect of the capitalisation issue as detailed in Note 31.

Diluted earnings per share

Diluted earnings per share is as same as basic earnings per share as there were no dilutive potential ordinary shares outstanding for the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. Property, Plant and Equipment

	Leasehold improvement RMB'000	Plant and machineries RMB'000	Furniture and fixture RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2019	2,229	72,719	703	1,770	1,384	2,973	81,778
Additions	468	7,351	8	—	305	14,842	22,974
Disposals	—	—	—	(279)	—	—	(279)
At 31 December 2019 and 1 January 2020	2,697	80,070	711	1,491	1,689	17,815	104,473
Additions	882	3,955	—	913	261	4,892	10,903
At 31 December 2020	3,579	84,025	711	2,404	1,950	22,707	115,376
ACCUMULATED DEPRECIATION							
At 1 January 2019	693	23,811	289	971	700	—	26,464
Charge for the year	659	6,528	110	336	195	—	7,828
Eliminated on disposals	—	—	—	(58)	—	—	(58)
At 31 December 2019 and 1 January 2020	1,352	30,339	399	1,249	895	—	34,234
Charge for the year	726	6,875	95	63	213	—	7,972
At 31 December 2020	2,078	37,214	494	1,312	1,108	—	42,206
CARRYING VALUES							
At 31 December 2020	1,501	46,811	217	1,092	842	22,707	73,170
At 31 December 2019	1,345	49,731	312	242	794	17,815	70,239

- (i) The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis at the following basis:

Leasehold improvement	3 years or over lease term whichever is shorter
Plant and machineries	3–10 years
Furniture and fixture	5 years
Motor vehicles	5 years
Office equipment	5 years

- (ii) The Group has pledged certain of its machineries with carrying value of approximately RMB24,038,000 (2019: RMB20,814,000) as at 31 December 2020 to secure general banking facilities granted to the Group. Details of which are set out in Notes 26 and 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. Leases

(i) Right-of-use assets

	2020 RMB'000	2019 RMB'000
Land	6,372	6,518
Factory, warehouse and office	5,158	6,690
	11,530	13,208

The additions to right-of-use assets and lease liabilities for the year ended 31 December 2020 amounted to RMB2,750,000 (2019: RMB139,000) due to the renewal of the relevant leases of factory, warehouse and offices. Including in the additions to the right-of-use assets is a renewal of lease with a related company, Changzhou Dongxia Real Estate Agency Ltd.* (常州市東霞房地產代理有限公司) ("Dongxia") amounted to approximately RMB2,244,000 (2019: nil).

The right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and the useful life of the underlying asset.

The right-of-use assets of land represent land use right located in the PRC with lease term of 40 years and the lease of factory, warehouse and office located in the PRC and Hong Kong with lease terms generally ranged from 18 months to three years.

For the year ended 31 December 2020, the lease of office located in Hong Kong was early terminated. Gain on early termination of a lease of approximately RMB5,000 was recognised in other income due to the difference between the carrying amount of the right-of-use asset and lease liabilities of approximately RMB182,000 and RMB187,000 respectively.

The Group has pledged the land with carrying value of approximately RMB6,372,000 as at 31 December 2020 (2019: RMB6,518,000) to secure general banking facilities granted to the Group. For the details, please refer to Note 29.

* The English name is for identification only

(ii) Lease Liabilities

	2020 RMB'000	2019 RMB'000
Analysed as:		
Current portion	898	3,153
Non-current portion	864	119
	1,762	3,272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. Leases (Continued)

(ii) Lease Liabilities (Continued)

	2020 RMB'000	2019 RMB'000
Amounts payable under lease liabilities		
Within one year	898	3,153
After one year but within two years	864	119
	1,762	3,272
Less: Amount due for settlement within 12 months (Shown under current liabilities)	(898)	(3,153)
Amount due for settlement after 12 months	864	119

(iii) Amounts recognised in profit or loss

	2020 RMB'000	2019 RMB'000
Depreciation expense on right-of-use-assets		
— Land	146	146
— Factory, warehouse and office	4,087	3,802
Interest expense on lease liabilities	245	381
Gain on early termination of a lease	5	—

During the year ended 31 December 2020, the total financing cash outflows for lease liabilities was approximately RMB4,301,000 (2019: RMB3,606,000).

The Group had no expenses relating to variable lease payments not included in the measurement of the lease liability or leases of low value assets or short term lease during the years ended 31 December 2019 and 2020. All lease payments are fixed payments.

As at 31 December 2020, certain right-of-use assets (i.e. factory and warehouse) of approximately RMB4,893,000 (2019: RMB6,437,000) is leased from Dongxia. Dongxia is beneficially owned by the Controlling Shareholder. The lease payment was based on mutually agreed terms with reference to market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. Intangible Assets

	Computer software RMB'000
COST	
At 1 January 2019	318
Additions	265
At 31 December 2019 and 1 January 2020	583
Additions	227
At 31 December 2020	810
AMORTISATION	
At 1 January 2019	181
Charge for the year	89
At 31 December 2019 and 1 January 2020	270
Charge for the year	125
At 31 December 2020	395
CARRYING VALUES	
At 31 December 2020	415
At 31 December 2019	313

The above intangible assets were acquired from third party and have finite useful live. Such intangible assets are amortised on a straight-line basis over five years.

18. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials	17,707	14,482
Work in progress	16,744	19,878
Finished goods	39,799	31,258
	74,250	65,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. Trade and Bills Receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	245,333	167,848
Bills receivables	3,340	4,751
Less: Impairment	(309)	(469)
	248,364	172,130

As at 31 December 2020, the gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB248,673,000 (2019: RMB172,599,000).

The Group allows credit period of up to 90 days to its trade customers. The Group does not hold any collateral over its trade and bills receivables. The following is an aged analysis of trade and bills receivables, net of impairment, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2020 RMB'000	2019 RMB'000
Within 30 days	203,104	145,244
31 to 60 days	22,548	19,174
61 to 90 days	21,511	5,355
91 to 180 days	1,201	1,765
181 to 365 days	—	465
Over 365 days	—	127
Total	248,364	172,130

The Group applies simplified approach to provide for ECL prescribed by HKFRS 9. The Group assessed the ECL for trade and bills receivables in grouped based on shared credit risk characteristics as at 31 December 2019 and 2020.

Impairment assessment on trade and bills receivables subject to ECL model

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The ECL on trade and bills receivables are estimated using a provision matrix by reference to past default experience of the debtor adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due ageing status is not further distinguished between the Group's different customer bases.

There has been no change in the estimation techniques or significant assumption made during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. Trade and Bills Receivables (Continued)

Impairment assessment on trade and bills receivables subject to ECL model (Continued)

The Group recognised lifetime ECL for trade and bills receivables based on past due ageing status as follows:

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
As at 31 December 2020			
Within 30 days	0.1%	203,302	197
31 to 60 days	0.2%	22,592	44
61 to 90 days	0.3%	21,573	63
91 to 180 days	0.4%	1,206	5
		248,673	309
As at 31 December 2019			
Within 30 days	0.2%	145,554	310
31 to 60 days	0.4%	19,256	82
61 to 90 days	0.6%	5,390	35
91 to 180 days	0.9%	1,785	16
181 to 365 days	1.7%	475	8
Over 365 days	12.9%	139	18
		172,599	469

The movement in the impairment losses of trade and bills receivables during the years ended 31 December 2020 and 2019 is as follows:

	Impairment loss allowance RMB'000
Balance as at 1 January 2019	759
Reversal of impairment losses	(290)
Balance as at 31 December 2019	469
Reversal of impairment losses	(160)
Balance as at 31 December 2020	309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. Prepayments and Other Receivables

	2020 RMB'000	2019 RMB'000
Prepayments	18,684	7,772
Others	169	1,797
	18,853	9,569

ECL on prepayments and other receivables are insignificant as they are low risk of default and no significant increase in credit risk as at 31 December 2020 and 2019.

21. Amount(s) Due (to)/from the Controlling Shareholder and a Related Company

The assessment of ECL is based on historical individual default experience and adjusted for forward-looking information. The amount due from a related company is not past due and, there was no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

(a) Amount due to the Controlling Shareholder

The amount due to the Controlling Shareholder is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

During the year ended 31 December 2019, the Company declared dividend of RMB19,638,000 to the Controlling Shareholder, to which was settled through the current account of the Controlling Shareholder.

(b) Amount due from a related company

The amount due from a related company is unsecured, non-interest bearing, repayable on demand and non-trade in nature.

During the year ended 31 December 2020, the Company declared dividends of approximately RMB12,000,000 (2019: RMB93,881,000) to the shareholder, to which was settled through the current account of a related company. Details of the amount due from a related company are set out in Note 35(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. Bank Balances and Cash

At 31 December 2020, bank balances earned interest at floating rates based on daily bank deposit rates ranging from 0.01%–0.3% per annum (2019: 0.3%–2.8% per annum).

Included in the bank balances and cash is the following amount denominated in a currency other than the functional currency of relevant group entities:

	2020 RMB'000	2019 RMB'000
HK\$	95,296	2,652
USD	363	—
	95,659	2,652

23. Trade and Bills Payables

	2020 RMB'000	2019 RMB'000
Trade payables	194,552	157,269
Bills payables	4,550	5,250
	199,102	162,519

The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	2020 RMB'000	2019 RMB'000
Within 30 days	138,601	114,819
31 to 60 days	34,125	28,812
61 to 90 days	17,409	11,147
91 to 180 days	8,173	6,975
181 to 365 days	231	719
Over 365 days	563	47
Total	199,102	162,519

The credit period on purchases of goods is ranging from 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. Accruals and Other Payables

	2020 RMB'000	2019 RMB'000
Accrued salaries (Note)	10,917	8,498
Accrued expenses	16,022	12,207
Interest payables	138	132
Other tax payables	7,419	3,532
Others	377	1,555
	34,873	25,924

Note: Accrued salaries included emoluments payable to the directors of the Company amounting to approximately RMB970,000 (2019: RMB406,000) as at 31 December 2020.

Included in the other payables denominated is the following amount denominated in a currency other than the functional currency of relevant group entities:

	2020 RMB'000	2019 RMB'000
HK\$	4,040	1,035

25. Contract Liabilities

	2020 RMB'000	2019 RMB'000
Contract liabilities	1,467	1,533

Contract liabilities represent advances received from customers related to sales of fabric products.

Movements in the contract liabilities during the years ended 31 December 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of year	1,533	1,840
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of year	(1,533)	(1,840)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	1,467	1,533
At the end of year	1,467	1,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. Borrowings

	2020 RMB'000	2019 RMB'000
Bank borrowings, secured	10,000	70,590
Bank borrowings, unsecured	85,590	—
	95,590	70,590

As at 31 December 2020, revolving term loans of approximately RMB10,000,000, carried fixed interest ranging from 4.4% to 5.7% per annum and are secured by the Group's certain right-of-use assets and machineries.

As at 31 December 2019, revolving term loans of approximately RMB70,590,000, carried fixed interest ranging from 6.0% to 6.5% per annum and are secured by the Group's certain right-of-use assets and machineries and certain assets of Dongxia.

As at 31 December 2019, the bank borrowings and the related banking facilities were guaranteed by an independent financial guarantee company and one independent supplier, and the following related parties:

- (i) Dongxia, and
- (ii) the Controlling Shareholder and his spouse.

As at 31 December 2020, the unsecured bank borrowings and the related banking facilities of approximately RMB10,000,000, RMB25,000,000, RMB16,200,000 and RMB34,400,000, carried fixed interest ranging from 4.4% to 5.7% per annum are guaranteed by (i) an independent financial guarantee company based on the corporate guarantee and pledged assets from Dongxia, (ii) an independent supplier and the Controlling Shareholders, (iii) an independent supplier and (iv) cross-guarantee by a subsidiary, respectively.

During the year ended 31 December 2020, the Group obtained new bank borrowings in the amount of RMB95,590,000 (2019: RMB70,590,000) for working capital purpose. The bank borrowings are all repayable within one year based on scheduled repayment dates set out in the loan agreements and contain no repayable on demand clause.

The amounts of banking facilities and the utilisation as at 31 December 2020 and 2019 are set out as follows:

	2020 RMB'000	2019 RMB'000
Facility amount	113,815	94,245
Utilisation		
Secured bank borrowings	10,000	—
Unsecured bank borrowings	85,590	70,590
	95,590	70,590

Details of pledged of assets are set out in Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. Deferred Tax Assets (Liabilities)

The following is the analysis of the deferred tax assets (liabilities), for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	183	164
Deferred tax liabilities	(13,084)	(9,333)
	(12,901)	(9,169)

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the years ended 31 December 2020 and 2019:

	Withholding tax on undistributed profit of a PRC subsidiary RMB'000 (Note)	Allowance on doubtful debts RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	(6,079)	190	2	(5,887)
(Charge) credit to consolidated profit or loss	(3,254)	(73)	45	(3,282)
At 31 December 2019	(9,333)	117	47	(9,169)
(Charge) credit to consolidated profit or loss	(3,751)	(40)	59	(3,732)
At 31 December 2020	(13,084)	77	106	(12,901)

Note: Under the EIT Law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Deferred taxation has been provided in respect of the temporary differences associated with the undistributed profits earned by a PRC subsidiary, Yadong (Changzhou) at the applicable withholding tax of 10%.

28. Retirement Benefits Plan

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the Company's directors and employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage ranged from 1%–15% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. Retirement Benefits Plan (Continued)

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB3,369,000 (2019: RMB5,337,000) represents contributions payable to these schemes by the Group for the year ended 31 December 2020.

29. Pledge of Assets

At 31 December 2020 and 2019, the Group had pledged the following assets to secure banking facilities granted to the Group:

	2020 RMB'000	2019 RMB'000
Right-of-use assets	6,372	6,518
Machineries	24,038	20,814
	30,410	27,332

30. Share-based Payment Transactions

Share-option scheme

During the year ended 31 December 2020, the Company has adopted a share option scheme (the "Share Option Scheme") upon Listing. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

The maximum number of unexercised share options issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from 21 October 2020 (excluding, for this purpose, shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) (the "Adoption Date") must not in aggregate exceed 10% of all the shares in issue as at the Listing. Therefore, it is expected that the Company may grant options in respect of up to 60,000,000 shares (or such numbers of shares as shall result from a sub-division or a consolidation of such 60,000,000 shares from time to time) to the participants under the Share Option Scheme.

Share options granted to a Director, chief executive or substantial shareholder (or any of their respective close associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option). In addition, any grant of share options to a substantial shareholder or an independent non-executive Director (or any of their respective close associates), in excess of 0.1% of the shares of the Company in issue on the date of offer with an aggregate value (based on the closing price of the Company's shares quoted on the Stock Exchange at the date of grant) in excess of HK\$5 million made within any 12-month period from the date of grant (inclusive) would be subject to shareholders' approval in a general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. Share-based Payment Transactions (Continued)

Share-option scheme (Continued)

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1. The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option of the Company. During the year ended 31 December 2020, no options were granted under the Share Option Scheme.

31. Share Capital

Share capital of the Company

	Number of shares	Amount HK\$	Amount RMB'000
Authorised ordinary shares at HK\$0.01 per share:			
At 1 January 2019, 31 December 2019 and 1 January 2020	38,000,000	380,000	323
Increase in authorised share capital (Note i)	9,962,000,000	99,620,000	83,595
At 31 December 2020	10,000,000,000	100,000,000	83,918
Issued and fully paid ordinary shares at HK\$0.01 per share:			
At 1 January 2019, 31 December 2019 and 1 January 2020	100,001	1,000	1
Capitalization issue (Note ii)	449,899,999	4,499,000	3,775
Issue of shares upon the IPO (Note iii)	150,000,000	1,500,000	1,259
At 31 December 2020	600,000,000	6,000,000	5,035

Note i: Pursuant to a sole shareholder's written resolution dated 21 October 2020 (the "Resolution"), the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each by the creation of an additional 9,962,000,000 unissued shares and such shares shall rank pari passu with all existing shares upon issue.

Note ii: Pursuant to the Resolution, the Company issued additional 449,899,999 shares, credited as fully paid at par, to Oriental Ever Holdings in proportion to their then existing holdings in the Company at the close of business on the day prior to the share offer (the "Share Offer"), by way of capitalisation of approximately HK\$4,499,000 (equivalent to approximately RMB3,775,000) crediting to the Company's share premium account (the "Capitalisation Issue"). Such shares shall rank pari passu with all existing shares upon issue.

Note iii: On 17 November 2020, 150,000,000 ordinary shares of the Company of HK\$0.01 each were issued by way of Share Offer at an offer price of HK\$0.84 per share with gross proceed amounting to HK\$126,000,000 (equivalent to approximately RMB105,713,000), resulting in a share premium of HK\$124,500,000 (equivalent to approximately RMB104,454,000) (the "Share Offer"). Such shares shall rank pari passu with all existing shares upon issue.

32. Reserves

(a) Capital reserve

The capital reserve of the Group arose as a result of the acquisition of subsidiaries under common control and represented the difference between the consideration paid for the acquisition and the amount of share capital of Qun Bong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. Reserves (Continued)

(b) Statutory reserve

According to the PRC Company Law, the subsidiary in the PRC is required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

33. Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remained unchanged during the years ended 31 December 2020 and 2019.

The capital structure of the Group consists of net debt, which includes borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues as well as the raise of additional borrowings as additional capital or the redemption of existing borrowings.

34. Financial Instruments

(a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost (including bank balances and cash)	377,831	237,372
Financial liabilities		
Financial liabilities measured at amortised cost	322,146	259,764

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, bank balances and cash, amount due from a related company, trade and bills payables, accruals and other payables and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group's major operating subsidiary has foreign currency sales, which expose the Group to foreign currency risk.

The Group also exposes to foreign currency risk relates principally to its trade and bills receivables, trade and bills payables, other payables and bank balances denominated in foreign currencies other than the functional currency of the relevant group entities. Foreign currencies are also used to settle expenses for overseas operations, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities that are denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting periods are as follows:

	2020		2019	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
HK\$	95,296	4,040	2,652	1,035

As at 31 December 2020, the significant increase in the Group's monetary assets that are denominated in HK\$ was due to the receipt of proceeds from the Listing.

Sensitivity analysis

The Group entities are mainly exposed to the fluctuation of HK\$ against RMB.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against HK\$ for the year ended 31 December 2020. 5% (2019: 5%) is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates.

A negative number below indicates a decrease in profit before tax for the year where RMB strengthen 5% (2019: 5%) against the relevant currency. For a 5% (2019: 5%), weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	2020 RMB'000	2019 RMB'000
Pre-tax profit	(4,563)	(81)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (Note 26).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 22). It is the Group's policy to keep its borrowing at fixed rate of interests so as to minimise the cash flow interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group's exposure to interest rate risk in relation to variable-rate bank balances is not significant due to short-term maturities. Hence, no sensitivity is presented.

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated financial statements.

The credit risk of the Group mainly arises from bank balances and cash, trade and bills receivables, other receivables and amount due from a related company. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix with appropriate grouping based on shared credit risk characteristics with reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered amount due from a related company to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 96% (2019: 92%) of the total trade and bills receivables respectively as at 31 December 2020.

The Group has concentration of credit risk as 7% (2019: 10%) of the total trade and bills receivables was due from the Group's largest customer respectively as at 31 December 2020. 28% (2019: 32%) of the total trade and bills receivables was due from the Group's five largest customers as at 31 December 2020.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Notes	Internal credit rating	12-month or lifetime ECL	As at 31 December 2020		
				Gross carrying amount	Loss allowance	Net Carrying amount
Trade and bills receivables	19	(i)	Lifetime ECLs (not credit impaired) and simplified approach	248,673	(309)	248,364
Financial assets included in prepayments and other receivables	20	Performing	12-month ECL	169	—	169
Amount due from a related company	21	Performing	12-month ECL	65	—	65
Bank balances and cash	22	Performing	12-month ECL	129,233	—	129,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

	Notes	Internal credit rating	12-month or lifetime ECL	As at 31 December 2019		Net Carrying amount
				Gross carrying amount	Loss allowance	
Trade and bills receivables	19	(i)	Lifetime ECLs (not credit impaired) and simplified approach	172,599	(469)	172,130
Financial assets included in prepayments and other receivables	20	Performing	12-month ECL	1,797	—	1,797
Amount due from a related company	21	Performing	12-month ECL	1,321	—	1,321
Bank balances and cash	22	Performing	12-month ECL	62,124	—	62,124

Note (i): For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECLs on these items by using a provision matrix, estimated based on historical credit loss experience based on the invoice date aging status of the debtors collectively, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 19 include further details on the loss allowance for these assets respectively.

The credit quality of these financial assets was considered to be “performing” as they are not past due and there was no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Less than 1 year RMB'000	1–2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020				
Trade and bills payables	199,102	—	199,102	199,102
Accruals and other payables	27,454	—	27,454	27,454
Borrowings	98,571	—	98,571	95,590
	325,127	—	325,127	322,146
Lease liabilities	1,096	891	1,987	1,762
At 31 December 2019				
Trade and bills payables	162,519	—	162,519	162,519
Accruals and other payables	22,392	—	22,392	22,392
Borrowings	75,374	—	75,374	70,590
Amount due to the Controlling Shareholder	4,263	—	4,263	4,263
	264,548	—	264,548	259,764
Lease liabilities	3,319	123	3,442	3,272

The above financial liabilities of the Group and the Company are all repayable less than one year, except for the lease liabilities.

(c) Fair values of financial instruments

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. Related Party Transactions

- (a) Save as disclosed elsewhere in the consolidated financial statements, the Group had the following balances with related parties during the years ended 31 December 2020 and 2019:

	Notes	2020 RMB'000	2019 RMB'000
Amount due from a related party			
Dongxia	(i), (ii)	65	1,321
Maximum amount outstanding during the year			
Dongxia		3,428	102,705

Notes:

- (i) The balances are unsecured, interest free, repayable on demand and non-trade in nature.
- (ii) Dongxia is a related company incorporated in the PRC and is beneficially owned by Mr. Xue Shidong, the Controlling Shareholder of the Company.
- (iii) During the year ended 31 December 2019, amount due from Dongxia of appropriately RMB93,881,000 was settled with the dividend declared by the Company under the instruction of the Controlling Shareholder.

(b) Compensation of key management personnel

The emoluments of the directors of the Company and other members of key management during the years ended 31 December 2020 and 2019 were as follows:

	2020 RMB'000	2019 RMB'000
Short-term benefits	2,577	1,900
Post-employment benefits	130	271
	2,707	2,171

The emoluments of key management personnel is determined by the remuneration committee having regard to the performance of the individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. Related Party Transactions (Continued)

(c) Right-of-use assets

Certain right-of-use assets are leased from a related company. For the year ended 31 December 2020, the amount of rent payable by the Group under the lease is RMB4,000,000 per year (2019: RMB3,600,000 per year). Details of right-of-use assets during the years ended 31 December 2020 and 2019 are set out in Note 16.

As at 31 December 2020, the carrying amount of the related lease liabilities was RMB1,496,000 (2019: RMB3,272,000).

During the year ended 31 December 2020, the Group has made lease payments of RMB4,000,000 (2019: RMB3,600,000), to the related party.

(d) Guarantee

Certain of the Group's banking facilities were granted from pledged assets or guarantees given by the related party. Details of the banking facilities and bank borrowings granted under such facilities are set out in Note 26.

36. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for what cash flow were, or future cash flow will be, classified in the consolidated statement of cash flow as cash flow from financing activities.

	Dividend payable RMB'000 (Note 13)	Amount due to Controlling Shareholder RMB'000	Lease liabilities RMB'000 (Note 16)	Borrowings RMB'000 (Note 26)	Interest payable RMB'000 (Note 24)	Total RMB'000
As at 1 January 2020	—	4,263	3,272	70,590	132	78,257
Cash flows in	—	—	—	95,590	—	95,590
Cash flows out	—	(4,263)	(4,056)	(70,590)	(5,615)	(84,524)
Finance costs incurred (Note 8)	—	—	—	—	5,621	5,621
Early termination of a lease (Note 16)	—	—	(187)	—	—	(187)
Dividend declared (Note 13)	12,000	—	—	—	—	12,000
Non-cash movement						
Dividend offset	(12,000)	—	—	—	—	(12,000)
Exchange difference	—	—	(17)	—	—	(17)
Addition of right-of-use assets	—	—	2,750	—	—	2,750
As at 31 December 2020	—	—	1,762	95,590	138	97,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. Reconciliation of Liabilities Arising from Financing Activities (Continued)

	Dividend payable RMB'000 (Note 13)	Amount due to Controlling Shareholder RMB'000	Lease liabilities RMB'000 (Note 16)	Borrowings RMB'000 (Note 26)	Interest payable RMB'000 (Note 24)	Total RMB'000
As at 1 January 2019	—	—	6,358	74,800	154	81,312
Cash flows in	—	—	—	70,590	—	70,590
Cash flows out	—	—	(3,225)	(74,800)	(5,427)	(83,452)
Finance costs incurred (Note 8)	—	—	—	—	5,405	5,405
Dividend declared (Note 13)	113,519	—	—	—	—	113,519
Non-cash movement						
Dividend offset	(113,519)	*4,263	—	—	—	(109,256)
Addition of right-of-use assets	—	—	139	—	—	139
As at 31 December 2019	—	4,263	3,272	70,590	132	78,257

* Represents the balancing figure after set-off the dividend of approximately RMB19,638,000 through the amount due from Controlling Shareholder of approximately RMB15,375,000 during the year ended 31 December 2019. Details of the dividend are set out in Note 13.

37. Particulars of Subsidiaries

As at 31 December 2020 and 2019, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Date of incorporation/ establishment	Place of operation and establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company		Principal activity
				2020	2019	
Directly held						
Qun Bong Global Limited ("Qun Bong")	11 November 2013	The BVI	US\$1	100%	100%	Investment holding
Indirectly held						
Ya Dong (Hong Kong) International Trading Company Limited ("Yadong (Hong Kong)")	27 June 2011	Hong Kong	HK\$20,000,000	100%	100%	Investment holdings and trading of corduroy fabrics and plain weave fabrics
Yadong (Changzhou)*	27 March 2014	The PRC	US\$10,000,000	100%	100%	Dyeing, processing and trading of corduroy fabrics and plain weave fabrics

* The English name is for identification only

This entity is a limited liability enterprise established under PRC law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. Capital Commitments

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and construction in progress contracted for but not provided in the consolidated financial statements	12,917	26,371

39. Transfer of Financial Assets

Transferred financial assets that are derecognised in their entirety

As at 31 December 2020, the Group endorsed certain notes receivable from customers accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payable due to such suppliers with a carrying amount in aggregate of approximately RMB50,521,000 (2019: RMB29,199,000). The Derecognised Bills had a maturity of one to seven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2020 and 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. Information About the Statement of Financial Position of the Company

	Notes	2020 RMB'000	2019 RMB'000
Non-current Asset			
Investment in a subsidiary		92,064	92,064
Current Assets			
Prepayments		—	2,500
Dividend receivable	(a)	37,627	13,423
Cash and cash equivalents		92,476	—
		130,103	15,923
Current Liabilities			
Accruals		2,937	870
Other payables		6	—
Amounts due to subsidiaries	(b)	46,978	12,800
		49,921	13,670
Net current assets		80,182	2,253
Net assets		172,246	94,317
Capital and Reserves			
Share capital		5,035	1
Reserves	(c)	167,211	94,316
Total Equity		172,246	94,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. Information About the Statement of Financial Position of the Company (Continued)

- (a) As at 31 December 2020 and 2019, dividend receivable was from Qun Bong.
- (b) Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.
- (c) **Movements in the Company's reserves**

	Capital reserve RMB'000 (Note i)	Share premium RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2019	92,064	—	7,143	99,207
Profit and total comprehensive income for the year	—	—	108,628	108,628
Dividends paid	—	—	(113,519)	(113,519)
At 31 December 2019 and 1 January 2020	92,064	—	2,252	94,316
Loss and total comprehensive expense for the year	—	—	(3,451)	(3,451)
Issue of shares upon the IPO	—	104,454	—	104,454
Transaction cost attributable to issue of new shares	—	(12,333)	—	(12,333)
Capitalisation issue	—	(3,775)	—	(3,775)
Dividends paid	(4,312)	—	(7,688)	(12,000)
At 31 December 2020	87,752	88,346	(8,887)	167,211

Note i: Capital reserve represents the difference between the nominal value of the shares issues for acquisition of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition.