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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 RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately RMB246.4 million or approximately 30.3% from approximately RMB813.8 million for the year ended 31 December 2021 to approximately RMB1,060.2 million for the year ended 31 December 2022.
- Gross profit increased by approximately RMB27.8 million or approximately 24.2% from approximately RMB115.1 million for the year ended 31 December 2021 to approximately RMB142.9 million for the year ended 31 December 2022.
- Gross profit margin decreased from approximately 14.1% for the year ended 31 December 2021 to approximately 13.5% for the year ended 31 December 2022.
- Profit increased by approximately RMB14.7 million or approximately 41.8% from approximately RMB35.2 million for the year ended 31 December 2021 to approximately RMB49.9 million for the year ended 31 December 2022.
- Basic and diluted earnings per share was approximately RMB8.32 cents for the year ended 31 December 2022.
- The Board has proposed a final dividend of HK3.0 cents per share in respect of the year ended 31 December 2022, which is subject to the approval of the Shareholders at the AGM.

The board (the “**Board**”) of directors (the “**Directors**”) of Yadong Group Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the corresponding year ended 31 December 2021. The content of this annual results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) in relation to preliminary announcements of annual results which is prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and audited by SHINEWING (HK) CPA Limited, the auditor of the Company. Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, the financial data of the Company are presented in Renminbi (“**RMB**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Revenue	4	1,060,218	813,810
Cost of sales		<u>(917,317)</u>	<u>(698,669)</u>
Gross profit		142,901	115,141
Other income	6	8,282	10,158
Selling and distribution expenses		(30,155)	(30,050)
Administrative expenses		(45,757)	(39,966)
Finance costs	7	<u>(11,970)</u>	<u>(6,199)</u>
Profit before tax		63,301	49,084
Income tax expenses	8	<u>(13,370)</u>	<u>(13,917)</u>
Profit for the year	9	<u>49,931</u>	<u>35,167</u>
Other comprehensive expense for the year:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translating a foreign operation		<u>(3,610)</u>	<u>(471)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>46,321</u>	<u>34,696</u>
Earnings per share			
Basic and diluted (RMB cents)	11	<u>8.32</u>	<u>5.86</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Non-current Assets			
Property, plant and equipment		127,431	120,816
Right-of-use assets	<i>12</i>	51,590	6,313
Intangible assets		223	344
Investment properties		48,351	—
Earnest money paid		—	35,000
Deferred tax assets		1,191	880
		<u>228,786</u>	<u>163,353</u>
Current Assets			
Inventories	<i>13</i>	188,961	127,919
Trade and bills receivables	<i>14</i>	182,104	169,393
Prepayments and other receivables	<i>15</i>	42,001	89,724
Amount due from a related company		—	408
Time deposits		65,164	89,833
Bank balances and cash		61,413	32,476
		<u>539,643</u>	<u>509,753</u>
Current Liabilities			
Trade and bills payables	<i>16</i>	139,295	149,646
Accruals and other payables	<i>17</i>	50,410	41,563
Contract liabilities	<i>18</i>	1,663	9,579
Income tax payable		2,145	8,856
Amount due to a related company		2,310	—
Lease liabilities	<i>12</i>	7,584	88
Borrowings		288,346	219,985
		<u>491,753</u>	<u>429,717</u>
Net current assets		<u>47,890</u>	<u>80,036</u>
Total assets less current liabilities		<u>276,676</u>	<u>243,389</u>

	<i>Notes</i>	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Non-current Liabilities			
Lease liabilities	12	1,019	—
Deferred tax liabilities		<u>16,526</u>	<u>15,120</u>
		<u>17,545</u>	<u>15,120</u>
Net assets		<u>259,131</u>	<u>228,269</u>
Capital and Reserves			
Share capital		5,035	5,035
Reserves		<u>254,096</u>	<u>223,234</u>
Total Equity		<u>259,131</u>	<u>228,269</u>

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. CORPORATE INFORMATION

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. Its immediate and ultimate holding company is Oriental Ever Holdings Limited (“**Oriental Ever**”), a company with limited liability incorporated in the British Virgin Islands (the “**BVI**”). Oriental Ever is wholly and directly owned by Mr. Xue Shidong, who is also a director of the Company (the “**Controlling Shareholder**”).

The registered office of the Company 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 the Group is principally engaged in sales of fabrics products and provision of dyeing and processing services.

The consolidated financial statements are presented in 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 (“**HKFRSs**”)

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**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 2022:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020 cycle

The application of 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.

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 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Non-current Liabilities with Covenants ²
Amendments to HKAS 8	Disclosure of Accounting Policies ¹
Amendments to HKAS 12	Definition of Accounting Estimates ¹
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ Effective for annual periods beginning on or after a date to be determined

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 at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique.

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

4. 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:

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Sale of plain weave fabrics	811,752	592,310
Sale of corduroy fabrics	202,099	176,602
Provision of dyeing and processing services	46,367	44,898
	<u>1,060,218</u>	<u>813,810</u>

5. SEGMENT INFORMATION

The Directors, 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 People's Republic of China (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 location of customers.

	Revenue from external customers	
	2022 (Audited) RMB'000	2021 (Audited) RMB'000
The PRC	781,805	612,826
Japan	18,339	52,538
Other	260,074	148,446
	<u>1,060,218</u>	<u>813,810</u>

Information about major customers

There are no customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2022 and 2021.

6. OTHER INCOME

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Bank interest income	777	56
Exchange gain, net	4,252	—
Government subsidies (<i>Note i</i>)	1,081	9,378
Reversal of impairment loss on trade and bills receivables	2,026	—
Gain on disposal of Property, Plant and Equipment (“PPE”)	145	—
Sundry income	<u>1</u>	<u>724</u>
	<u>8,282</u>	<u>10,158</u>

Note:

- (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 2022 and 2021.

7. FINANCE COSTS

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Interests on:		
Borrowings	11,054	6,031
Lease liabilities	916	83
Guarantee fees	<u>—</u>	<u>85</u>
	<u>11,970</u>	<u>6,199</u>

8. INCOME TAX EXPENSES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Current tax:		
Hong Kong Profits Tax	5,955	4,630
PRC Enterprise Income Tax (“EIT”)	<u>6,320</u>	<u>7,948</u>
	<u>12,275</u>	<u>12,578</u>
Deferred tax:		
Current year	<u>1,095</u>	<u>1,339</u>
	<u>13,370</u>	<u>13,917</u>

- (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 2022 and 2021, 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., a subsidiary of the Group established in the PRC, the tax rate is 25% from 1 January 2008 onwards.

9. PROFIT FOR THE YEAR

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	2,889	3,310
Salaries, allowances and other benefits (excluding directors' emoluments)	53,730	46,829
Contributions to retirement benefits scheme (excluding directors' emoluments)	<u>7,707</u>	<u>6,453</u>
Total staff costs	<u><u>64,326</u></u>	<u><u>56,592</u></u>
Auditor's remuneration	1,142	1,282
Amortisation of intangible assets	121	134
Loss on disposal of property, plant and equipment	—	300
Amount of inventories recognised as an expense	878,210	658,603
Loss on write off of PPE	2,808	—
Depreciation of property, plant and equipment	11,053	9,175
Depreciation of right-of-use assets	5,708	4,090
Depreciation of investment properties	1,280	—
Impairment loss recognised on trade and bills receivables	—	2,790
Exchange losses, net	—	3,129
Loss on early termination of a lease	<u>—</u>	<u>349</u>

10. DIVIDENDS

During the year ended 31 December 2022, a final dividend of HK3.0 (2021: HK3.0) cents per ordinary share, in an aggregate amount of HK\$18,000,000 (equivalent to approximately RMB15,459,000) (2021: HK\$18,000,000 (equivalent to approximately RMB14,933,000)) in respect of the year ended 31 December 2021 and 2020 was declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, a final dividend of HK3.0 cents per share in respect of the year ended 31 December 2022 has been proposed by the Director and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share during the years ended 31 December 2022 and 2021 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.

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	<u>49,931</u>	<u>35,167</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>600,000</u>	<u>600,000</u>

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 2022 and 2021.

12. LEASES

(i) Right-of-use assets

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Land	40,011	6,227
Factory, warehouse and office	3,350	86
Machineries	8,229	—
	<u>51,590</u>	<u>6,313</u>

(ii) Lease Liabilities

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Analysed as:		
Current portion	7,584	88
Non-current portion	1,019	—
	<u>8,603</u>	<u>88</u>

13. INVENTORIES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Raw materials	60,095	28,467
Work in progress	51,359	35,256
Finished goods	77,507	64,196
	<u>188,961</u>	<u>127,919</u>

14. TRADE AND BILLS RECEIVABLES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Trade receivables	144,553	138,919
Bills receivables	38,624	33,573
Less: Impairment	<u>(1,073)</u>	<u>(3,099)</u>
	<u>182,104</u>	<u>169,393</u>

As at 31 December 2022, the gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB183,177,000 (2021: RMB172,492,000).

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.

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Within 30 days	99,766	115,719
31 to 60 days	33,024	30,814
61 to 90 days	30,454	11,346
91 to 180 days	<u>18,860</u>	<u>11,514</u>
Total	<u>182,104</u>	<u>169,393</u>

15. PREPAYMENTS AND OTHER RECEIVABLES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Prepayments to suppliers	31,548	83,550
Other tax recoverables	9,110	4,925
Others	<u>1,343</u>	<u>1,249</u>
	<u>42,001</u>	<u>89,724</u>

Expected credit losses 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 2022 and 2021.

16. TRADE AND BILLS PAYABLES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Trade payables	139,295	146,846
Bills payables	<u>—</u>	<u>2,800</u>
	<u>139,295</u>	<u>149,646</u>

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

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Within 30 days	87,507	100,360
31 to 60 days	15,523	21,116
61 to 90 days	13,320	7,433
91 to 180 days	20,928	20,267
181 to 365 days	1,746	432
Over 365 days	<u>271</u>	<u>38</u>
Total	<u>139,295</u>	<u>149,646</u>

The average 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.

17. ACCRUALS AND OTHER PAYABLES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Accrued salaries (<i>Note a</i>)	11,882	11,937
Consideration payable (<i>Note b</i>)	21,000	—
Accrued expenses	3,097	27,813
Interest payables	456	396
Dividend payable	13,620	1,144
Others	355	273
	<u>50,410</u>	<u>41,563</u>

Notes:

- (a) Accrued salaries included emoluments payable to the Directors amounting to approximately RMB1,613,000 (2021: RMB1,381,000) as at 31 December 2022.
- (b) It included consideration payable of approximately RMB21,000,000 which is due for payment pursuant to the sale and purchase agreement with the vendor of Lion Union. Remaining RMB13,000,000 and RMB8,000,000 are required to pay within 6 months and 1 year after the acquisition date respectively.

18. CONTRACT LIABILITIES

	2022 (Audited) RMB'000	2021 (Audited) RMB'000
Contract liabilities	<u>1,663</u>	<u>9,579</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2022, the PRC economy steadily recovered from the continuous impact of the COVID-19 pandemic and the US-China trade war. According to the National Bureau of Statistics of China, the gross domestic product of the PRC reached RMB121,020.7 billion in 2022, representing a year-on-year increase of 3%.

Notwithstanding the steady economic recovery in 2022, the haphazard recurrence of COVID-19 and uncertainties in the macro-economic environment impaired consumer sentiment and weakened consumer spending. In 2022, the total retail sales of social consumer goods was RMB43,973.3 billion, representing a year-on-year decrease of 0.2%. In particular, the total retail sales of garments, footwear, hats and knitwear in 2022 was RMB1,300.3 billion, representing a year-on-year decrease of 6.5%. Such downward trends have created challenges to the dyeing and finishing industry in the PRC.

BUSINESS REVIEW

In 2022, despite the challenging business environment, the operating results of the Group has continued to improve remarkably. The Group recorded revenue of approximately RMB1,060.2 million for the year ended 31 December 2022, representing an increase of approximately 30.3% as compared to approximately RMB813.8 million the year ended 31 December 2021. The Group's gross profit increased by approximately 24.2% from approximately RMB115.1 million for the year ended 31 December 2021 to approximately RMB142.9 million for the year ended 31 December 2022. The gross profit margin of the Group slightly decreased from approximately 14.1% for the year ended 31 December 2021 to approximately 13.5% for the year ended 31 December 2022. The Group's profit increased by approximately 41.8% from approximately RMB35.2 million for the year ended 31 December 2021 to approximately RMB49.9 million for the year ended 31 December 2022.

PROSPECT

Stepping into 2023, as the COVID-19 is generally brought under control around the globe, the global economy is expected to recover gradually with stable growth momentum. Consumer activities are expected to become more active hence boosting the demand in the apparel and textile industries.

Looking ahead, the Group is positive about its prospects for 2023. In terms of sales, the Group will increase its sales and marketing effort in the PRC with the aim of capitalising on business opportunities arising from the revival of domestic demand and expanding its sales and market share in the PRC market. Apart from seeking more orders from its existing customers, the Group will actively reach out to new customers so as to broaden its customer base.

In terms of production, under the influence of the US-China trade war, an increasing number of international apparel brands have been focusing their production activities in Southeast Asia countries in recent years. Under such trend, the Group is looking into the feasibility of establishing a presence in Bangladesh through collaborating with local partners and/or setting up our own production facilities,

which will enable the Group to maintain proximity to the production bases of apparel brand customers and benefit from the geographical advantages thereof, thereby obtaining more orders from branded customers. Besides, with the lower production costs in Bangladesh compared to the PRC, the profitability of the Group is expected to be improved. The Group will closely monitor the demand from different geographical markets and explore suitable opportunities to expand overseas, in an effort to stimulate our long-term growth.

Going forward, the Group will strive to reduce its operating cost and enhance production efficiency and product quality by installing automation systems in its production process.

With its solid reputation, diversified product portfolio, strong product development capabilities and experienced management, the Group is confident that it can enhance its competitiveness and business stature and sustain development, leading ultimately to the delivery of maximum returns to its shareholders over the long term.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by approximately RMB246.4 million or approximately 30.3% from approximately RMB813.8 million for the year ended 31 December 2021 to approximately RMB1,060.2 million for the year ended 31 December 2022. Such increase was primarily attributable to (i) increase in production volume of the Group during the year ended 31 December 2022; and (ii) market recovery resulting from the containment of COVID-19 pandemic.

Cost of Sales

The cost of sales of the Group increased by approximately RMB218.6 million or approximately 31.3% from approximately RMB698.7 million for the year ended 31 December 2021 to approximately RMB917.3 million for the year ended 31 December 2022. Such increase was primarily attributable to (i) the increase in the cost of materials from approximately RMB545.0 million to approximately RMB726.7 million during the same period, which was in line with the increase in total sales; (ii) the increase in the subcontracting costs from approximately RMB28.5 million to approximately RMB35.0 million during the same period, which was due to a higher demand of subcontracting resulted from the increase in sales; (iii) the increase in the utility cost from approximately RMB61.3 million to approximately RMB76.1 million during the same period; and (iv) the increase in the direct labour cost from approximately RMB31.5 million to approximately RMB38.8 million during the same period, which was due to the higher level of production activities taken place for the textile fabric product.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by approximately RMB27.8 million or approximately 24.2% from approximately RMB115.1 million for the year ended 31 December 2021 to approximately RMB142.9 million for the year ended 31 December 2022. Such increase was primarily attributable to the increase in the revenue of the Group as discussed above. The gross profit margin of the Group

decreased from approximately 14.1% for the year ended 31 December 2021 to approximately 13.5% for the year ended 31 December 2022. Such decrease was primarily attributable to (i) the increase in the cost of sales of the Group as explained above; and (ii) decrease in average unit selling price of the textile fabric products of the Group during the same period.

Other Income

Other income of the Group decreased from approximately RMB10.2 million for the year ended 31 December 2021 to approximately RMB8.3 million for the year ended 31 December 2022. Such decrease was primarily attributable to (i) the decrease in government subsidies to approximately RMB1.1 million from approximately RMB9.4 million during the same period; and (ii) decrease in sundry income from approximately RMB724,000 to approximately RMB1,000 for the corresponding period, which was partially offset by the increase in bank interest income from approximately RMB56,000 to approximately RMB777,000.

Selling and Distribution Expenses

The selling and distribution expenses of the Group increased by approximately RMB0.1 million or approximately 0.3% from approximately RMB30.1 million for the year ended 31 December 2021 to approximately RMB30.2 million for the year ended 31 December 2022. Such increase was primarily attributable to the increase in costs for exploring new customers.

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB40.0 million for year ended 31 December 2021 to approximately RMB45.8 million for the year ended 31 December 2022. Such increase was primarily attributable to the acquisition of machineries and equipment during the same period.

Finance Costs

Finance costs of the Group increased from approximately RMB6.2 million for year ended 31 December 2021 to approximately RMB12.0 million for the year ended 31 December 2022. Such increase was primarily attributable to the increase in the average bank borrowings during the same period.

Income Tax Expenses

Income tax expenses of the Group decreased from approximately RMB13.9 million for year ended 31 December 2021 to approximately RMB13.4 million for the year ended 31 December 2022. Such decrease was primarily attributable to the decrease in the deferred tax from approximately RMB1.3 million to approximately RMB1.1 million during the same period.

The effective income tax rate of the Group decreased from approximately 28.4% for the year ended 31 December 2021 to approximately 21.1% for the year ended 31 December 2022, which was primarily attributable to the decrease in income tax expenses mainly due to the decrease in deferred tax during the same period as explained above.

Profit

As a result of the foregoing, the profit for the year of the Group increased by approximately RMB14.7 million or approximately 41.8% from approximately RMB35.2 million for the year ended 31 December 2021 to approximately RMB49.9 million for the year ended 31 December 2022.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 14 January 2022, 亞東(常州)科技有限公司* (Yadong (Changzhou) Science & Technology Co., Ltd.) (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with HK Hua Hai Capital Investment Construction Management Limited (香港華海資本投資建設管理有限公司) (the “**Vendor**”), an independent third party, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 100% equity interest in 雄聯(常州)紡織印染有限公司* (Lion Union (Changzhou) Textile Dyeing Company Limited) at a consideration of RMB80.0 million (the “**Acquisition**”).

The Acquisition was completed on 27 October 2022. Please refer to the announcement of the Company dated 14 January 2022 for further details.

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries, associates or associated companies during the year ended 31 December 2022.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments of approximately RMB0.9 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 2022, the Group did not have any significant contingent liabilities (2021: 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.

* *for identification purpose only*

FOREIGN EXCHANGE EXPOSURE

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

GEARING RATIO

As at 31 December 2022, the gearing ratio of the Group (defined as total liabilities divided by total assets and multiplied by 100%) was approximately 66.3% (2021: approximately 66.1%). Such increase was mainly due to the increase in bank borrowings 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 2022, the Group had bank balances and cash of approximately RMB61.4 million (2021: approximately RMB32.5 million). As at 31 December 2022, the current ratio of the Group was approximately 1.1 times (2021: approximately 1.2 times). Such decrease was mainly due to increase in bank borrowings of the Group for the year ended 31 December 2022. 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 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 announcement.

CHARGE ON ASSETS

As at 31 December 2022, the Group's assets amounted to approximately RMB143.0 million was charged (2021: approximately RMB76.4 million) to secure certain banking facilities for the Group.

	2022 <i>RMB'000</i> (Audited)	2021 <i>RMB'000</i> (Audited)
Buildings — included in property, plant and equipment	39,477	43,658
Trade and bills receivables	—	6,209
Right-of-use assets	40,011	6,227
Investment properties	48,351	—
Machineries	15,144	20,334
	<u>142,983</u>	<u>76,428</u>

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had a total of 482 full-time employees (2021: 482). 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 2022, staff costs of the Group amounted to approximately RMB64.3 million, representing mainly salaries, allowances and other benefits, and contributions to retirement benefit scheme.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business is subject to the relevant national and local environmental laws and regulations in China, such as the Environmental Protection Law of the People's Republic of China. These laws and regulations govern a broad range of environmental matters, including discharge of wastewater and disposal of hazardous waste. A summary of the environmental protection laws and regulations applicable to the Group is set out in "Regulatory overview" in the prospectus of the Company dated 30 October 2020 (the "**Prospectus**").

During the year ended 31 December 2022, the Group is not subject to any major environmental claims, lawsuits, penalties, administrative or disciplinary actions.

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

There was no significant event that took place after the year ended 31 December 2022 which require additional disclosures or adjustments.

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**”). As disclosed in the announcement of the Company dated 14 January 2022 (the “**UOP Announcement**”), the Board has resolved to (i) change the use of Net Proceeds by reallocating approximately HK\$32.8 million of the Net Proceeds originally planned for expansion of production capacity and product coverage to acquisition of the Target Company with the Properties (as defined in the UOP Announcement); and (ii) extend the expected timeline for fully utilising the unutilised Net Proceeds. The table below sets forth the original allocation of the Net Proceeds, the revised allocation, the utilisation of the Net Proceeds for the period from the Listing Date to 31 December 2021 and during the year ended 31 December 2022 and revised timeline for fully utilising the unutilised Net Proceeds:

	Planned use of Net Proceeds as set out in the Prospectus <i>HK\$ million</i>	Revised allocation <i>HK\$ million</i>	Actual Use of Net Proceeds for the period from the Listing Date to 31 December 2021 <i>HK\$ million</i>	Utilised amount of the Net Proceeds as at 31 December 2021 <i>HK\$ million</i>	Actual Use of Net Proceeds for the period from 1 January 2022 to 31 December 2022 <i>HK\$ million</i>	Unutilised amount of the Net Proceeds as at 31 December 2022 <i>HK\$ million</i>	Revised timeline for fully utilising the unutilised Net Proceeds (<i>Note</i>)
(i) Expansion of production capacity and product coverage by upgrading and improving our existing production lines and technical capabilities	51.7	18.9	Nil	18.9	18.9	Nil	N/A
(ii) Acquisition of the Target Company with the Properties	Nil	32.8	Nil	32.8	32.8	Nil	N/A
(iii) Acquisition of a company with existing production plant in Jiangsu province, the PRC	22.0	22.0	Nil	Nil	Nil	22.0	By 31 December 2023
(iv) General corporate purposes and working capital	8.2	8.2	Nil	8.2	8.2	Nil	N/A
	<u>81.9</u>	<u>81.9</u>	<u>Nil</u>	<u>59.9</u>	<u>59.9</u>	<u>22.0</u>	

Note: The expected timeline is based on the best estimation made by the Board which might be subject to changes depending on the market conditions from time to time.

Please refer to the UOP Announcement for details of the reasons for the change in use of Net Proceeds and information on the Target Company and Properties.

Up to the date of this announcement, the Net Proceeds had not yet been fully utilised. As at the date of this announcement, the unutilised proceeds were placed in interest-bearing deposits with licensed bank in Hong Kong.

As disclosed in the Annual Report 2021, the Group originally intended to utilise the Net Proceeds allocated for acquisition of a company with existing production plant in Jiangsu province, the PRC by 30 June 2022. However, the Group requires more time than expected to identify suitable acquisition

target at a reasonable price which matches the criteria set out in the Prospectus for utilising the allocated Net Proceeds. As at the date of this announcement, despite the Group's efforts, it has yet to identify suitable targets for acquisition that the Board considers to be beneficial to the Group and its shareholders as a whole. The Group will continue to search for suitable acquisition targets. If the Company enters into any agreement or arrangement on relevant acquisitions, the Company will make further announcement in accordance with the Listing Rules as and when required.

The Directors regularly evaluate the Group's business objectives and may change or modify plans against the changing market condition to ascertain the business growth of the Group. As at the date of this announcement, the Directors considered that no modification of the use of Net Proceeds described in the UOP Announcement was required.

DIVIDEND

The Board recommended the payment of a final dividend of HK3.0 cents per share for the year ended 31 December 2022. 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 Wednesday, 28 June 2023 (the "**AGM**") and the final dividend will be payable on Friday, 18 August 2023 to the Shareholders whose names appear on the register of members of the Company on Thursday, 6 July 2023.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold the AGM on Wednesday, 28 June 2023. The register of members of the Company will be closed from Friday, 23 June 2023 to Wednesday, 28 June 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer 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, 21 June 2023.

The register of members of the Company will also be closed from Tuesday, 4 July 2023 to Thursday, 6 July 2023, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer 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 Monday, 3 July 2023.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing

Rules as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the year ended 31 December 2022, except for deviation from code provision C.2.1 as explained under the paragraph headed “Chairman and Chief Executive Officer” below.

Chairman and Chief Executive Officer

Code provision C.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 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s audited financial results for the year ended 31 December 2022 and the accounting principles and practices adopted by the Group and discussed risk management, internal control and financing reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2022.

SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Company’s auditor to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by the Company’s auditor in this respect did not constitute an assurance

engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yadongtextile.com). The annual report of the Company for the year ended 31 December 2022 will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company according to the requirements of the Listing Rules.

By order of the Board
Yadong Group Holdings Limited
Xue Shidong
Chairman

Hong Kong, 30 March 2023

As at the date of this announcement, the Company has five executive Directors, namely Mr. Xue Shidong, Mr. Wang Bin, Mr. Xiang Wenbin, Ms. Zhang Yeping and Mr. Jin Rongwei; and three independent non-executive Directors, namely Mr. Zhu Qi, Mr. Ho Kin Cheong Kelvin and Mr. Wang Hongliang.