



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

2021

Annual Report



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
89	Independent Auditor's Report
94	Consolidated Statement of Profit or Loss and Other Comprehensive Income
95	Consolidated Statement of Financial Position
97	Consolidated Statement of Changes in Equity
98	Consolidated Statement of Cash Flows
100	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 (resigned on 26 April 2022)
Mr. Xiang Wenbin (appointed on 26 April 2022)
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 (resigned on 26 April 2022)
Mr. Xue Shidong (appointed on 26 April 2022)
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
Registered Public Interest Entity Auditor
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				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	813,810	771,461	866,674	861,477	661,726
Cost of sales	(698,669)	(644,525)	(737,131)	(748,293)	(580,036)
Gross profit	115,141	126,936	129,543	113,184	81,690
Profit before tax	49,084	56,865	73,909	65,104	42,838
Profit for the year	35,167	35,992	52,664	49,085	30,563
Profit attributable to owners of the Company	35,167	35,992	52,664	49,085	30,563

Assets and Liabilities

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	673,106	565,113	395,835	411,985	394,722
Total liabilities	(444,837)	(356,607)	(300,910)	(257,458)	(278,337)
Equity attributable to owners of the Company	228,269	208,506	94,925	154,527	116,385

Notes:

- The financial figures for the year ended/as at 31 December 2021 were extracted from the consolidated financial statements in this annual report.
- The financial figures for the year ended/as at 31 December 2020 were extracted from the consolidated financial statements in the annual report of the Group for the year ended 31 December 2020 (the "Annual Report 2020").
- 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**”), I am pleased to present the annual report of the Group for the year ended 31 December 2021.

Results of Operation

In 2021, the economy in the PRC rapidly recovered from the impact of the COVID-19 pandemic due to effective pandemic controlling measures, and continued to remain robust. The economic stimulus measures implemented by the PRC government has stimulated consumer sentiment, resulting in an increase in demand for apparel products. The apparel retail market in the PRC recorded positive growth in 2021, which is favourable to the stable and positive development of the textile industry.

In addition to keeping focus on its core business of designing, processing and selling textile fabric products, the Group consistently makes efforts in diversifying its product portfolio to meet the latest market trends. In particular, the rising consumer awareness of health and work-from-home policies under the pandemic have led to growing demand for more versatile, comfortable and stylish sportswear. With an aim to capture the business opportunities arising from the athleisure apparel market, the Group successfully launched a collection of high-performance athleisure fabrics products by putting more resources in product design and development.

The Group's overall performance in 2021 has improved compared with the previous year. For the year ended 31 December 2021, the Group recorded a revenue of approximately RMB813.8 million, representing an increase of approximately 5.5% as compared with that of the year ended 31 December 2020. Gross profit margin was approximately 14.1% for the year ended 31 December 2021 which was approximately 2.3 percentage point lower than that for the year ended 31 December 2020. The Group's total comprehensive income attributable to owners of the Company was approximately RMB34.7 million for the year ended 31 December 2021, representing a year-on-year increase of approximately 7.7%.

CHAIRMAN'S STATEMENT

Outlook

Going forward, our business growth is expected to be driven by rising disposable income, growing retail value of apparel in the PRC and global economic recovery. The Group is cautiously optimistic about its prospects for 2022. It will strive to expand its market shares through diversification of its product portfolio and explore business opportunities in new markets with high growth potential. It will also continue to invest in product design and development, including the development of environmental-friendly textile fabrics products in line with its commitment to promoting environmental sustainability. In addition, the Group will seek to promote its new products and expand its customer base through active participation in major industry events.

With the resurgence of COVID-19 pandemic globally in the first quarter of 2022, it is expected that the recovery in the global economy would remain fragile. In particular, distancing measures implemented by governments worldwide in response to the COVID-19 pandemic have hindered the normal functioning of the global supply chain, and it remains to be seen to what extent the textile fabric product related industry would be adversely affected as a result. Meanwhile, the Board will continue to closely monitor the situation of the COVID-19 pandemic in the Mainland China and Hong Kong region and assess the potential implications on the Group's operations. Despite the uncertainty in the near future, we will remain focused on striving towards our long-term goals and sustainable development. The Board will take appropriate and timely measures to overcome any challenges arising from the COVID-19 pandemic.

Lastly, the Group believes that, with the implementation of its business strategies and the continuous enhancement of its product development capabilities and marketing efforts, it can create long-term values for all shareholders of the Company.

Appreciation

On behalf of the Board, I wish to take this opportunity to extend my sincere appreciation to the Group's management and staff for their commitment and dedication throughout the year. I would also like to express my heartfelt gratitude to all of our business partners, customers, suppliers and shareholders for their continuous support.

Mr. Xue Shidong

Chairman of the Board

PRC, 23 April 2022

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

In 2021, the economy of the PRC demonstrated resilience although the COVID-19 pandemic remained a threat to the global economic recovery. With the launch of mass vaccination programme and other effective measures implemented by the PRC government, the pandemic was by and large brought under control in the PRC. The once declining economy in the PRC rapidly recovered and continued to remain robust with a gross domestic product (GDP) of approximately RMB114.4 trillion in 2021, representing a year-on-year growth of 8.1%, according to the statistics of the National Bureau of Statistics of China. The economic stimulus measures implemented by the PRC government has stimulated consumer sentiment and spending, which has in turn led to an increase in demand for apparel products. According to the statistics published by the National Bureau of Statistics of China, the total retail sales of consumer goods in the PRC amounted to approximately RMB44.1 trillion in 2021, representing a year-on-year increase of approximately 12.5%. The retail market of apparel in the PRC reached RMB148.7 billion in 2021 at an annual growth rate of approximately 12.7%.

The domestic apparel market is undergoing transformation in the midst of the pandemic. The rising consumer awareness of health and resumption of major international sports events have led to growing interest and participation in sports and outdoor activities among the public, creating strong demand for sportswear and functional clothing. In the meantime, more casual clothing has increasingly been accepted for work under the new form of working environment and flexible working hours resulting from the work-from-home policies adopted by many corporations. As people tend to spend more time staying at home, consumers are now focusing more on the level of comfort and practicality when purchasing clothing. Consequently, there is a shift in customer preference towards versatile, functional and comfortable clothing which can be worn both for exercising and as part of everyday outfit. Given the continuous impact of the pandemic, athleisure fashion is clearly gaining its popularity.

Business Review

The Group continued to focus on strengthening its core business of designing, processing and selling textile fabric products, while consistently makes efforts in diversifying its product portfolio to adapt to the latest market trends and changes in customers' preference. With the aim of strengthening its product design and development capabilities, the Group has expanded its design and development team by recruiting additional personnel including apparel designers who possess relevant technical knowledge and experience in the textile and apparel industries.

MANAGEMENT DISCUSSION AND ANALYSIS

In response to the growing demand for more versatile, comfortable and stylish sportswear, the Group successfully launched a collection of high-performance athleisure fabrics products. For example, the Group developed a high-stretch cotton-like polyester material which combines the natural look and soft texture of cotton with superior properties of quick drying and high elasticity, making it suitable to be widely used for daily wear, work and light workout. The athleisure fabric products of the Group have currently been used for manufacturing apparel products for a number of leisure wear apparel brands. Meanwhile, the Group has tapped into the sportswear market. Various leading sportswear companies in the PRC are selling apparel products made from the Group's athleisure fabric products. Taking advantage of the athleisure fabric collection, the Group is well positioned to further penetrate into the sportswear and outdoor sports market in the near future and capitalise on the new opportunities arising therefrom.

The Group recorded revenue of approximately RMB813.8 million for the year ended 31 December 2021, representing an increase of approximately 5.5% as compared to approximately RMB771.5 million for the year ended 31 December 2020, which was mainly attributable to the increase in production volume of the Group. The Group's gross profit decreased by approximately 9.3% from approximately RMB126.9 million for the year ended 31 December 2020 to approximately RMB115.1 million for the year ended 31 December 2021. The gross profit margin of the Group decreased from approximately 16.4% for the year ended 31 December 2020 to approximately 14.1% for the year ended 31 December 2021. The Group's total comprehensive income attributable to owners of the Company increased by approximately 7.8% from approximately RMB32.2 million for the year ended 31 December 2020 to approximately RMB34.7 million for the year ended 31 December 2021.

Prospect

Stepping into 2022, the increasing vaccination rate around the globe gives hope that the pandemic will be brought under control and global economic recovery will commence. Consumer activities will become more active hence bringing an upward demand in the apparel and textile industries.

Looking ahead, the Group is positive about its prospects for 2022. It will strive to expand its market shares through diversification of its product portfolio and explore business opportunities in new markets with high growth potential, in particular, the sportswear market is accorded the highest priority. The Group also seeks to work in collaboration with other leading organisations in the textile industry with a view to keeping itself abreast of the latest industry development and market trend. Through active participation in major industry events, it opens opportunities for the Group to promote its new products and to attract new customers.

The Group is a forward-looking enterprise. It will continue to focus on and invest in product design and development as this will remain the foundation and catalyst for the Group's advancement. In 2022, the Group has successfully applied for the status of "Fabrics China Pioneer Plant" in the categories of corduroy fabrics and woven fabrics, which serves as a recognition of the strong product development capabilities of the Group. Moving forward, the Group will devote resources for the development of environmental-friendly textile fabrics products in line with its commitment to promoting environmental sustainability.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The revenue of the Group increased by approximately RMB42.3 million or approximately 5.5% from approximately RMB771.5 million for the year ended 31 December 2020 to approximately RMB813.8 million for the year ended 31 December 2021. Such increase was primarily attributable to (i) increase in production volume of the Group during the year ended 31 December 2021; 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 RMB54.2 million or approximately 8.4% from approximately RMB644.5 million for the year ended 31 December 2020 to approximately RMB698.7 million for the year ended 31 December 2021. Such increase was primarily attributable to (i) the increase in the cost of materials from approximately RMB524.0 million to approximately RMB545.0 million during the same period, which was in line with the increase in total sales; (ii) the increase in the subcontracting costs from approximately RMB17.7 million to approximately RMB28.5 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 RMB50.9 million to approximately RMB61.3 million during the same period; and (iv) the increase in the direct labour cost from approximately RMB30.3 million to approximately RMB31.5 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 decreased by approximately RMB11.8 million or approximately 9.3% from approximately RMB126.9 million for the year ended 31 December 2020 to approximately RMB115.1 million for the year ended 31 December 2021. Such decrease was primarily attributable to the increase in the cost of sales of the Group as discussed above. The gross profit margin of the Group decreased from approximately 16.4% for the year ended 31 December 2020 to approximately 14.1% for the year ended 31 December 2021. 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 increased from approximately RMB6.7 million for the year ended 31 December 2020 to approximately RMB10.2 million for the year ended 31 December 2021. Such increase was primarily attributable to the increase in government subsidies to approximately RMB9.4 million from approximately RMB3.7 million during the same period, which was partially offset by the (i) decrease in bank interest income from approximately RMB130,000 to approximately RMB56,000; and (ii) decrease in sundry income from approximately RMB1.1 million to approximately RMB724,000 for the corresponding period.

Selling and Distribution Expenses

The selling and distribution expenses of the Group increased by approximately RMB6.5 million or approximately 27.5% from approximately RMB23.6 million for the year ended 31 December 2020 to approximately RMB30.1 million for the year ended 31 December 2021. Such increase was primarily attributable to the increase in costs for exploring new customers.

Administrative Expenses

Administrative expenses of the Group decreased from approximately RMB47.6 million for year ended 31 December 2020 to approximately RMB40.0 million for the year ended 31 December 2021. Such decrease was primarily attributable to the decrease in the listing expenses of the Group from approximately RMB16.5 million to nil during the same period.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs of the Group increased from approximately RMB5.6 million for year ended 31 December 2020 to approximately RMB6.2 million for the year ended 31 December 2021. 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 RMB20.9 million for year ended 31 December 2020 to approximately RMB13.9 million for the year ended 31 December 2021. Such decrease was primarily attributable to the decrease in the current tax from approximately RMB17.1 million to approximately RMB12.6 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 decreased from approximately 36.7% for the year ended 31 December 2020 to approximately 28.4% for the year ended 31 December 2021, which was primarily attributable to the decrease in the non-tax deductible listing expenses from approximately RMB16.5 million to nil during the same period.

Profit

As a result of the foregoing, the profit for the year of the Group decreased by approximately RMB0.8 million or approximately 2.2% from approximately RMB36.0 million for the year ended 31 December 2020 to approximately RMB35.2 million for the year ended 31 December 2021.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2021.

Capital Commitments

As at 31 December 2021, the Group had capital commitments of approximately RMB8.8 million, which were mainly related to the acquisition of the plant and machineries, and the development of the design and research centre. For details, please refer to note 39 to the consolidated financial statements.

Contingent Liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities (2020: 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 2021, the gearing ratio of the Group (defined as total liabilities divided by total assets and multiplied by 100%) was approximately 66.1% (2020: approximately 63.1%). Such decrease was mainly due to the increase in bank borrowings of the Group. The basis of calculation of the gearing ratio of the Group adopted in the Annual Report 2020 was borrowings and lease liabilities divided by total equity and multiplied by 100%.

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 2021, the Group had bank balances and cash of approximately RMB32.5 million (2020: approximately RMB129.2 million). As at 31 December 2021, the current ratio of the Group was approximately 1.2 times (2020: approximately 1.4 times). Such decrease was mainly due to increase in bank borrowings of the Group for the year ended 31 December 2021. 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 Main Board of The Stock Exchange of Hong Kong Limited (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 2021, the Group’s assets amounted to approximately RMB76.4 million was charged (2020: approximately RMB30.4 million) to secure certain banking facilities for the Group.

	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Buildings — included in property, plant and equipment	43,658	—
Bills receivables	6,209	—
Right-of-use assets	6,227	6,372
Machineries	20,334	24,038
	76,428	30,410

Significant Investments Held

Except for the Company’s investment in various subsidiaries, the Company did not hold any significant investments as at 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Plans for Material Investments and Capital Assets

Save as disclosed in this annual report, during the year ended 31 December 2021, the Group had no future plan for material investments and capital assets.

Employees and Remuneration Policies

As at 31 December 2021, the Group had a total of 482 full-time employees (2020: 472). 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 2021, staff costs of the Group amounted to approximately RMB56.6 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 2021. 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, 28 June 2022 (the “**AGM**”) and the final dividend will be payable on Thursday, 18 August 2022 to the Shareholders whose names appear on the register of members of the Company on Thursday, 7 July 2022.

Subsequent Events after Reporting Period

Save as disclosed in note 42 to the consolidated financial statements, there was no significant event that took place after the year ended 31 December 2021 and up to the date of this annual report.

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 59, 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 51, 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. Xiang Wenbin (香文斌), aged 44, was appointed as an executive Director on 26 April 2022.

Mr. Xiang has more than 21 years of experience in information technology. From February 2001 to November 2012, Mr. Xiang worked for Tencent Technology (Shenzhen) Co., Ltd.* (“**Tencent Technology**”) (騰訊科技(深圳)有限公司), being a subsidiary of Tencent Holdings Limited (stock code: 700), the issued shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited, with his last position as a senior management staff of Tencent Technology. Since 2015, Mr. Xiang has acted as the chief executive officer of Shenzhen Shengshi Liuyi Network Technology Co., Ltd.* (深圳市盛世六一網路科技有限公司), which is principally engaged in the development of online games and software and provision of information technology services, and he is primarily responsible for overall business management, strategic planning and daily operation. Since 2018, Mr. Xiang has also been a director of Chengdu Tengyun Yixiang Technology Co., Ltd.* (成都騰雲憶想科技有限公司), which is principally engaged in the provision of information system integration services. Besides, he is currently a director of Tencent Cloud (Chongqing) Intelligent Technology Co., Ltd.* (騰訊雲(重慶)智能科技有限公司), which is principally engaged in the development of software and provision of information technology services.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang Yeping (張葉萍), aged 52, 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 47, 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 50, 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 54, 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 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. 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 50, 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 45, 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 2021.

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 2021, 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 2021, 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 2021 are set out in the consolidated financial statements on pages 94 to 150 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 2021. 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, 7 July 2022, 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 Thursday, 18 August 2022.

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, 28 June 2022. The notice of the AGM will be published and despatched 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 Tuesday, 23 June 2022 to Tuesday, 28 June 2022, both days inclusive, during which period no transfer of Shares will be registered. 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, 22 June 2022.

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, 5 July 2022 to Thursday, 7 July 2022 (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, 4 July 2022.

Business Review

A fair review of the business and a discussion and analysis of the Group's performance during the year ended 31 December 2021 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 2021, 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 2021, 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 five 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 2021.

Relationship with Stakeholders

Employees

As at the date of this annual report, we had a total of 482 employees, of which 481 were based in the PRC and 1 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 2021 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 2021, the Group's sales to its five largest customers accounted for 23.8% of the Group's total sales and sales to the largest customer accounted for 6.1%.

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 2021.

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 2021, purchases from the Group's five largest suppliers accounted for 63.6% of the Group's total purchases and purchases from the largest supplier accounted for 25.7%.

Save as disclosed in this annual report, during the year ended 31 December 2021, 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 2021 are set out in note 32 to the consolidated financial statements.

As at 31 December 2021, 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 2021 are set out in note 33 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2021, pursuant to the relevant laws and regulations, the Company has distributable reserves of RMB206.1 million in total available for distribution, of which RMB14.7 million has been proposed as final dividend payment for the year ended 31 December 2021.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company as at 31 December 2021 are set out in note 27 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 2021 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 2021 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 (resigned on 26 April 2022)	Executive Director
Mr. Xiang Wenbin (appointed on 26 April 2022)	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. Xiang Wenbin and Ms. Zhang Yeping 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, Mr. Xue Shidong, Mr. Wang Bin, Mr. Qiu Jianyu (who resigned on 26 April 2022), Ms. Zhang Yeping and Mr. Jin Rongwei, 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.

The executive Director, Mr. Xiang Wenbin (who was appointed on 26 April 2022), has entered into a service agreement with the Company for an initial term of three years commencing from 26 April 2022, which may be terminated by not less than three months' notice in writing served by either party.

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 2021, 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 2021, 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 2021, 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.

REPORT OF DIRECTORS

Save as disclosed above, as at 31 December 2021, 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 2021, 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 2021, 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 2021.

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 Shareholders**") 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 2021. 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

Related Party Transactions

Details of the related party transactions entered into by the Group during the year ended 31 December 2021 are set out in note 36 to the consolidated financial statements. The Directors consider that those related party transactions did not fall under the definition of “connected transaction” or “continuing connected transaction” under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders’ approval requirements under the Listing Rules. The Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Directors’ Interests in Transactions, Arrangements or Contracts of Significance

No Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is of 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 2021 or at the end of the year ended 31 December 2021.

Controlling Shareholders’ Interests in Contract of Significance

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 2021.

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 2021 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 2021.

Except for such insurances, at no time during the year ended 31 December 2021 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.

Staff, Emolument Policy and Directors’ Remuneration

As of the date of this annual report, we had a total of 482 employees, of which 481 were based in the PRC and 1 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.

REPORT OF DIRECTORS

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 2021 are set out in notes 11 and 12 to the consolidated financial statements.

The table below shows the emolument of senior management by band for the year ended 31 December 2021:

Emoluments bands in Hong Kong Dollars (“HK\$”)	Number of Individuals
Nil to HK\$1,000,000	2

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.

REPORT OF DIRECTORS

(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.

(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 the 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 2021, the remaining life of the Share Option Scheme is approximately eight 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 2021, 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 2021.

Charitable Donations

There was no donation made by the Group during the year ended 31 December 2021.

Purchase, Sale or Redemption of Listed Securities

During the period from the Listing Date to 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REPORT OF DIRECTORS

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 utilisation of the Net Proceeds as at the date of the UOP Announcement, revised allocation and revised timeline for fully utilising the unutilised Net Proceeds:

	Planned use of Net Proceeds as set out in the Prospectus HK\$ million	Utilised amount of the Net Proceeds as at the date of the UOP Announcement HK\$ million	Unutilised amount of the Net Proceeds as at the date of the UOP Announcement HK\$ million	Revised allocation HK\$ million	Revised timeline for fully utilising the unutilised Net Proceeds (Note)
(i) Expansion of production capacity and product coverage by upgrading and improving our existing production lines and technical capabilities	51.7	Nil	51.7	18.9	By 30 June 2022
(ii) Acquisition of the Target Company with the Properties	Nil	Nil	Nil	32.8	By 30 June 2022
(iii) Acquisition of a company with existing production plant in Jiangsu province, the PRC	22.0	Nil	22.0	22.0	By 31 December 2022
(iv) General corporate purposes and working capital	8.2	Nil	8.2	8.2	By 30 June 2022
	81.9	Nil	81.9	81.9	

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.

REPORT OF DIRECTORS

Up to the date of the UOP Announcement, the Net Proceeds had not yet been utilised. As at the date of the UOP Announcement, the unutilised proceeds were placed in interest-bearing deposits with licensed bank. As mentioned in the Annual Report 2020, the business of the Group was adversely affected by the COVID-19 pandemic, as reflected by a decrease in revenue of the Group of approximately 11.0% from approximately RMB866.7 million for the year ended 31 December 2019 to approximately RMB771.5 million for FY2020. The operation of the Group's production plant was suspended for approximately a week after the Lunar Chinese New Year holiday in 2020. The pandemic also had adverse impact on the PRC and global economic environment, resulting in a decrease in consumer spending and demand for apparel products, which in turn led to a decrease in the sales of the Group in 2020. Even though the pandemic was under control in the PRC in the second half year of 2020, domestic demand in the PRC continued slowing down. It is expected that pandemic may still be fluctuating in the PRC and the world, and the PRC and global economic environment remains uncertain and challenging. Accordingly, the Board is cautious in making any further expansion of the Group's business and has resolved to extend the expected timeline for utilising the unutilised Net Proceeds for expansion of production capacity and product coverage from on or before 31 December 2021 to on or before 30 June 2022.

As disclosed in the Annual Report 2020, 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 31 December 2021. 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 annual report, the Group had identified a potential acquisition target and has been negotiating with the vendor in relation to the proposed acquisition. The Company will make further announcement in accordance with the Listing Rules when definitive agreement has been entered into.

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 annual report, the Directors considered that no modification of the use of Net Proceeds described in the UOP Announcement was required.

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 2021.

REPORT OF DIRECTORS

Auditor

The consolidated financial statements of the Group for the ended 31 December 2021 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, 23 April 2022

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 during the year ended 31 December 2021.

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. Xiang Wenbin	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 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 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, Mr. Xue Shidong, Mr. Wang Bin, Mr. Qiu Jianyu (who resigned on 26 April 2022), Ms. Zhang Yeping and Mr. Jin Rongwei, 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.

The executive Director, Mr. Xiang Wenbin (who was appointed on 26 April 2022), has entered into a service contract with the Company for a term of three years commencing from 26 April 2022, which is subject to termination in accordance with the terms of the service contract.

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 annual 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 2021, 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 2021 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 (resigned on 26 April 2022)	√	√
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.

CORPORATE GOVERNANCE REPORT

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 year ended 31 December 2021, the Audit Committee held three meetings, during which the Audit Committee reviewed the Group's annual results and report for the year ended 31 December 2020 and the Group's unaudited interim results and report for the six months ended 30 June 2021, and discussed significant issues on the financial reporting, operational and compliance controls and the effectiveness of the risk management and internal control systems and internal audit function of the Group.

The Audit Committee also met with the external auditors 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 year ended 31 December 2021, 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2021, 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.

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 annual 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 REPORT

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

During the year ended 31 December 2021, 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 2021 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	4/4	N/A	1/1	1/1	1/1
Mr. Wang Bin	4/4	N/A	N/A	N/A	1/1
Mr. Qiu Jianyu (resigned on 26 April 2022)	4/4	N/A	N/A	N/A	1/1
Ms. Zhang Yeping	4/4	N/A	N/A	N/A	1/1
Mr. Jin Rongwei	4/4	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Zhu Qi	4/4	3/3	1/1	1/1	1/1
Mr. Ho Kin Cheong Kelvin	4/4	3/3	1/1	N/A	1/1
Mr. Wang Hongliang	4/4	3/3	N/A	1/1	1/1

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 (the "**Internal Control Consultant**") to review our internal control system and we have implemented and will continue to implement the relevant suggestions they proposed/propose. The Internal Control Consultant also performed 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 2021, 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 during the year ended 31 December 2021.

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 2021.

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 and its affiliated firm, in respect of audit services and non-audit services for the year ended 31 December 2021 is set out below:

Category of services	Fee paid/ payable RMB'000
Audit services	1,000
Non-audit services	222
Total	1,222

Note: Non-audit services included mainly the service of agreed upon procedures performed on the Group's interim results and service of assessing the internal control systems of the Group.

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 23 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 2021, 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 Act 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

During the year ended 31 December 2021, there had been no significant changes in the constitutional documents of the Company.

On 22 April 2022, the Board has resolved to propose to amend the existing articles of association of the Company, subject to the passing of the relevant special resolution at the forthcoming AGM of the Company to be held on Tuesday, 28 June 2022. Prior to the passing of the special resolution at the AGM, the existing articles of association shall remain in force. For further details of the proposed amendments to the existing articles of association of the Company, please refer to the Company's announcement dated 22 April 2022 and AGM circular dated 29 April 2022.

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**”) issues in 2021, 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 focuses on reporting the environmental and social performance and related policies in relation to the core businesses of the Group, with a scope mainly covering Yadong Group Holdings Limited and its subsidiaries. Yadong (Changzhou) Science & Technology Co., Ltd. (“**Yadong (Changzhou)**”) is the key operating entity of the Group in China, and the major environmental and social impacts of the Group mainly come from Yadong (Changzhou). The reporting period is from 1 January 2021 to 31 December 2021 (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 “mandatory disclosure”, “comply or explain” provisions as required in the ESG Guide. Unless otherwise specified, the amounts in the Report are in RMB.

Reporting Principles

The preparation of this report strictly abides by the “mandatory disclosure” provisions and the “comply or explain” provisions of the “ESG Guide” of the Stock Exchange, and adheres to “materiality”, “quantitative”, “balance” and “consistency” as the reporting principles to ensure the accuracy and reliability of the content of the Report.

- **Materiality:**
the Group attaches great importance to the material impact of environmental, social and governance issues on all stakeholders. This year, the Company actively initiated communication among various stakeholders, listened to and analyzed their opinions to assess the work priorities of this year, and prepared this report in line with the work priorities of this year.
- **Quantitative:**
in order to represent the Company’s performance in the environmental and social aspects in 2021, the Group has presented the key performance indicators in a quantitative format where feasible.
- **Balance:**
during the preparation of this report, the Group focuses on presenting the Company’s performance in an impartial manner, so as to avoid affecting the decision-making or judgment of the readers of this Report.
- **Consistency:**
unless otherwise specified, where feasible, this report adopts the same statistical method as in previous years, so as to ensure meaningful comparison of environmental, social and governance data in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 further promote the practice of environmental and social responsibility, and to create a sustainable mode of operation and management, in 2021, Yadong (Changzhou) further improved the three-level ESG governance structure, which comprised the board of directors, the ESG committee and the ESG working group, and incorporated environmental, social and governance strategic considerations into the Company's daily operations. The Company has founded an ESG professional committee at the board level, which is conducive for the board of directors in regulating and reviewing ESG issues, and enables Yadong Group to strategically manage ESG issues, and hence, facilitating the promotion and implementation of ESG related work.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors of the Company, assuming the leading and supervisory role, has the highest authority for and is ultimately in charge of ESG work. It is responsible for improving the corporate governance system of the Company, guiding and approving the ESG implementation plans and overall goals, as well as assessing ESG risks and formulating response measures. The ESG committee is responsible for promoting ESG work, directing and supervising the daily work of the ESG working group and providing decision-making recommendations to the board of directors. The ESG working group is responsible for the implementation of ESG-related work, and tracks and reports to the ESG committee on the development and implementation of ESG-related work.

The Company has formulated the “ESG Management System” (《ESG管理制度》), which clearly stipulates eight responsible fields as in respect of protection of employees’ rights and interests, safe production, 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.

Board Declaration

The board of directors of Yadong (Changzhou), as the highest responsible and decision-making body for ESG issues, has always paid attention to the governance of ESG in order to achieve high-quality development. This year, to improve the level of ESG management and protect the rights and interests of all stakeholders, the board of directors further improved ESG risk management and incorporated climate change into ESG risk management. In respect of practical implementation, the board of directors participated in supervising the preparation of the ESG report and reviewed the assessment and updates on material issues.

Looking into future, the board of directors will continue to optimise and improve the ESG management mechanism, incorporating sustainable development into the company’s strategic planning with a view to proactively implement green operation. This report, which fully discloses the work progress and performance of ESG of Yadong Group in 2021, was reviewed and approved by the board of directors in March 2022.

Stakeholder Engagement

The Group attaches importance to the stakeholders’ communication and engagement, and has established diversified communication channels to maintain good communication with stakeholders to clarify their concerns on ESG issues, and to understand their expectations and suggestions for the sustainable development of the Group. The major stakeholders of Yadong Group include shareholders/investors, customers, staff of the Company, suppliers and other partners, government and regulatory agencies, industry associations and other non-governmental organisations, media, community and the public, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Communication channels with major stakeholders and their major expectations:

Stakeholders	Concerns and Expectations	Communication Channels
Shareholders/investors	<ul style="list-style-type: none"> Earnings and returns Compliance operation Information transparency Risk management and 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 Responsible marketing 	<ul style="list-style-type: none"> Official website Customer communication meeting
Staff of the Company	<ul style="list-style-type: none"> Equal employment and rights protection Remuneration and benefits Occupational health and safety Development and training 	<ul style="list-style-type: none"> Employee satisfaction survey Labour-management consultation meeting Complaint hotline Anonymous mailbox
Suppliers and other partners	<ul style="list-style-type: none"> Sustainable supply chain management Fair competition 	<ul style="list-style-type: none"> Pre-production 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 organisations	<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 Exchange inspection and visits
Media	<ul style="list-style-type: none"> Ecological environment protection Labour guidelines Consumers' rights 	<ul style="list-style-type: none"> Press Conference Media announcements Interview
Community and the public	<ul style="list-style-type: none"> Support to community public welfare Protection of the community environment 	<ul style="list-style-type: none"> Official website Community co-development activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

The Group updates the material ESG issues every year according to its business operations, to better address the inquiries and concerns of stakeholders in respect of the Group's ESG issues. In 2020, we commissioned a third-party consultant to conduct a survey on materiality issues, which provided an important reference for the assessment of materiality issues. During the Reporting Period, in accordance with the Stock Exchange's ESG Guide, and based on the identification and analysis of materiality issues in 2020, the Company commissioned a third-party consultant to update the materiality issues in 2021 in light of hot social topics, industry development trends, peer excellent practices, as well as the latest development status of the Company this year, the concerns of various stakeholders and the identification of enterprise risks in our operation. The matrix for the Group's materiality issues in 2021 was derived after final confirmation by the board of directors:



Based on the results of the materiality investigation, the following 9 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	Pollutant emission and management Greenhouse gas emission and management Mitigation and adaptation to climate change Hazardous waste disposal and management Use of resources and use efficiency	Green Production — Emissions Management Green Production — Emissions Management Green Production — Combating Climate Change Green Production — Emissions Management Green Production — Efficient Use of Resources
Labour	Occupational health and safety	Responsible Employment — Occupational Health and Safety
Operation	Quality and safety of products and services Sustainable management of supply-chain Innovation in research and development	Reliable Operation — Product Responsibility Reliable Operation — Supply Chain Management Reliable Operation — Product Responsibility

Recognitions of the Company



- 1 Yadong (Changzhou) was awarded the Advanced Unit (先進單位) by the Production Safety Association (安全生產協會) of Tianning District, Changzhou
- 2 Yadong (Changzhou) was awarded the Deputy President Unit (副會長單位) by Changzhou Textile Industry Association (常州市紡織工業協會)
- 3 Yadong (Changzhou) was awarded the top 30 Enterprise in China Printing and Dyeing Industry in 2021, issued by China Printing and dyeing Industry Association (中國印染行業協會)
- 4 Yadong (Changzhou) was awarded the Changzhou Smart Exemplar Workshop (常州市示範智能車間) by Changzhou Bureau of Industry and Information Technology
- 5 Comrade Chen Hua (陳華) of Yadong (Changzhou) was awarded the First Honorary in the event of "Embarking on a New Journey in the 14th Five Year Plan" (「建功十四五 奮進新征程」), issued by the Federation of Trade Union (總工會) in Diaozhuang Street, Tianning District, Changzhou City
- 6 Comrade Chen Jiantao (陳建濤) of Yadong (Changzhou) was awarded the First Honorary in the event of "Embarking on a New Journey in the 14th Five Year Plan" (「建功十四五 奮進新征程」), issued by the Federation of Trade Union (總工會) in Diaozhuang Street, Tianning District, Changzhou City
- 7 Yadong (Changzhou) was awarded the Honorary Certificate of Territorial Principle of Tax Contribution Award (屬地稅收貢獻獎), issued by the Work Committee (工作委員會) of Diaozhuang Street, Tianning District, Changzhou City
- 8 Yadong (Changzhou) was awarded the Significant Contribution Award (重大貢獻獎), issued by the Work Committee of Diaozhuang Street, Tianning District, Changzhou City of the Communist Party of China
- 9 Yadong (Changzhou) was awarded the Jinhui Award: Digital Transformation Pioneer (金輝獎數字化轉型先鋒), issued by the Industrial Internet Ecological Innovation Summit Committee (工業互聯網生態創新峰會組委會)
- 10 Yadong (Changzhou) was awarded the AA- standard Integration of Informationization and Industrialisation Management System Certificate (AA級兩化融合管理體系評定證書), certified by China Telecom Hongxin Information Technology Co., Ltd. (中電鴻信信息科技有限責任公司)
- 11 Yadong (Changzhou) was awarded the Star-rating Cloud enterprise Certificate (星級上雲企業證書), issued by Jiangsu Provincial Department of Industry and Information Technology
- 12 Yadong (Changzhou) won the 2021 China Annual Excellent Partner Award in China (中國區卓越合作夥伴獎)
- 13 Yadong (Changzhou) was awarded the of Changzhou's Administration of Precursor Chemicals (常州市易制毒化學品管理) ("A" Credit Grade), issued by the Office of Changzhou Narcotics Control Committee (常州市禁毒委員會辦公室)
- 14 Yadong (Changzhou) was awarded Jiangsu Water Conservation Enterprise Certificate (江蘇省節水型企業認證), issued by Jiangsu Water Resources Department and Development and Reform Commission
- 15 Yadong (Changzhou) was awarded the "Star Enterprise (明星企業)" by Changzhou Municipal Committee and Changzhou Municipal People's Government of the Communist Party of China
- 16 Yadong (Changzhou) was awarded as the "Four-Star Enterprise (明星企四星企業)" by Changzhou Tianning District Committee and Changzhou Tianning District People's Government of the Communist Party of China

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Green Production

The Group implements its environmental responsibilities in terms of construction site compliance, production compliance, and pollutant discharge compliance, while upholding green development concepts. The Group is committed to reducing both the existing and potential impact of the Company's production and operating activities on the environment. Yadong (Changzhou) adheres to green production and operation to enhance environment management. Yadong (Changzhou) implements its green development practice by actively identifying climate change risks, improving environmental protection systems, optimising environmental protection measures, reducing resource and energy consumption, and plotting plans for sustainable development goals.

Emissions Management

Waste Gas and Greenhouse Gas Treatment

The Group strictly abides by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the 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. The Group continues to establish and improve environmental protection standards and systems, to implement the concept of green development across the entire production and operation process. Yadong (Changzhou) has formulated and enhanced the Environmental Protection Management System (《環境保護管理制度》), to delineate the work responsibilities across various departments and personnel of various levels, to further define the key tasks of environmental protection, and to improve the capacity and performance in emissions and energy consumption management, and thus, is committed to reduce the impact of operational and office activities on the environment constantly. Yadong (Changzhou) has formulated a pollution source monitoring program in accordance with the General 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), whereby, Yadong (Changzhou) sets up monitoring points for waste gas and wastewater produced during the production process, and strictly implements the monitoring plan, to ensure the monitoring standard. Meanwhile, the Group has established and maintained an environmental management system qualified for GB/T 24001-2016 and ISO 14001-2015 standard certifications, and was selected into the list of national green factories.



Environmental Management System Certification of Yadong (Changzhou)



National Green Factory Label of Yadong (Changzhou)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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, and has clarified the supervision and management measures for the prevention and control of air pollution in the internal Environmental Protection Management System (《環境保護管理制度》). The waste gas discharged by Yadong (Changzhou) mainly comes from VOCs(volatile organic compounds), particulates, oil fumes, benzene series and other emissions produced during the shaping process and singeing process in the production workshop, 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, comprised of full-automatic oil fume cleaning and purification equipment, bag filter precipitator and exhaust gas purification equipment, achieving compliant emission and effective management of waste gas.

Meanwhile, Yadong Group is committed to reducing greenhouse gas emissions. In 2021, it formulated an annual action plan for energy conservation and emission reduction. The Group's waste gas generated in the production process mainly comes from the natural gas used in production and processing equipment. Yadong (Changzhou) strengthened the maintenance and repair of natural gas pipelines, standardised inspection records and set out reasonable production plans. Fabrics of dark color and light color are grouped to produced separately, while fabrics with similar temperature requirements in shaping process are processed in the same lot, so as to conserve natural gas, reduce costs, increase efficiency, and reduce greenhouse gas emissions.

Along the course of operation, Yadong (Changzhou) advocates the use of new energy vehicles to replace fuel vehicles in its operation to reduce fuel consumption. At the same time, it strictly controls the deployment of the Company's vehicles and strikes to increase vehicles' utilisation efficiency to further reduce fuel consumption and vehicle exhaust emissions, so as to realise green management at transportation level.

Pollutant emission target: Air pollutant and water pollutant achieved up-to-standard emission. Through executing various measures to promote reduction of greenhouse gases emission, Scope 1 carbon emission has been reducing constantly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air Pollutant Emission ¹	Unit	2021	2020
Sulfur oxide (SO _x)	kg	0.22	0.20
Nitrogen oxide (NO _x)	kg	153.72	149.67
Particulate matter ²	kg	25.18	24.74

Greenhouse Gas Emission ³	Unit	2021	2020
Scope 1 (Direct emissions)	tCO ₂ e	4,412.00	4,668.92
Scope 2 (Indirect emissions)	tCO ₂ e	62,067.52	55,254.95
Total emissions	tCO ₂ e	66,479.52	59,923.87
Emission density	tCO ₂ e/revenue of RMB1 million	81.69	77.67

Sewage Treatment

The Group strictly abides by the law of the PRC on the 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 effectively controls the pollutants generated in production, operation and management activities by formulating the Pollutant Control Procedures (《污染物控制程序》). To achieve a comprehensive control over the printing and dyeing wastewater generated in the production process, Yadong (Changzhou) has established a sewage pretreatment station, and installed online monitoring equipment for pH, COD(chemical oxygen demand)and ammonia nitrogen at the discharge outlet, which has been networked for filing to realise real-time online monitoring. Yadong (Changzhou) requires its sewage treatment personnel to perform duties in strict accordance with relevant regulations such as Sewage Treatment Process (《污水處理工藝》), Safe Operating Rules for Sewage Treatment (《污水處理安全操作規程》), and Operation Norms for Sewage Treatment (《污水處理操作規範》). Abided by the Shift Relief System (《交接班制度》) stipulated by the Group, the staffs-on-duty shall conduct routine inspection on the running status of the wastewater treatment system on a daily basis, to measure the pH value of the adjusting tank, coagulation tank, primary sedimentation tank, hydrolysis tank, aeration tank and secondary sedimentation tank, to test regularly the sedimentation ratio of deaeration tank and hydrolysis tank and the dissolved oxygen in the aeration tank and hydrolysis tank, with the above measurement and test results recorded in the Sewage Treatment Daily Report (《污水處理日報表》).

¹ The air pollutant emission is generated from the vehicles owned by the Company, and from exhaust discharged by the engineering machineries. The measurement of air pollutant emission produced by vehicles is based on 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 is based on 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 during the course of production. 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)》), "Guidelines for carbon dioxide emission accounting and reporting of enterprises (units) in Beijing" 《北京市企業(單位)二氧化碳核算和報告指南(2018版)》, and the average emission factor of the State Grid in 2021 of 0.5810tCO₂/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 2022"(《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

In respect of sewage treatment, the Group has assigned a full-time specialist to fill in and submit reports, to unify the reporting process, and to implement duo-personnel collaborative management mode. Yadong (Changzhou) initially requests its water quality analysis personnel to take water samples from the primary sedimentation tank and 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. Subsequently, the sewage treatment personnel will base on the analysis results and make timely adjustment to the quantity of sewage treatment agents applied, then record the adjustment details in the e Sewage Treatment Daily Report (《污水處理日報表》) for long-term sustainable sewage treatment management and control and data backtracking management in the future. During the year, Yadong (Changzhou) has realised compliant emission for all its pollutants.

Volume of Wastewater Discharged	Unit	2021	2020
Total volume of Wastewater Discharged	Tonnes	777,591	672,092

Solid Waste Treatment

Yadong (Changzhou) strictly abides by the relevant national and local laws and regulations, including the Law of the PRC on the Prevention And Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), and the 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 has formulated the internal management system of Hazardous Waste Management responsibility System for Warehouse (《危險廢物倉庫崗位責任制》), which has further specified the responsible persons and relevant responsibilities in the process of classified collection, handling, storage and transfer of hazardous waste.

The primary hazardous wastes generated in the production and operation process of Yadong (Changzhou) include waste oil gloves, waste rubber gloves, used toner cartridges, waste oil, dye packaging bags, and sludge; non-hazardous wastes mainly include waste paper, waste plastics, scrap metals and household garbage, etc. To improve the utilisation rate of waste and to materialise the reasonable control of hazardous and non-hazardous waste, and steadily reduce the density of hazardous and non-hazardous waste, the Group sets forth classified storage and treatment of solid waste in a reasonable and compliant manner, designates waste areas for disposal of hazardous waste, recyclable and non-recyclable waste respectively, and puts in place other garbage disposal bins in office and production sites. Hazardous wastes were assigned to be transported and treated by a qualified third party with hazardous waste treatment agreement signed; recyclable wastes are sold to legal waste recycling units for recycle and reuse; non-recyclable wastes are recycled and treated by the local environmental and sanitation units and other recycling departments on a regular basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Solid waste target: increase utilisation rate of waste to achieve qualified management and control of hazardous and non-hazardous waste as well as to continuously reduce intensity of non-hazardous waste.

Hazardous Wastes Produced	Unit	2021	2020 ⁴
Total hazardous wastes produced	Tonnes	3,875	2,537
Emission density of hazardous wastes	Tonnes/revenue of RMB1 million	4.76	3.29

Non-hazardous Wastes Produced	Unit	2021	2020
Total non-hazardous wastes produced	kg	127,729	160,444
Emission density of non-hazardous wastes	kg/revenue of RMB1 million	156.95	207.96

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 to implement effective noise control. The Pollutant Control Procedures (《污染物控制程序》), formulated by the Group, has specifically stipulated a number of noise control measures. Meanwhile, the production department is required to inspect the integrity of various equipment and facilities in strict compliance with the Equipment Management Procedures (《設備管理程序》), and to repair timely when issues are found, so as to minimise noise issues attributable to aging and damage of equipment.

In daily production and operation, Yadong (Changzhou) requires relevant departments to utilise mechanised and automated equipment whenever possible, and to replace high-noise equipment with low-noise equipment, after consideration given to the balance between efficiency and energy consumption, and to actively adopt measures for sound insulation and noise reduction; instructions are made to the operators at all levels to strictly implement the equipment operation manual and various safety technical operation procedures, so as to reduce and minimise noise as much as possible.

Efficient Use of Resources

Energy Consumption

To effectively address the challenge of climate change, Yadong (Changzhou) improved the Energy Management System (《能源管理制度》) during the Reporting Period to strengthen energy use management and improve energy utilisation efficiency. Yadong (Changzhou) has specified the framework and responsibilities of energy management units within its management system, and implemented standardised management in four aspects, including electricity, water, steam and natural gas.

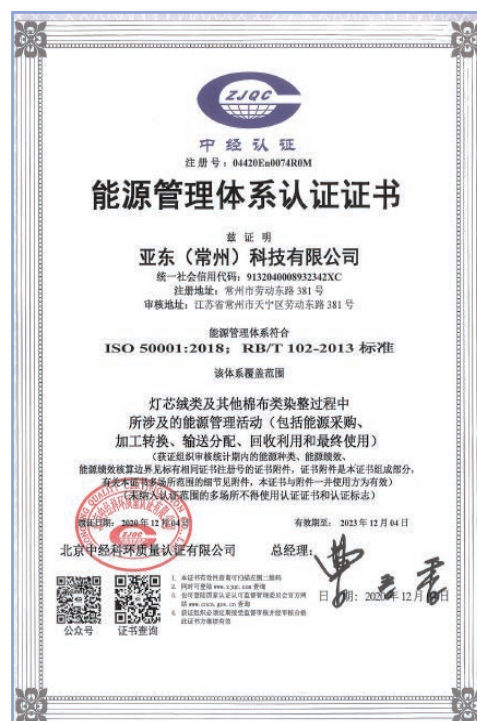
To continuously reduce the impact of operation and office activities on the environment, the Group has specially put in place energy consumption quota, and related assessment rules, actively initiated energy-saving technical transformation projects, and actively encouraged employees to converse energy conservation, to reduce emission, and to lower consumption by setting out relevant provisions on energy-saving rewards and penalties, so as to promote the efficient resources use in Yadong (Changzhou). The energy management system of Yadong (Changzhou) has been certified by the Energy Management System Standard Certification (ISO 50001:2018; RB/T 102-2013).

⁴ During the year, the Group continued to improve ways of data collection and adjusted data in 2020 retrospectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The energy consumption of the Group mainly comes from outsourced electricity, steam and natural gas. In order to improve the efficiency in use of electricity and reduce indirect energy consumption density, Yadong (Changzhou) stipulates that high-efficiency energy-saving LED lightings must be generally used within the Company's operation areas, and the power supply circuit and power supply equipment must be inspected and maintained regularly to reduce power consumption. Production operators shall reduce no-load operation to enable the best use of progressive electricity pricing system, and to achieve low-consumption production. In addition, the Group actively promotes the application of various energy-saving measures and new technologies, and takes step to phase out substandard electric equipment and facilities.

As for 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 operate normally, to ensure the timeliness and accuracy of relevant measures. At the same time, maintenance and repair works for steam and gas pipelines are conducted conscientiously to reduce any unnecessary loss of steam heat, and to investigate potential gas safety hazards.



Energy Management System Certification of Yadong (Changzhou)

Energy efficiency target: Continuously reducing energy consumption and achieving faster production with enhanced energy efficiency while ensuring up-to-standard production.

Energy Consumption	Unit	2021	2020
Gasoline	Liter	746	286
Diesel oil	Liter	12,859	11,830
Natural gas	Cubic metre	2,024,247	2,144,795
Total direct energy consumption	MWh	22,024	23,314
Density of direct energy consumption	MWh/revenue of RMB1 million	27	30
Outsourced steam	Tonnes	173,684	152,299
Outsourced electricity	kWh	13,291,362	12,458,640
Total indirect energy consumption	MWh	150,527	132,797
Density of indirect energy consumption	MWh/revenue of RMB1 million	184.97	172.13

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water management

The use of water resources of the Group mainly comes from the municipal water resources network, hence, there is no difficulty in sourcing water. However, the Group is still committed to saving and efficient use of water resources, and takes step to reduce water consumption per unit of production. To avoid waste of water resources, the Group installs water meters for each water supply device and water consumption unit, exercises strict management and control at water consumption site, and replaces aging ancillary parts in a timely manner. At the same time, through initiating water-saving and recycling projects, the Group has continuously improved the recycling of water resources. The Group also encourages every employee to join in environmental protection activities that “water conservation” signpost are posted in office areas, factories and other places.

Yadong (Changzhou) has achieved water saving and better efficiency through the implementation of the following water-saving projects and measures:



High and low temperature water division project:

Water below 40 °C is stored in the water tank for recycling after cooled by the cooling tower, and water above 40 °C is recycled to the hot pool for use by machine. This project saved 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 room-temperature industrial water to about 60 °C 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 atomisation 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 alkali product of about 7,000 tonnes and water consumption of about 20,000 tonnes

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

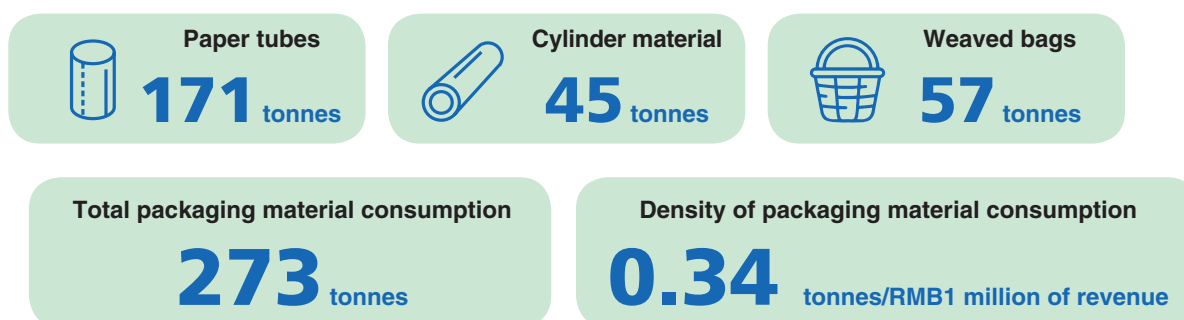
Water consumption efficiency target: continuously saving water resources and enhancing consumption efficiency of water resources while progressively reducing water consumption per unit.

Water Resource Consumption	Unit	2021	2020
Water consumption	Tonnes	740,373	750,078
Water intensity	Tonnes/revenue of RMB1 million	909.77	972.23

Packaging Materials

The primary packaging materials of the Group are paper tubes, cylinder material and weaved bags used for the packaging of finished products. The support crew and the production department cooperate to jointly handle the collection, transportation, storage and recycling of packaging materials, including re-screening and classifying the used paper tubes, cylinder material and weaved bags, so as to achieve the recycling and reuse in the plant site. The factory has a specific scrapyard for storing waste and provides waste collection bins at designated locations. For packaging materials that cannot be recycled on our own are handed over to a third party for centralised waste recycling and disposal.

2021 Packaging materials consumption



Energy Conservation and Consumption Reduction

In order to mitigate and address to climate change and press ahead with the progress of energy conservation and emission reduction of the Group, Yadong (Changzhou) has continuously optimised technological process and improved productivity. Yadong (Changzhou) also seeks to strengthen management and control in the production process, to reduce the cost of water, electricity, dyeing and chemical additives, to better control Labour cost, reduce rework and repair, and to maximised benefits. During the Reporting Period, under the premise of guaranteeing quality, pad dyeing workshop of Yadong (Changzhou) experienced an overall increase in production efficiency by 15%, which marked simultaneous improvement in productivity and reduced energy consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2021, Yadong (Changzhou) formulated an annual action plan for energy conservation and consumption reduction, which specifically targeted at key energy consuming units, which account for more than 80% of the Group's water and energy consumption, with respect to the latter's steam, electricity, natural gas and water consumption:

- through optimizing the technical process of polyester and viscose linen, viscose linen and other varieties, reduce the water required for de-sizing and gas-cooled process and at the same time, enhance the management on recovery of condensate and cooling water to prioritised transferring recovered water to the workshop for reuse;
- through adjusting the temperature of the steam box, under the premise of meeting the technical requirements, reduce steam waste caused by the overflow of steam from the steam box because of excessive replenishment of air and sealing; inspect the thermal insulation layer of the steam pipeline regularly, and repair immediately upon discovery of any damage;
- introduce 2 sets of roots blowers and timely upgrade and inspect sewage air compressor, dyeing machine and other equipment, with a view to improve energy and water efficiency.

Energy Conservation and Technical Transformation of Thermal System

During the Reporting Period, Yadong (Changzhou) further improved the thermal energy transfer system through transforming the thermal system, aiming at conserving energy and bringing economic benefits to the Company. The project mainly includes, using steam after temperature and pressure reduction by purchasing steam temperature and pressure reduction device, recycling for use of waste heat of dyeing wastewater with the aid of the sewage heat recovery system and recycling the waste heat in the Company's air compression system. Maintenance and repair work are also performed properly, to ensure full function heat recovery machine. Upon implementation of the project, standard coal of approximately 908.37 tonnes and energy costs of approximately RMB1.10 million can be saved annually.

To fully implement the Group's energy conservation and emission reduction targets, Yadong (Changzhou) has increased the publicity of energy conservation, encouraged all employees to actively join in the task of energy conservation and emission reduction, cost reduction and improved efficiency, as for environmental protection, we give directives on the proper use of air conditioners, heaters, electric lights and other facilities in the office area, and urging staff to turn off the lights when not in use, in production sites and office areas; encouraging good practice of pollution reduction and carbon reduction in daily work, and promoting the benefit of synergic efficiency; staff are encouraged to give advices or suggestion on carbon footprint reduction, and rewards are granted for an adopted advice.

Environment and Natural Resources

The Group is committed to reducing the environmental impacts of its factory production on the surrounding areas. In respect of the environmental management of the project construction, Yadong (Changzhou) adopts the three-tier management and control method, namely, pre-construction evaluation, work-in-progress inspection and post-construction enhancement review.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Prior to any new construction, expansion and reconstruction projects, the Group initially undertakes environmental impact assessment, pre-construction investigation, forecasts and evaluates the possible adverse effects on the surrounding environment due to its site selection, design and completion and launch into operation, and to put forward prevention measures that help prevent hazards and risks. In the process of project construction, relevant departments need to supervise and monitor the implementation of prevention and control measures, and propose better control plans and feedback in real time. After the project equipment are put into use, the specified personnel shall be engaged to investigate the pollution causes of those segments and progresses that have the greater pollution impact, and to improve the technical process and personnel operation to avoid pollution.

Combating Climate Change

As global warming continues to intensify, extreme weather and natural disasters are affecting social economy and enterprise in an unprecedented manner. The impact of climate change on industry and enterprise sectors has begun to attract the attention of the public and stakeholders alike. In October 2021, the white paper “China’s policies and actions to deal with climate change”, issued by the State Council Information Office of PRC further clarified China’s perception, strategic planning and regulatory system to address climate change. As a responsible corporate citizen, Yadong (Changzhou) actively responds to the initiative of the China government to cope with climate change.

In its daily operation, the Company actively reduces greenhouse gas emissions through establishing an energy-saving and consumption reduction system and commencing the clean energy vehicle replacement project. To better cope with climate change, Yadong (Changzhou) completed the identification of climatic risk, and assessment and response measures, by referring to TCFD⁵ recommendations during the Reporting Period. In addition, with climate change risk being incorporated into the Company’s risk management system, the Company’s risk management system was further enhanced.

Governance of Climate Related Issues

The ESG Working Group of the Company, together with the board of directors, is responsible for establishing an effective climate change risk management and relevant identification, assessment and mitigation measures, and regularly assesses and continuously monitors the effectiveness of risk control, and promoting the sustainable development of the Company. The relevant issues covered by the governance of climate change include the risk assessment and response mechanism of environmental incidents, which belongs to the responsibility of the Company’s ESG Committee. The members of the ESG working group, which is subordinate to ESG Committee, handles the overall governance of relevant businesses; the ESG working group gives directions to the ESG functional departments on practical implementation of work duties; the working group will report to the committee to assess its performance and results. Yadong (Changzhou) also plans for sustainable development strategies regarding the possible climate change risks in the future, which includes to reduce the emission intensity of greenhouse gases and hazardous wastes, to improve the use efficiency of energy and water resources, and to reduce the use intensity of energy and water resources.

Meanwhile, the Company clearly specifies the responsibilities of all levels in the corporate hierarchy to address to climate change, through establishing the risk management framework, “Risk Assessment Management Measures” (《風險評估管理辦法》) and “Regulations On Climate Change Risk Assessment Management Measures” (《關於氣候變化風險評估管理辦法細則》).

⁵ The full name for TCFD is Task Force on Climate-Related Financial Disclosures

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Identification of Climate Change Risk and Response Measures

During the year, Yadong (Changzhou) identified the following physical and transition brought about by climate change, and formulated corresponding response measures.

- Physical risks⁶ of climate change and the response measures:

Physical Risks	Response Measures
<p>Global warming had led to the change of precipitation and extreme weather change, which then results in typhoon, hail and especially heavy rain, which will cause flood disaster. Hence, this may cause damage to the Company's infrastructure, production equipment and production environment.</p>	<ul style="list-style-type: none"> Formulate crisis and emergency management plans for emergencies caused by typhoons, hail and floods, and conduct targeted safety inspections that specifically focus on wind prevention and flood control; Conduct regular risk assessment, to identify the aspects of business operations that are vulnerable to climate related risks, so as to effectively identify abnormalities, to reduce the impact of sudden safety issues caused by extreme weather.
<p>It is estimated that the rise of sea level will lead to the inundation of many coastal areas and low-lying areas, and the location where the Company's office building is situated will be impacted.</p>	<ul style="list-style-type: none"> Set up a reserve fund for emergency use in case of extreme weather events; improve the adaptability of the physical structure of the building through design and appropriate repair and maintenance; Provide comprehensive insurance for property and other assets vulnerable to extreme weather damage or other physical impacts caused by climate change.
<p>Natural disasters, such as earthquakes, volcanic activities, floods, storms, tsunamis, among others, may cause reduction in harvest, decrease in supply of raw materials' and disruption in transportation along the supply chain, which, in turns leads to chain effects such as production stagnation, business interruption and thus affects the operation of enterprises.</p>	<ul style="list-style-type: none"> Assess climate related risks in the supply chain (e.g. suppliers are located in flood-prone areas) and identify alternative supply sources; Request supplier to adopt climate risk prevention measures; Conduct risk assessment to better adapt to and prepare for future extreme weather events.
<p>The frequent occurrence of extreme weather and natural disasters may also cause casualties, threatening lives, health and safety of the Company's employees and other members in the supply chain.</p>	<ul style="list-style-type: none"> Implement emergency evacuation plans for extreme weather events, resulting from climate change; and conduct regular emergency evacuation drills and to review the current evacuation plan; Adopt special work arrangements in case of extraordinary weather conditions to ensure the health and safety of employees(such as the special arrangement in time of tropical cyclone signal); release safety warnings during extraordinary weather conditions to inform employees and on-site working staff about special work arrangement; Allow the Group to have better understanding on the impact of climate related risks on its business operations through regular work meetings and training.

⁶ Physical risk refers to the risk directly related to climate change, which can be caused by flood and typhoon(acute risk)or continuous high temperature(chronic risk).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Transition risks⁷ and response measures:

Transition Risks	Response Measures
<p>The government/regulatory authorities or industrial/ listed companies put forward disclosure requirements related to climate change and more severe environmental compliance requirements. Labour and materials costs of operation may increase in order to fulfil the compliance requirements.</p>	<ul style="list-style-type: none"> • Identify, assess, manage and monitor climate related risks on regular basis; • Review global and local policies, regulation updates, technological development and market trends to identify climate related risks and opportunities that will cause financial impact on the Group's business; • Participate in the consultation sessions on climate related industry regulations or policy formulation to express the Group's concerns and opinions; • Implement internationally recognised management systems, such as ISO14001, ISO50001, etc., to manage and monitor climate related risks.
<p>The structural change from high-carbon economy to low-carbon economy results in needs for enterprises to speed up the pace of adaptation regarding aspects including energy transition, energy efficiency, reusability, recyclability, greenhouse gas emission intensity.</p>	<ul style="list-style-type: none"> • Review the Group's risks checklist to determine whether climate related risks have been identified; • Consult professionals and experts, to observe the risks of investment on innovation and low-carbon technologies; • Seek opinions from professional consultants on compliance responsibilities or improvement recommendations for compiling greenhouse gas emission reports.
<p>The increasing awareness towards environmental protection may promote the shift in market preference. In case the company is unable to respond to the market expectation to protect the environment, the company's image may be harmed.</p>	<ul style="list-style-type: none"> • Assign appropriate employees to handle climate related risks; • Report to management on climate related impacts and the Group's strategy to cope with climate change; • Conduct market research and/or review relevant market reports to keep abreast of market trends in relation to climate related issues.

To address to climate change is an occasion for risks and opportunities. The Group is aware that the “double carbon policy (雙碳政策)” implies huge development opportunities, while the increasingly demanding low-carbon environmental protection requirements is expected to boost the high-quality development in the entire industry. Yadong (Changzhou) will closely pay attention to the latest policies and directives in the industry and of the country, and to seize every emerging opportunity, to make timely adjustment on the strategic policy of its business development.

⁷ Risks that are caused by the transition into a lower carbon economy, which may lead to policy, legal, technological and market changes that are inevitable, in order to reduce and adapt to climate change. mitigation and adaptation requirements

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Responsible Employment

The sustainable development of an enterprise is closely related to every staff member. The Group adheres to equal employment, respects the diverse background of employees, and is committed to creating a zero discrimination working environment; to resolutely prohibit the use of child labour and forced Labour; to provide convenient communication channels for employees; to ensure the occupational health and safety of employees; to ensure the career development of employees with enhanced training system; to provide better care for each employee, so as to cultivate a harmonious and wonderful workplace.

Employment Management

Employment Policy

The Group strictly abides by the employment-related laws and regulations including the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labour 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 has internally established the Human Resource Management System (《人力資源管理制度》) to stipulate the Group in the process of employment management, and to ensure the legitimate rights and interests of each employee.

Remuneration and Benefits

The Group has formulated a well-established remuneration and benefits packages to provide good compensation to employees' effort. The remuneration of the Group's employees consists of basic salary, annual performance salary and various benefits and allowances. Among which, the employees' housing provident fund, pension, unemployment, medical, work-related injury and maternity insurance are paid in strict accordance with national and local laws and regulations. All employees are entitled to paid holidays, statutory holidays, marriage leave, funeral leave and maternity leave. The Group also provides employees with various benefits, such as women's day benefits, annual physical examination services, free lunch, holiday benefits, holiday allowance, overtime subsidies, etc.

Diversification and Equal Employment

The Group adheres to the principle of equal employment and equal pay for equal position for men and women. In the recruitment process, the Group based on the principle of merit to make recruitment decisions, to avoid discrimination against gender, age, race and belief, etc. during the process. Upon introduction to work for new employees, the Group establishes exclusive employee files, and social security and housing provident funds will be paid in full and in a timely manner to ensure each employee enjoys various legal rights and benefits and fair treatment. In the process of employee promotion, the Group assesses each employee's work performance, ability and attitude, and the assessment results are used as a basis for grading, which will be used for determining position promotion, training, annual bonuses, and salary adjustment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Prohibit Child Labour and Forced Labour

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 Labour (《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 has set up the Child Labour and Juvenile Labour Control Procedures (《童工及未成年工控制程序》) and the Child Labour Remedial Management Procedures (《童工補救管理程序》), so as to avoid the use of child labour and forced labour in accordance with laws and regulations through multiple measures. The Group requires candidates to provide original identification documents in recruitment process and randomly checks enrolled employees' actual age; employees are also encouraged to report any non-compliance. In case of discovery of any recruitment of child labour by mistake, the relevant employment will be suspended and the case will be reported to the local labour bureau immediately, while the child labour will be arranged for proper settlement.

Indicator		Unit	2021	2020
Total Number of Staff		persons	482	472
Number of Staff by Gender	Male	persons	325	318
	Female	persons	157	154
Number of Staff by Age	Aged 30 and below	persons	41	45
	Aged 31–40	persons	127	121
	Aged 41–50	persons	200	217
	Aged over 50	persons	114	89
Number of Staff by Type of Employment	Full-time	persons	482	472
	Part-time	persons	0	0
Number of Staff by Region	Mainland China	persons	481	471
	Hong Kong, Macau, and Taiwan	persons	1	1
Number of Staff by Grading	Senior management	persons	6	6
	Middle management	persons	28	25
	General staff	persons	448	441
Total Staff Turnover Rate		persons	72	66
Staff Turnover Rate by Gender	Male	%	12.31	13.52
	Female	%	20.38	14.94
Staff Turnover Rate by Age	Aged 30 and below	%	26.83	57.78
	Aged 31–40	%	15.75	28.10
	Aged 41–50	%	16.50	2.76
	Aged over 50	%	7.02	0
Staff Turnover Rate by Region	Mainland China	%	14.97	14.01
	Hong Kong, Macau, and Taiwan	%	0	0

Communication With Employees

The Group provides employees with smooth communication channels, with a view to listen to their recommendations and wishes, and respect the ideas of every employee. The Group has set up a special complaint hotline and anonymous mailbox. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group conveys Labour negotiation meeting, at which, employee representatives can negotiate with the Group on issues such as working environment, production issues, workplace safety, labour welfare and the reform on employee complaint channels, and can put forward reasonable recommendations. The management representative or relevant functional department of the company are responsible for handling employee complaints and the filing of “Employee Complaint Handling Record Form” (《員工申訴處理記錄表》). Major complaints will be handled by the general manager of the company.

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 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 Group adheres to the principle of “People-oriented, Safety first, and Prevention as Primary”, and implements the principle of “Responsible for Both Production and Safety (管生產必須管安全)” at organisational and institutional levels, clarifying the responsibility of occupational hazard prevention and control for management at all levels, all functional departments, production departments and all employees so as to promote collective responsibilities at all levels, and all the staff members shall be committed to their own responsibilities at their position to make best effort in occupational hazard prevention and control. During the Reporting Period, the Group has not violated any laws and regulations related to health and safety, nor that have any significant impact on the Group. In the past three years, including 2021, the Group has not recorded any work-related fatality, and the number of days lost due to work-related injuries is 0 day.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health Management

To implement the national laws and standards on the prevention and control of occupational hazards, to strengthen the management of the prevention and control of occupational hazards, and to effectively ensure the health and safety of workers in the process of work, the Group has formulated the Occupational Health Management System (《職業健康管理制度》) according to the relevant internal regulations. Among which, the specific systems include:

- 1** Occupational disease prevention responsibility system, clarifying the scope of responsibility and ensuring that each level of the Company from the top to the bottom holds and is responsible for its duties
- 2** Occupational disease hazard warning and notification system, informing employees about occupational disease hazards before starting their works and on the working sites, and promptly informing employees of their health check results
- 3** Occupational hazard project declaration system, reporting the specific situation of occupational hazard projects to the Ministry of Health every year
- 4** Occupational hazard prevention and control publicity, education and training system, carrying out occupational health publicity in various forms such as bulletin boards, blackboard newspapers, conferences, training, slogans, etc., and commencing occupational health education and training
- 5** Occupational disease hazard protective equipment maintenance and repair system, performing daily maintenance on occupational health protection facilities, and arranging regular education and training on the proper use and maintenance of protective equipment
- 6** Management system of personal protective equipment for occupational disease hazard, regulating the distribution and use of workers' personal protective equipment
- 7** Occupational disease hazard monitoring and evaluation management system, ensuring that the intensity or concentration of occupational hazard factors in the workplace meets the national occupational health standards
- 8** Occupational health Three Simultaneities management system for construction projects, the Company's construction projects should implement the design and construction of the main project, safety facilities and occupational disease protection facilities at the same time, and put them into production and use at the same time
- 9** Occupational health monitoring and its filing management system, regular health check and health monitoring of practitioners exposed to occupational hazards, and establishment of occupational health monitoring files
- 10** Occupational disease hazard accident handling and reporting system to standardise the investigation and handling of occupational disease hazard accidents and to control, handle and report various occupational hazard accidents in a timely and effective manner
- 11** Emergency rescue and management system for occupational hazard accidents, to prepare emergency plans for occupational hazard sites, regularly organise drills, and clarify the requirements for emergency rescue, rescue management and rescue material management
- 12** Occupational disease prevention and control work self-examination and self-inspection system, ensuring professional personnel to carry out occupational disease prevention and self-examination and self-inspection, and implement relevant works according to the plan and implementation scheme

Occupational Health Education and Training

The Group conducts occupational health and safety training activities for employees regularly, training contents include occupational health laws, regulations and standards; basic knowledge on occupational health; occupational health management system and operation specifications; the proper use and maintenance of occupational hazard protection equipment and personal protective supplies; managing and controlling precursor chemicals; emergency rescue measures and basic skills in event of accidents and occupational hazard accidents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Attending to work requirements of employees at different positions, the Group has formulated diversified training measures to prevent of safety accidents. For new workers entering the factory, three-level safety production education and training are required, and they should pass the examination before starting work. For the personnel being recently assigned into new positions and required to use new equipment or to apply new technology, they have to attend occupational health education and training again, and they can only commence work upon passing the examination. For general employees, the Group provides no less than 20 hours of safety education and training to existing employees every year. In addition, the Group conducts educational trainings on safety management and occupational health knowledge and safety for base level officers, team leaders and specialised safety personnel once a year, and archives the examination record.

The Group has organised and carried out various safety education and training activities, including drills for comprehensive emergency plan, handling manual for fire at workshop, electric shock accidents, and mechanical injury. Through a series of drill events, the Group has effectively increased the employees' capability to cope with emergencies and improved their overall safety awareness. During the Reporting Period, Yadong (Changzhou) invested approximately RMB190 million in occupational health and safety. Total number of attendees for relevant training activities was 482 for the year, and the average training time of each employee was 12 hours. The total training hours on health and safety was 5,784 hours.



Yadong (Changzhou) conducting fire emergency drills



Safety training for employees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Resumption of Work and Production under the pandemic

The year 2021 is another year severely affected by COVID-19. Yadong (Changzhou) formulated various measures to ensure safety in production. To enable a smooth work resumption, Yadong (Changzhou) formulated the “Four in-places and Eight One-System”, set up a pandemic prevention and control team, and formulated a pandemic prevention and control plan and an emergency response plan, to ensure proper function of prevention and control systems.

The Group established independent register for each employee, to inspect on the returnees from other regions, to exercise health quarantine for the returnees, and to ensure the screening of employees are in place. The Group set up anti-pandemic areas, to ensure steady supply of anti-pandemic supplies, facilities and materials; The Group strengthened safe production by undergoing cleaning and disinfection in each site twice a day and registering temperature records of personnel to ensure adequate internal management in place. At the same time, a work resumption plan was formulated, which clearly specified the responsibilities in respect of the pandemic prevention and control leading group, guards, canteens, sanitation and disinfection at factory and employee management as well as the production resumption plan and pandemic control measures.

Talent Development and Training

The Group attaches great importance to development of employees’ professional capabilities, and is committed to achieving the mutual growth of employees and the Company. Yadong (Changzhou) commenced various vocational trainings to improve employees’ knowledge, work skills, and subjective initiative. Following the principles of “systematisation, institutionalisation, 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, as well as standardises 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.

The Group formulated the Group’s 2021 training plan by integrating requirements for business development and talent planning and analysing targets and core training needs of each department to understand requirement for employees’ career development. The Group will ensure relevancy, practicality and value of training sessions in accordance with the need for our future sustainable development, by focusing on core weaknesses of departments and employees to be improved and advancing middle and senior management and their thinking capability. Such this, our training categories include management enhancement, internal experience consolidation, professional title examination planning training projects, professionalism improvement courses and training and practical plans on training for skill advancement at departmental position. Our training programmes have covered all kinds of employees from each department.

Each department has designated person-in-charge to organise training activities and regularly record and report training methods and contents; To encourage and facilitate employees’ learning, accumulated training hours would be considered in overall performance assessment and our reward and punishment system; 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) organised various kinds of training courses, including a sales training one-on-one competition entitled “How to Improve the Quality of Communication”, in which participating employees shared their communication experience on sales based on their own working experience, and training on corporate labor law knowledge to enhance employees’ awareness of compliance and knowledge of relevant laws.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Indicator unit	2021	2020
Number of staff received training during the Reporting Period		persons	482	472
Percentage of staff received training by gender	Male	%	67.43	67.37
	Female	%	32.57	32.63
Percentage of staff received training by type of employment	Senior management	%	1.24	1.27
	Middle management	%	5.81	5.30
	General staff	%	92.95	93.43
Total number of hours for staff receiving training during the Reporting Period		hour	10,188	10,040
Average number of hours of training received per staff by gender	Male	hour	21.14	21.26
	Female	hour	21.13	21.30
Average number of hours of training received per staff by type of employment	Senior management	hour	36.33	36.67
	Middle management	hour	38.21	40.00
	General staff	hour	19.87	20.00



Vocational training organised by Yadong (Changzhou)

Caring for Employees

The Group attaches great importance to non-remuneration welfare benefits for employees and strives to improve employees' non-monetary compensation, enriching kinds of benefits to care for their well-beings. The Group organises various activities for employees to help them continuously enhance team spirit and strengthen the construction of corporate culture. During the Reporting Period, Yadong (Changzhou) organised employee travel, holiday benefits and health check-ups, including a six-day tour of outstanding employees in Hainan, Qingdao trip for all employees, outdoor development training activities, forklift skill competition, tug-of-war competitions and speech competition etc., as well as holiday benefits such as giving away of fruits, grocery and daily necessities to employees on Christmas Day, Mid-Autumn Festival, Women's Day and during summer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Organising outdoor development training



Organising speech competition



Forklift skill competition



Mid-Autumn Festival welfare



Distributing New Year gift bags to employees



Women's Day Welfare

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reliable Operations

The Group is committed to providing high quality products while building an accountable supply chain, practicing environmentally-friendly procurement concepts, and pursuing breakthroughs in research, development and innovation. Yadong (Changzhou) has also maintained trust from consumers and the market through respect and protection of intellectual property rights, anti-corruption practices as well as healthy operation with compliance and accountability.

Supply Chain Management

The Group strictly complies with relevant laws and regulations such as the Bidding Law of the People's Republic of China. To construct a sustainable supply chain, Yadong (Changzhou) has formulated a comprehensive Procurement Management System (《採購管理制度》), specifying basis on quality, services, delivery period and prices for procurement staff in selecting suppliers. It is also 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 supporting documentation. In addition, the procurement staff should also implement the “Compare Deals (貨比三家)” principle, pursuant to which at least three suppliers should be selected upon procurement for comparison. Major procurement materials of Yadong (Changzhou) include greige fabrics, dyes, auxiliaries, ancillaries, measurement instruments, tools, office supplies and fixed assets.

For Yadong (Changzhou), the inspection rate for dyes upon delivery has reached 100% and the batch test for regular auxiliaries also reached 100%. In analysing auxiliaries, Yadong (Changzhou) inspected for additional items in 2021. With the active cooperation with dye warehouses and production department, batch management was implemented with inspection results being reported and shared with analysing team, which in turns ensured stability in workshop production process. For major procurement materials such as greige fabrics, Yadong (Changzhou) required suppliers of greige fabrics to pass factory inspection and report to general manager for approval before placing orders.

The Group requires to hold a pre-production meeting before the production of all fabrics, especially before the production of the greige fabric, its 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.



Pre-production meeting

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The supply department creates statistics and tracking on supply proportion of suppliers to avoid excessive dependence on single supplier while ensuring quality. In principle, the proportion of purchases from the same supplier shall not exceed 30% of the total procurement in the same year. Manager of the supply department should be responsible for formulating, implementing and monitoring the procurement proportion as well as analysing the reasonableness of the structural ratio of supplies from suppliers and thus adjusting the procurement proportion in a timely manner.

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 organise on-site visits and evaluations of the suppliers.

Name of indicator		Unit	2021	2020
Total number of suppliers		Individual	647	643
Number of suppliers by region	Jiangsu province	Individual	449	445
	Other provinces in Mainland China	Individual	195	195
	Hong Kong, Macau and Taiwan	Individual	1	1
	Overseas regions	Individual	2	2

Green Procurement

The Group continues to implement green procurement and is committed to seeking and purchasing goods and services with least negative impact on the environment. Yadong (Changzhou) strives to avoid purchasing disposable products. Apart from raw materials for production, the Group gives priority to products using less packaging materials and more durable or products made from recycled materials when purchasing office and operating supplies.

In manufacturing process of all fabrics, Yadong (Changzhou) prefers environmentally-friendly recycled material like recycled cotton and recycled polyester when purchasing raw materials. It chooses raw materials and additives with less impact to the environment throughout stages from yarns, weaving and dyeing. As for finished products, it also chooses materials with longer life cycle and free from any harmful substances, so as to further reducing the environmental footprint of the Group's products.

As for company's operation, the Group uses office equipment and electrical appliances with China Energy Label level 4 or above and lighting equipment applying LED lights. Yadong (Changzhou) promotes using new energy vehicles to replace those using fuels, while fueled vehicles should reach China 5 emission standard. As for cleaning products, products with low VOC(Volatile Organic Compound) are chosen.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

Quality Assurance

The Group firmly believes that greige fabric in good quality is a pre-requisite for the product quality of the dyeing factory, and therefore achieves high manufacturing standards of products by enhancing inspection on greige fabric delivery. Yadong (Changzhou) requires its staff to follow directions on “Regulation, Standard, Openness, Transparency (規範、標準、公開、透明)” at work, and has internally established 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 procedures, production process, finished products and packaging, 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 of 0.5 metre 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, with details issued by the ERP system to enhance production efficiency. Thereafter, a pre-production analysis meeting will be convened to conduct a detailed analysis according to ordering 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's 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. To facilitate control and adjustment of production process and in response to the target to high productivity and quality, in this report, Yadong (Changzhou) classified laboratory into two types as workshop physics and chemistry laboratory and testing centre laboratory, so as to allocate work focus in a more determined manner and ensure speed and quality of the operation. Workshop physics and chemistry laboratory mainly focuses on regular tests in workshop's production process, while testing centre laboratory focuses on testing for finished products. To facilitate control and adjustment of production process in workshops, tests in physics and chemistry laboratory puts emphasis on its speed; To ensure reliability of data and accuracy of report as well as to comply with certification from third-party certification organisation, testing centre laboratory puts emphasis on standards and regulations.



Daily work in testing laboratories

Quality Training

To further enhance its production efficiency and product quality in the future, Yadong (Changzhou) will strengthen trainings for technical positions and operational staff to enhance their testing skills, add testing equipment and items to stabilise testing skills as well as enhance accuracy of data to speed up process to get products qualified. At the same time, general management of staff from all departments is enhanced. trainings on techniques and relevant operational know-how are conducted each season. On-site management is enhanced to reduce human errors, keep the site clean and standardised so as to improve the overall comprehensive level.



Internal trainings for staff



Trainings for chemical staff

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Returns

Yadong (Changzhou) has formulated a sales return management system. Sales return shall be processed upon approval of sales head (銷售部長) and vice-general of sub-division (分管副總). 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" for finance department's registration. The finance department should handle the account accordingly after reviewing the "Quality Handling Report" and the return certificate issued by the returning party. 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.



Award for realisation of policy for promoting quality development for the industry (促進產業高質量發展政策兌現獎) granted to the Company

Research and Development for Innovation

The Group attaches great importance to the research and development and innovation of products and technology. To develop product features and expand the business scope and field of products, Yadong (Changzhou) has made breakthroughs successively in development of multi-fibre blending fabrics (多纖維混紡面料). During the Reporting Period, under the keen competition of textile products, Yadong (Changzhou) managed to obtain 483 samples and 1,691 colour bits (1,691色色位), conducting test for 1,562 pieces of samples, reaching the Group's historical new height. During the Year, with its innovative products recognised by the market and the industry, Yadong (Changzhou) was invited to join the Intertextile Shanghai Apparel Fabrics Autumn (上海秋冬面料展會).



Intertextile Shanghai Apparel Fabrics Autumn (上海秋冬面料展會)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Leveraging on its solid technology and management team and its excellent testing and research and development system, Yadong (Changzhou) markets over 30 new products each year. The Company has the environmentally-friendly “TENCEL” corduroy, “MODAL” corduroy and coloured cotton corduroy as leading products, in particular, “Project for One-step salt-free dyeing with reactive dyes and reuse of reclaimed water from deep treatment of dyeing wastewater (活性染料一步法無鹽染色·印染廢水深度處理中水回用專案)” has been included in third batch of National Promotion Catalogue for Energy Saving and Emission Reduction (節能減排全國推廣目錄). Yadong (Changzhou) has become the key enterprise for production of dyed corduroy product in textile industry in Changzhou.

The Group invests RMB10 million in research and development of new products annually. Our technology mainly comes from our own innovation. As for high-end, precise and advanced technology on materials and dyeing and finishing, the Group takes the initiative to seek cooperation with industry research of domestic universities, for example, the Group signed industry research agreement with Donghua University (東華大學) and cooperated with Wuhan Textile University, Soochow University, Changzhou Vocational Institute of Textile and Garment (常州紡校) to provide long-term talent trainings and internship. The Company keeps abreast with recent development and innovates in fiber material, fabric weaving, dyeing and finishing technology, and has developed a variety of new fiber series such as Tencel, Modal, Viscose, Nylon, T400 and other blended products. At the same time, with the support of world-renowned chemical companies, we have developed various new finishing technologies, such as imitation silk, imitation tencel, wrinkle-resistant and non-iron features, anti-bacterial feature, Teflon, UV protection, etc., to meet the various needs of consumers.

Yadong (Changzhou) established the “Incentive Methods of Patent Applications from Yadong Staff (亞東員工申請專利的獎勵辦法)”, to provide monetary award to employees developing invention patent technologies relevant to the Company’s business and authorised by China National Intellectual Property Administration, so as to encourage and protect the Company’s internal staff in proactively developing technological innovation, promoting creativity and invention, as well as industry-academic research activities. As of the end of the Reporting Period, Yadong (Changzhou) has obtained 27 patents, including 3 invention patent and 24 for utility models. In 2021, Yadong (Changzhou) won 2 sets of outstanding prize in the China International Fabric Design Competition, and jointly developed core weaving yarn (芯逸動紗綫) with Lycra(萊卡公司), and registered the trade name “Co-Move 芯動萊卡®”.

Customer Service and Protection of Privacy

The Group’s business has no direct access to consumers, its customers are mainly finished garment manufacturers. In order to regulate sales practices and 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, so as to enhance supervision and management of sales business. In order to keep abreast of the production progress and promptly monitor the shipment according to customers’ requirements, Yadong (Changzhou) will trace the execution status of contract after signing the contract with the customer. In addition to issuing invoices in accordance with the required procedures upon delivery, we also require our order processors, warehouse and third-party transporters to verify the name and quantity of the shipment, and shipment can only be proceeded after confirming the relevancy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's sales department must also strictly comply with the internal systems such as the "Responsibilities of the Sales Director (《銷售部長崗位職責》)" and "Responsibilities of the Salesperson (《業務員崗位職責》)", and regularly assess the salesperson to ensure the standards and professionalism of the staff on duty. During the Reporting Period, no customer complaint was received. The Group continued to implement the above measures to ensure the quality of customer services and continuously improve the service level to reduce customer complaints.

During the period under review, Yadong (Changzhou) achieved outstanding performance in the tests on textile colour fastness against light, soap and water as well as slim slippage, and was awarded the certificate of approval by the laboratory of our partner garment manufacturer. In addition, Yadong (Changzhou) continued to conduct surveys on customer satisfaction during the Reporting Period to understand customer satisfaction level, opinions and suggestions in respect of four aspects: quality, price, delivery and service. 10 companies in total participated in the survey and the final satisfaction score was 97 out of 100.



Approval certificate issued by Semir Laboratory (森馬實驗室)



Qualified supplier certification from Uniqlo

The Group attaches great importance to the protection of consumer information and privacy. Yadong (Changzhou) clearly stipulates in the "Employee Management System (《員工管理制度》)" that employees must keep data provided by the Company and customers confidential. We strictly prohibit any employee from using or communicating confidential data to others, and require employees, supervisors and directors to sign confidentiality agreements when necessary to ensure they agree not to disclose confidential information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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》). To further implement the laws and regulations and action standards in protection of intellectual property, 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.

Yadong (Changzhou) adopted 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 of Yadong (Changzhou) 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;
- In addition, 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. To prevent fraud and to practically promote anti-fraud and anti-corruption action in our business activities, strengthen internal control mechanism, reduce company risks, regulate our operation and to protect legal rights of the company, 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.

Yadong (Changzhou) promotes a corporate culture of honesty and integrity, and is committed to create a corporate culture of anti-fraud, so as to avoid fraud occurrence within and beyond the Company. The relevant departments of the Group will assess the risk of fraud and establish specific control procedures and mechanisms to reduce the chance of occurrence of fraudulent acts, as well as establish a standing organisation for anti-fraud work to receive, investigate, report and give opinions on handling.

Yadong (Changzhou) puts emphasis on active communication and training with employees of the company. We have effective communication with employees through employee handbooks, publication of company rules and regulations, intranet campaigns and training events, to ensure that employees are aware of relevant laws and regulations, professional ethics and anti-corruption responsibilities. During the Reporting Period, Yadong (Changzhou) conducted training sessions on anti-corruption topics and required all employees, including the board of directors, to participate, so as to help employees learn and understand common forms of commercial bribery and the Company's internal policies and systems on anti-corruption.

Yadong (Changzhou) has established an email for whistle-blowing to report cases on professional ethics and frauds, with a view to further implement our anti-fraud system and to construct a smooth communication channel. As for suspected but unsubstantiated report involving general staff, a standing anti-fraud body, together with the legal and human resources department will assess and decide whether to conduct further investigation. 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 Company's board of directors and the audit committee, will 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. The investigation findings of the fraud cases, and the work report from the standing anti-fraud body will be reported to the Company's board of directors and audit committee 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 co-development with the local residents in the community, and has actively participated in social welfare activities, striving to create a better home with the community. Accordingly, 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, relief donations and other donations. Charitable donations include those on education, science, culture, health and medical care, sports, environmental protection and construction of social and public utilities; relief donations includes relief donations and life relief to those affected by natural disasters and socially disadvantaged groups; and other donations includes donations in addition to the abovementioned, made for other social and public welfare and utilities for the purpose of promoting humanitarianism or to promote social development and progress. During the same period, Yadong (Changzhou) visited and expressed sympathy to public security and fire and rescue squad. During the Reporting Period, supplies valued at over RMB10,000 was donated to children and the elderly living in poverty regions.



Visiting public security



Visiting fire and rescue squad

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Book Donation Event of “Lifelong Knowledge in Books, Book Donation to Spread Love” (書香滿天涯 • 捐贈書獻愛心)

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. In concern of children's education and growth, the Group organised a book donation activity with staff. Under the assistance of China Post to deliver books, we donated books valued at over RMB3,000 to children living in rural mountains in poverty, providing them mental supports to enrich their life. At the same time, we provided convenient services for mountain residents, such as helping to renew driver's licenses, paying water, electricity and gas bills, and paying pensions in respect.



Yadong (Changzhou) organised a book donation event



Granted certificate from Virtues Foundation (美德基金會)

Arbor Day Event of “Greening the industrial park to build ecology shield” (植綠色園區 • 築生態屏障)

The Group understands that global warming has become the focus of attention around the world. As the first listed company in the industrial park, in order to contribute to improving the greenhouse effect, Yadong (Changzhou) made initiative by leading all employees to plant trees on the Arbor Day to promote environmental protection and strive to build a factory surrounded by the beauty of nature.



Arranging staff to organising themed activity on Arbor Day

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

“Kangning Safety Bridge” (康寧安全橋)

In order to better realise the “Village and Enterprise Co-construction” (村企共建) and to further develop “Kangning Joint Bridge” (康寧聯建橋), a party building brand, Yadong (Changzhou), as the local corporation to consolidate villages”, commenced “Kangning Safety Bridge” (康寧安全橋) project. It 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 enhancing the safety production awareness and solidifying the same, and has promoted to other enterprises to set up multiple “safety production sub-teams”. 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, which facilitated us to realise safe production and create satisfying production environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Appendix Environmental, Social and Governance Reporting Guide Content Index

A. Environmental		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Green Production — Emissions Management
KPI	A1.1 The types of emissions and respective emissions data.	Green Production — Emissions Management
	A1.2 Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Green Production — Emissions Management
	A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Green Production — Emissions Management
	A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Green Production — Emissions Management
	A1.5 Description of emissions target(s) set and steps taken to achieve them	Green Production — Emissions Management
	A1.6 Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Green Production — Emissions Management Green Production — Efficient Use of Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. Environmental		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Green Production — Efficient Use of Resources
KPI	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Green Production — Efficient Use of Resources
	A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Green Production — Efficient Use of Resources
	A2.3 Description of energy use efficiency target(s) set and steps taken to achieve them.	Green Production — Efficient Use of Resources
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Green Production — Efficient Use of Resources
	A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Green Production — Efficient Use of Resources
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	Green Production — 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 — Environment and Natural Resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	Green Production — Combating Climate Change
KPI	A4.1 Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Green Production — Combating Climate Change

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect B1: Employment		
General Disclosure	Information on: (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.	Responsible Employment — Employment Management Responsible Employment — Caring for Employees
KPI	B1.1 Total workforce by gender, employment type (for example, full- or parttime), 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: (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.	Responsible Employment — Occupational Health
KPI	B2.1 Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Responsible Employment — Occupational Health
	B2.2 Lost days due to work injury.	Responsible Employment — Occupational Health
	B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Responsible Employment — Occupational Health
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Responsible Employment — Talent Development and Training
KPI	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Responsible Employment — Talent Development and Training
	B3.2 The average training hours completed per employee by gender and employee category.	Responsible Employment — Talent Development and Training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect B4: Labour Standards		
General Disclosure	Information on: (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 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 Operation — Supply Chain Management
KPI	B5.1 Number of suppliers by geographical region.	Reliable Operation — 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 Operation — Supply Chain Management
	B5.3 Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Reliable Operation — Supply Chain Management
	B5.4 Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Reliable Operation — Green Procurement

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect B6: Product Responsibility		
General Disclosure	Information on: (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.	Reliable Operation — Product Responsibility
KPI	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Reliable Operation — Product Responsibility
	B6.2 Number of products and service related complaints received and how they are dealt with.	Reliable Operation — Product Responsibility
	B6.3 Description of practices relating to observing and protecting intellectual property rights.	Reliable Operation — Product Responsibility
	B6.4 Description of quality assurance process and recall procedures.	Reliable Operation — Product Responsibility
	B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Reliable Operation — Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (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.	Reliable Operation — Anti-corruption
KPI	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	Reliable Operation — Anti-corruption
	B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Reliable Operation — Anti-corruption
	B7.3 Description of anti-corruption training provided to directors and staff.	Reliable Operation — Anti-corruption

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. Social		
General Disclosure and KPIs	Description	Relevant Chapter
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
	B8.2 Resources contributed (e.g. money or time) to the focus area.	Community Investment

INDEPENDENT AUDITOR'S REPORT



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

信永中和(香港)會計師事務所有限公司
香港銅鑼灣
希慎道33號利園一期43樓

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 94 to 150, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2021, 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 101 to 114.

The key audit matter

How the matter was addressed in our audit

As at 31 December 2021, the Group had trade and bills receivables of approximately RMB169,393,000, net of accumulated loss allowance for ECL of approximately RMB3,099,000. Impairment loss of approximately RMB2,790,000 has been recognised during the year end 31 December 2021.

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.

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.

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.

We obtained an understanding of how the ECL of trade and bills receivables were assessed by the management.

We have challenged management's assumption and judgement in determining ECL on trade and bills receivables as at 31 December 2021, 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.

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.

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, actions taken to eliminate threats or safeguards applied.

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

23 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	813,810	771,461
Cost of sales		(698,669)	(644,525)
Gross profit		115,141	126,936
Other income	7	10,158	6,685
Selling and distribution expenses		(30,050)	(23,582)
Administrative expenses		(39,966)	(47,553)
Finance costs	8	(6,199)	(5,621)
Profit before tax		49,084	56,865
Income tax expenses	9	(13,917)	(20,873)
Profit for the year	10	35,167	35,992
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		(471)	(3,791)
Total comprehensive income for the year attributable to owners of the Company		34,696	32,201
Earnings per share			
Basic and diluted (RMB cents)	14	5.86	7.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current Assets			
Property, plant and equipment	15	120,816	73,170
Right-of-use assets	16	6,313	11,530
Intangible assets	17	344	415
Earnest money paid	42	35,000	—
Deposits paid for acquisition of property, plant and equipment		—	9,050
Deferred tax assets	28	880	183
		163,353	94,348
Current Assets			
Inventories	18	127,919	74,250
Trade and bills receivables	19	169,393	248,364
Prepayments and other receivables	20	89,724	18,853
Amount due from a related company	21	408	65
Time deposits	22	89,833	—
Bank balances and cash	23	32,476	129,233
		509,753	470,765
Current Liabilities			
Trade and bills payables	24	149,646	199,102
Accruals and other payables	25	41,563	34,873
Contract liabilities	26	9,579	1,467
Income tax payable		8,856	10,729
Lease liabilities	16	88	898
Borrowings	27	219,985	95,590
		429,717	342,659
Net current assets		80,036	128,106
Total assets less current liabilities		243,389	222,454

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current Liabilities			
Lease liabilities	16	—	864
Deferred tax liabilities	28	15,120	13,084
		15,120	13,948
Net assets		228,269	208,506
Capital and Reserves			
Share capital	32	5,035	5,035
Reserves	33	223,234	203,471
Total Equity		228,269	208,506

The consolidated financial statements on pages 94 to 150 were approved and authorised for issue by the board of directors on 23 April 2022 and are signed on its behalf by:

Xue Shidong

Qiu Jianyu

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to owners of the Company						Total RMB'000
	Share capital RMB'000 (Note 32)	Share premium RMB'000	Capital reserve RMB'000 (Note 33(a))	Exchange reserve RMB'000	Statutory reserve RMB'000 (Note 33(b))	Retained profits RMB'000	
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
At 1 January 2021	5,035	88,346	(4,313)	1,549	14,912	102,977	208,506
Profit for the year	—	—	—	—	—	35,167	35,167
Exchange difference arising on translating a foreign operation	—	—	—	(471)	—	—	(471)
Total comprehensive (expense) income for the year	—	—	—	(471)	—	35,167	34,696
Appropriation to statutory reserve	—	—	—	—	2,256	(2,256)	—
Dividends paid (Note 13)	—	(14,933)	—	—	—	—	(14,933)
As at 31 December 2021	5,035	73,413	(4,313)	1,078	17,168	135,888	228,269

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES		
Profit before tax	49,084	56,865
Adjustments for:		
Amortisation of intangible assets	134	125
Depreciation of property, plant and equipment ("PPE")	9,175	7,972
Loss on disposal of PPE	300	—
Finance costs	6,199	5,621
Impairment loss recognised/(reversal of impairment loss) on trade and bills receivables	2,790	(160)
Depreciation of right-of-use assets	4,090	4,233
Loss (gain) on early termination of a lease	349	(5)
Government subsidies	(9,378)	(3,723)
Bank interest income	(56)	(130)
Operating cash flows before working capital changes	62,687	70,798
Increase in inventories	(53,669)	(8,632)
Decrease (increase) in trade and bills receivables	76,046	(77,091)
Increase in prepayments and other receivables	(71,071)	(10,393)
(Decrease) increase in trade and bills payables	(48,846)	36,841
Increase in accruals and other payables	5,462	9,011
Increase (decrease) in contract liabilities	8,114	(66)
Cash (used in) generated from operations	(21,277)	20,468
Income taxes paid	(14,423)	(29,885)
NET CASH USED IN OPERATING ACTIVITIES	(35,700)	(9,417)
INVESTING ACTIVITIES		
Placement of time deposits	(89,833)	—
Payments for purchase of PPE	(48,363)	(9,754)
Earnest money paid (Note 42)	(35,000)	—
Payments for deposits for PPE	—	(9,050)
Advances to a related company	(4,050)	(13,990)
Payments for purchase of intangible assets	(63)	(227)
Repayments from a related company	3,707	3,256
Proceeds received from disposal of PPE	292	—
Interest received	56	130
NET CASH USED IN INVESTING ACTIVITIES	(173,254)	(29,635)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	219,985	95,590
Government subsidies received	9,378	3,723
Payments of lease liabilities	(897)	(4,056)
Interest paid	(5,941)	(5,615)
Dividend paid	(13,789)	—
Repayments of borrowings	(95,590)	(70,590)
Proceeds from issue of shares by placing and public offer	—	105,713
Repayments from the controlling shareholder	—	(4,263)
Expenses directly attributable to issue of shares	—	(12,333)
NET CASH FROM FINANCING ACTIVITIES	113,146	108,169
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(95,808)	69,117
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	129,233	62,124
Effect of foreign exchange rate changes	(949)	(2,008)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	32,476	129,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 38.

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 (“**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 2021:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, Hong Kong Accounting Standard (“ HKAS ”) 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts and related Amendments ³
Amendments to HKFRS 3	Reference to Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the 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 ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use ²
Amendments to HKAS 37	Onerous Contracts: Cost of Fulfilling a Contract ²
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle ²

¹ Effective for annual periods beginning on or after 1 April 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ 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.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Significant Accounting Policies (Continued)

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 over 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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 related to income 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 and the Group intends 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. Significant Accounting Policies (Continued)

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.

Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management 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 2021

3. Significant Accounting Policies (Continued)

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

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 of inventories represents the estimated selling price in the ordinary course of business 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 2021

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, a 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 2021

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 2021

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, time deposits 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 2021

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 2021

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 2021

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 2021

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 or (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 2021

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.

ECL 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 2021, the Group had trade and bills receivables of approximately RMB169,393,000 (2020: RMB248,364,000), net of accumulated loss allowance for ECL of approximately RMB3,099,000 (2020: RMB309,000). Impairment loss of approximately RMB2,790,000 (2020: reversal of impairment loss of approximately RMB160,000) has been recognised during the year ended 31 December 2021.

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 2021, the carrying amount of inventories was approximately RMB127,919,000 (2020: RMB74,250,000). No impairment of inventories was recognised during the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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:

	2021 RMB'000	2020 RMB'000
Sales of plain weave fabrics	592,310	499,418
Sales of corduroy fabrics	176,602	229,369
Provision of dyeing and processing services	44,898	42,674
	813,810	771,461

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	
	2021 RMB'000	2020 RMB'000
The PRC	612,826	622,769
Japan	52,538	49,959
Others	148,446	98,733
	813,810	771,461

Information about major customers

There are no customers contributing over 10% of the total revenue of the Group for the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. Other Income

	2021 RMB'000	2020 RMB'000
Bank interest income	56	130
Exchange gain, net	—	1,620
Government subsidies (Note i)	9,378	3,723
Reversal of impairment loss on trade and bills receivables	—	160
Sundry income (Note ii)	724	1,052
	10,158	6,685

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 2021 and 2020.
- (ii) Sundry income in 2020 included gain on early termination of a lease of approximately RMB5,000. Details are set out in note 16.

8. Finance Costs

	2021 RMB'000	2019 RMB'000
Interests on:		
Borrowings	6,031	5,291
Lease liabilities	83	245
Guarantee fees	85	85
	6,199	5,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9. Income Tax Expenses

	2021 RMB'000	2020 RMB'000
Current tax:		
Hong Kong Profits Tax	4,630	2,539
PRC Enterprise Income Tax ("EIT")	7,948	14,602
	12,578	17,141
Deferred tax (Note 28):		
Current year	1,339	3,732
	13,917	20,873

- (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) 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 2021 and 2020, 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 (2020: HK\$10,000) per company for the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9. Income Tax Expenses (Continued)

The income tax expenses for the years ended 31 December 2021 and 2020 can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	49,084	56,865
Tax at the domestic income tax rate of 25%	12,271	14,216
Tax effect of expenses not deductible for tax purpose	1,565	3,071
Tax effect of income not taxable for tax purpose	—	(6)
Effect of two-tiered profits tax rates regime	(137)	(147)
Hong Kong Profits Tax concession	(8)	(9)
Withholding tax on undistributed earnings of a PRC subsidiary (Note 28)	2,036	3,751
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,810)	(3)
Income tax expenses	13,917	20,873

10. Profit for the Year

	2021 RMB'000	2020 RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 11)	3,310	2,158
Salaries, allowances and other benefits (excluding directors' emoluments)	46,829	33,687
Contributions to retirement benefits scheme (excluding directors' emoluments) (Note)	6,453	3,297
Total staff costs	56,592	39,142
Auditor's remuneration	1,282	818
Listing expenses	—	16,544
Amortisation of intangible assets	134	125
Loss on disposal of property, plant and equipment	300	—
Amount of inventories recognised as an expense	658,603	608,093
Depreciation of property, plant and equipment	9,175	7,972
Depreciation of right-of-use assets	4,090	4,233
Impairment loss recognised on trade and bills receivables	2,790	—
Exchange losses, net	3,129	—
Loss on early termination of a lease	349	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

10. Profit for the Year (Continued)

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.

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 2021					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	200	366	28	594
Mr. Qiu Jianyu (邱建宇)	—	200	366	25	591
Ms. Zhang Yeping (張葉萍)	83	200	360	—	643
Mr. Wang Bin (王斌)	—	200	366	25	591
Mr. Jin Rongwei (金榮偉)	—	200	366	25	591
<i>Independent non-executive Directors</i>					
Mr. Ho Kin Cheong Kelvin (何建昌) (note ii)	100	—	—	—	100
Mr. Zhu Qi (朱旗) (note ii)	100	—	—	—	100
Mr. Wang Hongliang (王洪亮) (note ii)	100	—	—	—	100
	383	1,000	1,824	103	3,310
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 ii)	18	—	—	—	18
Mr. Zhu Qi (朱旗) (note ii)	18	—	—	—	18
Mr. Wang Hongliang (王洪亮) (note ii)	18	—	—	—	18
	143	695	1,248	72	2,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

11. Directors' Emoluments (Continued)

Notes:

- (i) The executive directors' emoluments shown above were mainly paid for their services as a director and in connection with the management of the affairs of the Company and the Group. The discretionary bonus for the years ended 31 December 2021 and 2020 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 2021 and 2020. 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 2021 and 2020.

No chief executive was appointed during the years ended 31 December 2021 and 2020.

- (ii) 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.

12. Employees' Emoluments

In 2021, the five highest paid individuals in the Group were all directors of the Company and details of their emoluments are included in note 11 above. In 2020, 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 highest paid individuals in 2020 were as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and other benefits	—	973
Contributions to retirement benefits scheme	—	23
	—	996

Their emoluments were within the following band:

	2021 Number of individuals	2020 Number of individuals
Nil to HK\$1,000,000 (equivalent to approximately: 31/12/2021: Nil to RMB817,000, 31/12/2020: Nil to RMB839,000)	—	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

12. Employees' Emoluments (Continued)

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 2021 and 2020.

13. Dividends

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

During the year ended 31 December 2020 and before listing of the shares of the Company 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 HK3.0 cents per share in respect of the year ended 31 December 2021 has been proposed by the Director 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 2021 and 2020 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.

	2021 RMB'000	2020 RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	35,167	35,992
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	600,000	468,443

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2020 has been adjusted for the effect of the capitalisation issue as detailed in note 32.

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 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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	Building RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 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 and 1 January 2021	3,579	84,025	711	2,404	1,950	—	22,707	115,376
Additions	10,644	12,123	504	1,604	481	—	32,057	57,413
Transfer from construction in progress	—	—	—	—	—	43,890	(43,890)	—
Disposals	—	(3,043)	—	—	—	—	—	(3,043)
At 31 December 2021	14,223	93,105	1,215	4,008	2,431	43,890	10,874	169,746
ACCUMULATED DEPRECIATION								
At 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 and 1 January 2021	2,078	37,214	494	1,312	1,108	—	—	42,206
Charge for the year	1,487	6,545	78	497	336	232	—	9,175
Eliminated on disposals	—	(2,451)	—	—	—	—	—	(2,451)
At 31 December 2021	3,565	41,308	572	1,809	1,444	232	—	48,930
CARRYING VALUES								
At 31 December 2021	10,658	51,797	643	2,199	987	43,658	10,874	120,816
At 31 December 2020	1,501	46,811	217	1,092	842	—	22,707	73,170

- (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 to 10 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
Building	30 years

- (ii) The Group has pledged certain of its machineries and building with carrying value of approximately RMB20,334,000 and RMB43,658,000 (2020: RMB24,038,000 and nil) respectively as at 31 December 2021 to secure general banking facilities granted to the Group. Details of which are set out in notes 27 and 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. Leases

(i) Right-of-use assets

	2021 RMB'000	2020 RMB'000
Land	6,227	6,372
Factory, warehouse and office	86	5,158
	6,313	11,530

The additions to right-of-use assets and lease liabilities for the year ended 31 December 2020 amounted to RMB2,750,000 (2021: nil) 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 (2021: 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 2021, the lease of factory located in PRC was early terminated. Loss on early termination of a lease of approximately RMB349,000 was recognised in administrative expenses due to the difference between the carrying amount of the right-of-use asset and lease liabilities of approximately RMB1,122,000 and RMB773,000 respectively.

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 RMB6,227,000 as at 31 December 2021 (2020: RMB6,372,000) to secure general banking facilities granted to the Group. For the details, please refer to note 30.

* The English name is for identification only

(ii) Lease Liabilities

	2021 RMB'000	2020 RMB'000
Analysed as:		
Current portion	88	898
Non-current portion	—	864
	88	1,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. Leases (Continued)

(ii) Lease Liabilities (Continued)

	2021 RMB'000	2020 RMB'000
Amounts payable under lease liabilities		
Within one year	88	898
After one year but within two years	—	864
	88	1,762
Less: Amount due for settlement within 12 months (Shown under current liabilities)	(88)	(898)
Amount due for settlement after 12 months	—	864

(iii) Amounts recognised in profit or loss

	2021 RMB'000	2020 RMB'000
Depreciation expense on right-of-use-assets		
— Land	145	146
— Factory, warehouse and office	3,945	4,087
Interest expense on lease liabilities	83	245
Loss (gain) on early termination of a lease	349	(5)

During the year ended 31 December 2021, the total cash outflows for lease was approximately RMB980,000 (2020: RMB 4,301,000).

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 2020 and 2021. 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 (2021: nil) 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 2021

17. Intangible Assets

	Computer software RMB'000
COST	
At 1 January 2020	583
Additions	227
At 31 December 2020 and 1 January 2021	810
Additions	63
At 31 December 2021	873
AMORTISATION	
At 1 January 2020	270
Charge for the year	125
At 31 December 2020 and 1 January 2021	395
Charge for the year	134
At 31 December 2021	529
CARRYING VALUES	
At 31 December 2021	344
At 31 December 2020	415

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

	2021 RMB'000	2020 RMB'000
Raw materials	28,467	17,707
Work in progress	35,256	16,744
Finished goods	64,196	39,799
	127,919	74,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. Trade and Bills Receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	138,919	245,333
Bills receivables	33,573	3,340
Less: allowance for impairment of trade and bills receivables	(3,099)	(309)
	169,393	248,364

As at 31 December 2021, the gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB172,492,000 (2020: RMB248,673,000).

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.

	2021 RMB'000	2020 RMB'000
Within 30 days	115,719	203,104
31 to 60 days	30,814	22,548
61 to 90 days	11,346	21,511
91 to 180 days	11,514	1,201
Total	169,393	248,364

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 2020 and 2021.

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 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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	Loss allowance
As at 31 December 2021			
Within 30 days	1.7%	117,718	1,999
31 to 60 days	1.9%	31,398	584
61 to 90 days	2.0%	11,583	237
91 to 180 days	2.4%	11,793	279
		172,492	3,099
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

The movement in the impairment loss of trade and bills receivables during the years ended 31 December 2021 and 2020 is as follows:

	Impairment loss allowance RMB'000
Balance as at 1 January 2020	469
Reversal of impairment loss	(160)
Balance as at 31 December 2020	309
Impairment loss recognised	2,790
Balance as at 31 December 2021	3,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. Trade and Bills Receivables (Continued)

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

The increase in loss allowance during the year ended 31 December 2021 was mainly due to the increase in weighted average expected credit loss rates resulting from the change in risk parameters including the probability of default.

As at 31 December 2021, the Group discounted and factored bills receivables in aggregate amounts of approximately RMB6,209,000 (2020: nil) to banks for short term financing.

Transfers of financial assets

The following were the Group's trade and bills receivables as at 31 December 2021 that were transferred to banks by discounting those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as secured borrowings (see note 27) as at 31 December 2021. These bills receivables are carried at amortised cost in the consolidated statement of financial position.

The bills receivables discounted and factored to banks with full recourse are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount of transferred assets	6,209	—
Carrying amount of associated liabilities	(6,209)	—
Net position	—	—

20. Prepayments and Other Receivables

	2021 RMB'000	2020 RMB'000
Prepayments to suppliers	83,550	18,684
Other tax recoverables	4,925	—
Others	1,249	169
	89,724	18,853

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 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21. Amount Due from 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.

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 (2021: nil) 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 36(a).

22. Time Deposits

As at 31 December 2021, the Group had fixed-term time deposits in banks in the PRC with maturity of more than three months but less than one year. The deposits carry fixed interests rate at 0.63% to 0.70% per annum (2020: nil).

Included in the time deposits is the following amount denominated in a currency other than the functional currency of relevant group entity:

	2021 RMB'000	2020 RMB'000
HK\$	89,833	—

23. Bank Balances and Cash

At 31 December 2021, bank balances earned interest at floating rates based on daily bank deposit rates ranging from 0.01%–0.3% per annum (2020: 0.01%–0.3% 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:

	2021 RMB'000	2020 RMB'000
HK\$	3,541	95,296
US\$	928	363
	4,469	95,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

24. Trade and Bills Payables

	2021 RMB'000	2020 RMB'000
Trade payables	146,846	194,552
Bills payables	2,800	4,550
	149,646	199,102

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

	2021 RMB'000	2020 RMB'000
Within 30 days	100,360	138,601
31 to 60 days	21,116	34,125
61 to 90 days	7,433	17,409
91 to 180 days	20,267	8,173
181 to 365 days	432	231
Over 365 days	38	563
Total	149,646	199,102

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.

25. Accruals and Other Payables

	2021 RMB'000	2020 RMB'000
Accrued salaries (Note)	11,937	10,917
Accrued expenses	27,813	16,022
Interest payables	396	138
Dividend payable	1,144	—
Other tax payables	—	7,419
Others	273	377
	41,563	34,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

25. Accruals and Other Payables (Continued)

Note: Accrued salaries included emoluments payable to the directors of the Company amounting to approximately RMB1,381,000 (2020: RMB970,000) as at 31 December 2021.

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

	2021 RMB'000	2020 RMB'000
HK\$	3,022	4,040

26. Contract Liabilities

	2021 RMB'000	2020 RMB'000
Contract liabilities	9,579	1,467

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

Significant changes in contract liabilities

The significant increase in contract liabilities as at 31 December 2021 was mainly due to the advance from customers in relation to the sales of fabric products at the end of the year.

Movements in the contract liabilities during the years ended 31 December 2021 and 2020 are as follows:

	2021 RMB'000	2020 RMB'000
At the beginning of year	1,467	1,533
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	(1,467)	(1,533)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	9,579	1,467
At the end of year	9,579	1,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

27. Borrowings

	2021 RMB'000	2020 RMB'000
Bank borrowings, secured	69,209	10,000
Bank borrowings, unsecured	150,776	85,590
	219,985	95,590

As at 31 December 2021, (i) revolving term loans of approximately RMB63,000,000 (2020: RMB10,000,000), carried fixed interest rate ranging from 4.5% per annum (2020: 4.4% to 5.7% per annum) and are secured by the Group's certain right-of-use assets and machineries and (ii) borrowing in respect of discounted bills with recourse from banks of approximately RMB6,209,000 (2020: nil) carried fixed interest rate ranging from 1.5% to 3.0% per annum (2020: nil) as detailed in note 19.

As at 31 December 2021, the unsecured bank borrowings and the related banking facilities of approximately RMB150,776,000 (2020: RMB85,590,000), carried fixed interest ranging from 0.7% to 5.3% per annum (2020: 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 2021, the Group obtained new bank borrowings in the amount of RMB219,985,000 (2020: RMB95,590,000) 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 2021 and 2020 are set out as follows:

	2021 RMB'000	2020 RMB'000
Facility amount	237,481	113,815
Utilisation		
Secured bank borrowings	69,209	10,000
Unsecured bank borrowings	150,776	85,590
	219,985	95,590

Details of pledged of assets are set out in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

27. Borrowings (Continued)

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

	2021 RMB'000	2020 RMB'000
US\$	81,386	—

28. Deferred Tax Assets (Liabilities)

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

	2021 RMB'000	2020 RMB'000
Deferred tax assets	880	183
Deferred tax liabilities	(15,120)	(13,084)
	(14,240)	(12,901)

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the years ended 31 December 2021 and 2020:

	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 2020	(9,333)	117	47	(9,169)
(Charge) credit to consolidated profit or loss	(3,751)	(40)	59	(3,732)
At 31 December 2020 and 1 January 2021	(13,084)	77	106	(12,901)
(Charge) credit to consolidated profit or loss	(2,036)	699	(2)	(1,339)
At 31 December 2021	(15,120)	776	104	(14,240)

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

29. 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.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB6,556,000 (2020: RMB3,369,000) represents contributions payable to these schemes by the Group for the year ended 31 December 2021.

There were no contributions forfeited by the Group on behalf of its employees who left the schemes prior to vesting fully in such contribution, nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2021 and 2020, no forfeited contributions were available for utilisation by the Group to reduce the existing level of contributions.

30. Pledge of Assets

At 31 December 2021 and 2020, the Group had pledged the following assets to secure banking facilities granted to the Group:

	2021 RMB'000	2020 RMB'000
Building	43,658	—
Machineries	20,334	24,038
Right-of-use assets	6,227	6,372
Bills receivables	6,209	—
	76,428	30,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. Share-based Payment Transactions

Share-option scheme

During the year ended 31 December 2021, 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.

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 2021, no options were granted under the Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

32. Share Capital

Share capital of the Company

	Number of shares		Amount			
	2021 HK\$	2020 HK\$	2021 HK\$	2020 HK\$	2021 RMB'000	2020 RMB'000
Authorised ordinary shares at HK\$0.01 per share:						
At the beginning of the year	10,000,000,000	38,000,000	100,000,000	380,000	83,918	323
Increase in authorised share capital (Note i)	—	9,962,000,000	—	99,620,000	—	83,595
At the end of the year	10,000,000,000	10,000,000,000	100,000,000	100,000,000	83,918	83,918
Issued and fully paid ordinary shares at HK\$0.01 per share:						
At the beginning of the year	600,000,000	100,001	6,000,000	1,000	5,035	1
Capitalisation 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 the end of the year	600,000,000	600,000,000	6,000,000	6,000,000	5,035	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

33. 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.

(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.

34. 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 2021 and 2020.

The capital structure of the Group consists of net debt, which includes borrowings, net of time deposits, 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.

35. Financial Instruments

(a) Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost (including bank balances and cash)	293,359	377,831
Financial liabilities		
Financial liabilities measured at amortised cost	411,194	322,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

(b) Financial risk management objectives and policies

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

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, borrowings, time deposits 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:

	2021		2020	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
HK\$	93,374	3,022	95,296	4,040
US\$	1,861	81,386	3,018	—

As at 31 December 2021, the significant increase in the Group's monetary liabilities that are denominated in US\$ was due to the new borrowings raised.

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in RMB against HK\$/US\$ for the year ended 31 December 2021. 5% (2020: 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% (2020: 5%) change in foreign currency rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

A negative number below indicates a decrease in profit before tax for the year where RMB strengthen 5% (2020: 5%) against the relevant currency. For a 5% (2020: 5%), weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit before tax for the year.

	2021 RMB'000	2020 RMB'000
Decrease in post-tax profit for the year:		
— if RMB strengthen against HK\$	(4,531)	(4,563)
— if RMB strengthen against US\$	2,982	(151)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (note 27) and time deposits (note 22).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23). 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 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

Credit risk (Continued)

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.

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 91% (2020: 96%) of the total trade and bills receivables as at 31 December 2021.

The Group has concentration of credit risk as 3% (2020: 7%) of the total trade and bills receivables was due from the Group's largest customer as at 31 December 2021. 10% (2020: 28%) of the total trade and bills receivables was due from the Group's five largest customers as at 31 December 2021.

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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

Credit risk (Continued)

- 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

Credit risk (Continued)

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 2021		
				Gross carrying amount	Loss allowance	Net carrying amount
Trade and bills receivables	19	(i)	Lifetime ECLs (not credit impaired) and simplified approach	172,492	(3,099)	169,393
Financial assets included in other receivables	20	Performing	12-month ECL	1,249	—	1,249
Amount due from a related company	21	Performing	12-month ECL	408	—	408
Time deposits	22	Performing	12-month ECL	89,833	—	89,833
Bank balances and cash	23	Performing	12-month ECL	32,476	—	32,476

	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 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	23	Performing	12-month ECL	129,233	—	129,233

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

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.

	Less than 1 year RMB'000	1–2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2021				
Trade and bills payables	149,646	—	149,646	149,646
Accruals and other payables	41,563	—	41,563	41,563
Borrowings	224,406	—	224,406	219,985
	415,615	—	415,615	411,194
Lease liabilities	88	—	88	88
	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. Financial Instruments (Continued)

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

Liquidity risk (Continued)

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.

36. 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 2021 and 2020:

	Notes	2021 RMB'000	2020 RMB'000
Amount due from a related party			
Dongxia	(i), (ii)	408	65
Maximum amount outstanding during the year			
Dongxia		1,783	3,428

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.

(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 2021 and 2020 were as follows:

	2021 RMB'000	2020 RMB'000
Short-term benefits	3,671	2,577
Post-employment benefits	133	130
	3,804	2,707

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 2021

36. Related Party Transactions (Continued)

(c) Right-of-use assets

Certain right-of-use assets are leased from a related company, Dongxia. For the year ended 31 December 2021, the amount of rent payable by the Group under the lease is RMB4,000,000 per year (2020: RMB4,000,000 per year). Details of right-of-use assets during the years ended 31 December 2021 and 2020 are set out in note 16.

As at 31 December 2021, the carrying amount of the related lease liabilities was RMB nil (2020: RMB1,496,000).

(d) Guarantee

Certain of the Group's banking facilities were granted from pledged assets of approximately RMB3,583,000 or guarantees given by the related party. Details of the banking facilities and bank borrowings granted under such facilities are set out in note 27.

37. 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)	Lease liabilities RMB'000 (Note 16)	Borrowings RMB'000 (Note 27)	Interest payable RMB'000 (Note 25)	Total RMB'000
As at 1 January 2021	—	1,762	95,590	138	97,490
Cash flows in	—	—	219,985	—	219,985
Cash flows out	(13,789)	(897)	(95,590)	(5,941)	(116,217)
Finance costs incurred (Note 8)	—	—	—	6,199	6,199
Dividend declared (Note 13)	14,933	—	—	—	14,933
Non-cash movement					
Exchange difference	—	(4)	—	—	(4)
Early termination of a lease (Note 16)	—	(773)	—	—	(773)
As at 31 December 2021	1,144	88	219,985	396	221,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. 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 27)	Interest payable RMB'000 (Note 25)	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
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
Early termination of a lease (Note 16)	—	—	(187)	—	—	(187)
As at 31 December 2020	—	—	1,762	95,590	138	97,490

38. Particulars of Subsidiaries

As at 31 December 2021 and 2020 and at the date of the report, 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
				2021	2020	
Directly held						
Qun Bong Global Limited ("Qun Bong") ¹	11 November 2013	The BVI	US\$1	100%	100%	Investment holding
Indirectly held						
Ya Dong (Hong Kong) International Trading Company Limited ("Yadong (Hong Kong)") ²	27 June 2011	Hong Kong	HK\$20,000,000	100%	100%	Investment holdings and trading of corduroy fabrics and plain weave fabrics
Yadong (Changzhou) ³	27 March 2014	The PRC	US\$10,000,000	100%	100%	Investment holdings and dyeing, processing and trading of corduroy fabrics and plain weave fabrics
Changzhou Dongliang Yunfang Information Technology Co., Ltd. ⁴	30 April 2021	The PRC	RMB1,000,000	100%	N/A	Inactive

* The English name is for identification only

¹ Company with limited liability incorporated in the BVI.

² Company with limited liability incorporated in Hong Kong.

³ Company with limited liability established in the PRC.

⁴ The subsidiary was established during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

39. Capital Commitments

	2021 RMB'000	2020 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	8,782	12,917

40. 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 (2021: nil). 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, 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 2021

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

	Notes	2021 RMB'000	2020 RMB'000
Non-current Asset			
Investment in a subsidiary		92,064	92,064
Current Assets			
Dividend receivable	(a)	12,250	37,627
Time deposits		89,833	—
Bank balances and cash		180	92,476
		102,263	130,103
Current Liabilities			
Accruals and other payables		1,353	2,943
Dividend payable		1,144	—
Amounts due to subsidiaries	(b)	42,063	46,978
		44,560	49,921
Net current assets		57,703	80,182
Net assets		149,767	172,246
Capital and Reserves			
Share capital		5,035	5,035
Reserves	(c)	144,732	167,211
Total Equity		149,767	172,246

(a) As at 31 December 2021 and 2020, dividend receivable was from Qun Bong.

(b) Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(c) Movements in the Company's reserves

	Capital reserve	Share premium	Retained profits/ (Accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(Note i)			
At 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 and 1 January 2021	87,752	88,346	(8,887)	167,211
Loss and total comprehensive expense for the year	—	—	(7,546)	(7,546)
Dividends paid	—	(14,933)	—	(14,933)
At 31 December 2021	87,752	73,413	(16,433)	144,732

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.

42. Subsequent Events After the Reporting Period

(i) Acquisition of subsidiary

The Group has paid earnest money of RMB35,000,000 during the year ended 31 December 2021 and included in non-current earnest money paid in the consolidated statement of financial position as at 31 December 2021.

On 14 January 2022, Yadong (Changzhou), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement to acquire certain land parcels and production plants and building by way of acquiring 100% equity interest in Lion Union (Changzhou) Textile Dyeing Company Limited* (雄聯(常州)紡織印染有限公司) ("Lion Union") from an independent third party at a cash consideration of RMB80,000,000. The completion of the transaction is conditional upon fulfillment of the conditions precedent pursuant to the equity transfer agreement, and the completion has not taken place as at the date of the report. Accordingly, the estimate of the financial impact of the acquisition can not be made.

The earnest money of RMB35,000,000 was utilised as partial settlement of the cash consideration subsequent to the end of the reporting period. Up to the report date, consideration of RMB43,000,000 was settled. Details of the equity transfer agreement are set out in the announcement of the Company dated 14 January 2022.

(ii) Connected transaction in relation to renewal of lease agreement

On 1 March 2022, Yadong (Changzhou) entered into a lease agreement with Dongxia for a term of 22 months commencing from 1 March 2022 and ending on 31 December 2023 (both days inclusive). The transactions contemplated under the lease agreement constitute connected transaction of the Company under Chapter 14A of the Listing Rules. Details are set out in the announcement dated 2 March 2022.

* The English name is for identification only