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Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Deyun Holding Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2019.

In this announcement, “we”, “us”, and “our” refer to the Company and where the context otherwise requires, the Group.

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period was approximately RMB198.5 million, representing a decrease of approximately 2.4% as compared with those for corresponding period in 2019.
- Gross profit of the Group for the Reporting Period was approximately RMB73.9 million, representing an increase of approximately 10.4% as compared with those for corresponding period in 2019. Gross profit margin for the Reporting Period improved to approximately 37.2% from approximately 32.9% in the corresponding period 2019.
- Profit attributable to owners of the Company for the Reporting Period was approximately RMB43.8 million, representing an increase of approximately 4.7% as compared with the corresponding period in 2019.
- Basic and diluted earnings per share attributable to owners of the Company was RMB4.64 cents for the Reporting Period.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i>
Revenue	3	198,478	203,443
Cost of sales	4	(124,621)	(136,539)
Gross profit		73,857	66,904
Other income	5	5,328	744
Other losses, net	6	(1,584)	(6)
Selling and distribution expenses	4	(2,278)	(2,324)
Administrative expenses	4	(22,089)	(14,335)
Net impairment losses on financial assets and contract assets	4	(425)	–
Operating profit		52,809	50,983
Finance income		388	131
Finance costs		(604)	(2,039)
Finance costs, net	7	(216)	(1,908)
Profit before income tax		52,593	49,075
Income tax expense	8	(8,772)	(7,224)
Profit for the year attributable to owners of the Company		43,821	41,851
Earnings per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents</i>)	9	4.64	4.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	RMB'000	RMB'000
Profit for the year	43,821	41,851
Other comprehensive income:		
<i>Item that will not be reclassified to profit or loss</i>		
Currency translation differences	—	2
Total comprehensive income for the year attributable to owners of the Company	43,821	41,853

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Properties, plant and equipment	10	146,651	146,833
Right-of-use asset	10	2,722	2,804
Investment property		341	382
Intangible assets		645	833
Prepayments	11	277	223
		150,636	151,075
Current assets			
Inventories	12	9,272	9,922
Contract assets	13	7,556	16,585
Trade and bills receivables	13	13,060	15,694
Prepayments and other receivables	11	10,013	2,527
Amounts due from shareholders		–	140
Cash and cash equivalents		109,483	38,480
		149,384	83,348
Total assets		300,020	234,423
EQUITY			
Equity attributable to owners of the Company			
Share capital		–*	138
Reserves		222,951	179,130
Total equity		222,951	179,268

* The balance was rounded to the nearest thousand

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Other payables	14	1,533	1,592
Deferred tax liabilities		346	433
		<u>1,879</u>	<u>2,025</u>
Current liabilities			
Trade payables	15	10,706	14,058
Other payables and accruals	14	37,859	12,914
Amounts due to shareholders		–	5,000
Contract liabilities	14	3,440	1,307
Current income tax liabilities		10,185	6,851
Bank borrowings		13,000	13,000
		<u>75,190</u>	<u>53,130</u>
Total liabilities		<u>77,069</u>	<u>55,155</u>
Total equity and liabilities		<u>300,020</u>	<u>234,423</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

The Company was incorporated in the Cayman Islands on 4 January 2019 as an exempted company with limited liability under the Companies Law Cap. 22, Law 3 of 1961 as consolidated and revised of the Cayman Islands. The address of the Company's registered office is 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in manufacturing of lace and provision of dyeing services (the "**Listing Business**").

The ultimate holding company of the Company is Deyong Investment Co., Limited ("**Deyong Investment**"), a company incorporated in the British Virgin Islands ("**BVI**"). The ultimate controlling shareholders are Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen acting in concert (together, the "**Controlling Shareholders**").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Listing**") on 13 January 2021.

These consolidated financial statements are presented in unit of Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**"), unless otherwise stated.

1.2 Reorganisation

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the reorganisation (the "**Reorganisation**") which mainly involved the following major steps:

- (a) On 4 January 2019, the Company was incorporated in the Cayman Islands. 10,000 shares of the Company were allotted and issued at par on 7 January 2019 to Deyong Investment which is held by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen.
- (b) On 29 January 2019, Deyun Investment Limited ("**Deyun Investment (BVI)**") was incorporated in the BVI and held by the Company.
- (c) On 13 March 2019, Deyun Holding (HK) Limited ("**Deyun Holding (HK)**") was incorporated in Hong Kong and held by Deyun Investment (BVI).
- (d) On 23 September 2019, Regal Star Holdings Limited ("**Regal Star**"), an investment holding vehicle of the pre-IPO investor, Mr. Tsoi Wing Sing ("**Mr. Tsoi**"), subscribed for 10% of equity interest of Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司) ("**Deyun Technology**") at 16,000,000 Hong Kong dollar ("**HKD**") (approximately RMB14,316,000). The amount was paid subsequently on 6 November 2019.
- (e) On 18 December 2019, Fujian Deyun Consulting Services Co., Ltd.* (福建德運諮詢服務有限公司) ("**Deyun Consulting**") was incorporated in the People's Republic of China (the "**PRC**") and held by Deyun Holding (HK).

- (f) On 19 December 2019, Deyun Consulting acquired the entire equity interests in Deyun Technology from the Controlling Shareholders and Regal Star, at a total cash consideration of RMB5,000,000. The consideration was fully settled on 13 March 2020.
- (g) On 20 December 2019, the Company allotted and issued 8,000 and 2,000 new shares for cash consideration of 8,000 United States dollar (“USD”) and USD2,000 respectively to Deyong Investment and Glorious Way Investments Limited, which is controlled by Mr. Tsoi.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance (Cap 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors of the Group to exercise judgement in the process of applying the Group’s accounting policies.

New standards and amendments to existing standards not yet adopted

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions	1 June 2020
HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements Project	Annual Improvements 2018–2020 Cycle	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	Effective date to be determined

The Group will adopt the above new or revised standards and amendments to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group’s financial position and results of operations upon adopting these standards and amendments to existing HKFRSs.

3 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in manufacturing of lace and provision of dyeing services.

The chief operating decision-maker has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources. The directors have determined the operating segment based on these reports.

The directors consider the Group's operation from a business perspective and determine that the Group has two reportable operating segments being manufacturing of lace and provision of dyeing services:

Manufacturing of lace – principally engaged in manufacturing of lace based on customers' orders for lingerie and other products;

Provision of dyeing services – principally engaged in provision of dyeing services of lace and swim wear fabrics based on customers' orders.

The directors assess the performance of the operating segments based on a measure of revenue and gross profit.

During the years ended 31 December 2020 and 2019, all of the Group's revenues are from contracts with customers and are recognised over time.

(a) Segment revenue by operating segments

The segment information provided to the directors for the reportable segments for the years ended 31 December 2020 and 2019 is as follows:

	Manufacturing of lace		Provision of dyeing services		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Segment revenue	<u>76,675</u>	<u>85,506</u>	<u>121,803</u>	<u>117,937</u>	<u>198,478</u>	<u>203,443</u>
Segment results	<u>33,579</u>	<u>32,897</u>	<u>40,278</u>	<u>34,007</u>	<u>73,857</u>	<u>66,904</u>
Other income					5,328	744
Other losses, net					(1,584)	(6)
Unallocated operating costs					(24,792)	(16,659)
Finance costs, net					(216)	(1,908)
Profit before income tax					<u>52,593</u>	<u>49,075</u>

(b) Segment revenue by customers' geographical location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The PRC	196,672	200,943
Hong Kong	1,124	1,368
Others	682	1,132
	<u>198,478</u>	<u>203,443</u>

(c) Information about major customers

Revenue derived from any single external customer was less than 10% of the Group's total revenue during the years ended 31 December 2020 and 2019.

(d) Details of contract liabilities

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contract liabilities (<i>Note 14</i>)	<u>3,440</u>	<u>1,307</u>

Notes:

- (i) Contract liabilities represent advanced payments received from the customers for services that have not yet been transferred to the customers. The contract liabilities fluctuated during the years ended 31 December 2020 and 2019 due to fluctuation in sales orders with advanced payments.
- (ii) During the years ended 31 December 2020 and 2019, all brought-forward contract liabilities at the beginning of the financial years were fully recognised as revenue.

(e) Unsatisfied performance obligations

As at 31 December 2020 and 2019, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15 "Revenue from Contracts with Customers", the transaction price allocated to these unsatisfied performance obligations was not disclosed.

(f) Non-current assets by geographical location

All of the Group's non-current assets were located in the PRC.

4 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets and contract assets are analysed as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials and consumables used	54,562	67,639
Employee benefit expenses, including directors' emoluments	37,703	36,842
Manpower service expenses	1,872	1,643
Amortisation of intangible assets	258	246
Utilities	9,863	10,305
Depreciation of properties, plant and equipment and right-of-use asset (<i>Note 10</i>)	15,389	16,047
Depreciation of investment property	41	41
Auditor's remuneration	1,600	49
Listing expenses	13,319	7,190
Professional fees	3,105	1,718
Other tax and surcharges	1,830	1,844
Packaging expenses	1,569	1,522
Waste handling charges	4,068	4,089
Net impairment losses on financial assets and contract assets	425	–
Others	3,809	4,023
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets and contract assets	149,413	153,198

5 OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	5,065	580
Rental income	34	34
Others	229	130
	<hr/>	<hr/>
	5,328	744

6 OTHER LOSSES, NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Losses on disposal of properties, plant and equipment	(620)	(101)
Exchange differences	(964)	95
	<u>(1,584)</u>	<u>(6)</u>

7 FINANCE COSTS, NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income		
Interest income	388	131
Finance costs		
Unwinding of discount on other payables	(8)	(8)
Interest expenses on bank borrowings	(626)	(2,097)
Less: capitalised on qualifying assets	30	66
	<u>(604)</u>	<u>(2,039)</u>
Finance costs, net	<u>(216)</u>	<u>(1,908)</u>

Borrowing costs have been capitalised at rates of 4.93% and 5.19% per annum on qualifying assets for the years ended 31 December 2020 and 2019 respectively.

8 INCOME TAX EXPENSE

During the years ended 31 December 2020 and 2019, Deyun Technology, the Group's subsidiary in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

During the years ended 31 December 2020 and 2019, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profit in Hong Kong.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax	8,859	7,015
Deferred income tax	(87)	209
Income tax expense	<u>8,772</u>	<u>7,224</u>

	2020	2019
	RMB'000	RMB'000
Profit before income tax	<u>52,593</u>	<u>49,075</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	7,661	7,253
Tax effect of:		
Expenses not deductible for tax purpose	2,505	1,194
Super deductions from research and development expenditure (<i>Note</i>)	<u>(1,394)</u>	<u>(1,223)</u>
Income tax expense	<u>8,772</u>	<u>7,224</u>

Note: According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

9 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2020 and 2019. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue which took place on 16 December 2020.

	2020	2019
Profit for the year attributable to owners of the Company (<i>RMB'000</i>)	43,821	41,851
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	945,000	864,999
Basic and diluted earnings per share (<i>RMB cents</i>)	4.64	4.84

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2020 and 2019.

10 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSET

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Right- of-use asset <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019								
Cost	37,751	253,131	3,470	1,090	1,799	297,241	4,121	301,362
Accumulated depreciation	(8,352)	(132,833)	(2,276)	(597)	-	(144,058)	(1,235)	(145,293)
Net book amount	<u>29,399</u>	<u>120,298</u>	<u>1,194</u>	<u>493</u>	<u>1,799</u>	<u>153,183</u>	<u>2,886</u>	<u>156,069</u>
Year ended								
31 December 2019								
Opening net book amount	29,399	120,298	1,194	493	1,799	153,183	2,886	156,069
Additions	1,631	6,390	338	-	1,519	9,878	-	9,878
Transfers	1,805	-	-	-	(1,805)	-	-	-
Depreciation	(1,982)	(13,565)	(315)	(103)	-	(15,965)	(82)	(16,047)
Disposals	(118)	(145)	-	-	-	(263)	-	(263)
Closing net book amount	<u>30,735</u>	<u>112,978</u>	<u>1,217</u>	<u>390</u>	<u>1,513</u>	<u>146,833</u>	<u>2,804</u>	<u>149,637</u>
At 31 December 2019								
Cost	40,997	258,809	3,808	1,090	1,513	306,217	4,121	310,338
Accumulated depreciation	(10,262)	(145,831)	(2,591)	(700)	-	(159,384)	(1,317)	(160,701)
Net book amount	<u>30,735</u>	<u>112,978</u>	<u>1,217</u>	<u>390</u>	<u>1,513</u>	<u>146,833</u>	<u>2,804</u>	<u>149,637</u>
Year ended								
31 December 2020								
Opening net book amount	30,735	112,978	1,217	390	1,513	146,833	2,804	149,637
Additions	96	7,904	86	-	8,645	16,731	-	16,731
Transfers	-	1,530	357	-	(1,887)	-	-	-
Depreciation	(2,079)	(12,763)	(361)	(104)	-	(15,307)	(82)	(15,389)
Disposals	-	(1,606)	-	-	-	(1,606)	-	(1,606)
Closing net book amount	<u>28,752</u>	<u>108,043</u>	<u>1,299</u>	<u>286</u>	<u>8,271</u>	<u>146,651</u>	<u>2,722</u>	<u>149,373</u>
At 31 December 2020								
Cost	41,093	264,444	4,251	1,090	8,271	319,149	4,121	323,270
Accumulated depreciation	(12,341)	(156,401)	(2,952)	(804)	-	(172,498)	(1,399)	(173,897)
Net book amount	<u>28,752</u>	<u>108,043</u>	<u>1,299</u>	<u>286</u>	<u>8,271</u>	<u>146,651</u>	<u>2,722</u>	<u>149,373</u>

During the years ended 31 December 2020 and 2019, depreciation expenses have been charged in cost of sales, selling and distribution expenses and administrative expenses as below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of sales	14,731	15,431
Selling and distribution expenses	7	5
Administrative expenses	651	611
	<u>15,389</u>	<u>16,047</u>

11 PREPAYMENTS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current portion		
Prepayments to suppliers	613	107
Other prepayments	9	5
Other tax receivables	895	–
Other receivables (<i>Note a</i>)	2,167	66
Prepaid listing expenses (<i>Note b</i>)	6,329	2,349
	<u>10,013</u>	<u>2,527</u>
Non-current portion		
Prepayments of acquisition of properties, plant and equipment	277	223

Notes:

- (a) As at 31 December 2020 and 2019, the carrying amounts of other receivables approximated their fair values.
- (b) The prepaid listing expenses as at 31 December 2020 and 2019 were incurred in connection with the listing of the Group and will be deducted from equity upon listing.

The carrying amounts of the Group's prepayments and other receivables were denominated in the following currencies:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
RMB	4,653	623
HKD	5,637	2,127
	<u>10,290</u>	<u>2,750</u>

12 INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	<u>9,272</u>	<u>9,922</u>

The cost of inventories recognised as expense and included in cost of sales during the years ended 31 December 2020 and 2019 amounted to approximately RMB54,562,000 and RMB67,639,000 respectively.

13 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contract assets	7,564	16,585
Less: Provision for impairment of contract assets	<u>(8)</u>	<u>–</u>
Contract assets, net	<u>7,556</u>	<u>16,585</u>
Trade receivables	10,461	13,161
Bills receivables	3,260	3,145
Less: Provision for impairment of trade receivables	<u>(661)</u>	<u>(612)</u>
Trade and bills receivables, net	<u>13,060</u>	<u>15,694</u>
	<u>20,616</u>	<u>32,279</u>

Contract assets represent the Group's rights to consideration for work completed but unbilled for its business. The contract assets are transferred to trade receivables when the rights become unconditional which generally take one to three months. The balances of contract assets fluctuated from year-to-year during the years ended 31 December 2020 and 2019 as the Group provided varying amount of goods or services that were unbilled before the year-ends.

As at 31 December 2020 and 2019, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

The Group's sales were generally on credit terms primarily from 30 to 60 days.

Movements on the Group's provision for impairment of contract assets are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
As at 1 January	–	–
Provision for impairment on a collective basis	<u>8</u>	<u>–</u>
As at 31 December	<u>8</u>	<u>–</u>

Movements on the Group's provision for impairment of trade receivables are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
As at 1 January	612	612
Provision for impairment on an individual basis	386	–
Provision for impairment on a collective basis	92	–
Reversal of provision for impairment	(61)	–
Written-off of provision for impairment	<u>(368)</u>	<u>–</u>
As at 31 December	<u>661</u>	<u>612</u>

As at 31 December 2020 and 2019, the aging analysis of trade and bills receivables, based on invoice date, was as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1 to 3 months	10,768	11,238
Over 3 months	<u>2,953</u>	<u>5,068</u>
	13,721	16,306
Less: Provision for impairment of trade receivables	<u>(661)</u>	<u>(612)</u>
	<u>13,060</u>	<u>15,694</u>

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
RMB	20,328	31,784
USD	288	495
	<u>20,616</u>	<u>32,279</u>

The maximum exposure to credit risk as at 31 December 2020 and 2019 was the carrying value of the receivables and contract assets mentioned above. The Group did not hold any collateral as security.

14 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current portion		
Payables for acquisition of properties, plant and equipment	16,550	1,809
Other tax payables	–	1,505
Other payables	369	149
Accruals for auditor's remuneration	1,600	–
Accruals for employee benefit expenses	2,744	5,022
Accruals for professional fees	1,677	960
Other accruals	173	185
Accrued listing expenses	10,747	38
Deposits from customers	3,999	3,246
Contract liabilities (<i>Note 3(d)</i>)	3,440	1,307
	<u>41,299</u>	<u>14,221</u>
Non-current portion		
Other payables	1,533	1,592

As at 31 December 2020 and 2019, the carrying amounts of the Group's contract liabilities, other payables and accruals approximated their fair values.

The carrying amounts of the Group's contract liabilities, other payables and accruals were denominated in the following currencies:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
RMB	32,633	15,305
USD	553	–
HKD	9,646	508
	<u>42,832</u>	<u>15,813</u>

15 TRADE PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	<u><u>10,706</u></u>	<u><u>14,058</u></u>

As at 31 December 2020 and 2019, the aging analysis of trade payables, based on invoice date, was as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1 to 3 months	9,631	12,623
Over 3 months	<u>1,075</u>	<u>1,435</u>
	<u><u>10,706</u></u>	<u><u>14,058</u></u>

As at 31 December 2020 and 2019, the carrying amounts of the Group's trade payables were denominated in RMB and approximated their fair values.

16 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Reporting Period was a remarkable year for the Group. The Group delivered stable financial results amid the outbreak of novel coronavirus (the “COVID-19”) during the Reporting Period. Shares of the Company were successfully listed on The Stock Exchange of Hong Kong Limited on 13 January 2021 (the “Listing Date”) and the successful listing established a solid foundation for our business development in the coming future.

The outbreak of COVID-19 has resulted in a large number of fatalities. The lockdown imposed in many countries, including the PRC has caused disruption of production activities and an adverse impact on the livelihood of the people and the economy globally, including the PRC.

The lockdown also adversely affected the consumer markets of the PRC, including lingerie and apparel markets, which are downstream of our lingerie material industry. In the first quarter of 2020, we experienced certain delays in placing order from our customers and our revenue during January to March 2020 has decreased as compared to the same period in 2019. The situation improved since March 2020 when the COVID-19 has slowed down. The PRC consumer market gradually rebounded in the second half of 2020 driven by the PRC fiscal stimulus package and the increase in domestic spending by the PRC consumers. Our revenue for the second half of 2020 significantly improved as compared with the same period in 2019.

Overall, we recorded a decrease of approximately 2.4% in the total revenue and an increase of approximately 4.7% in profit attributable to the owners of the Company during the Reporting Period.

OUTLOOK AND BUSINESS STRATEGY

Looking ahead, our business is supported by various market drivers, including rising disposable income, growing retail value of women’s outerwear and lingerie, wider application of lace fabric, further expansion of online retailing and improved trading efficiency brought by the development of e-commerce. The government authorities may also roll out more stringent environmental protection policies from time to time and the lace dyeing industry will become more concentrated.

In order to capture the upcoming business opportunities and maximise the interests of the Company and its shareholders, we plan to: (i) expand our dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring of dyeing machineries and facilities; (ii) comply with local policies through replacement of a coal-burning-boiler by a natural-gas-boiler; (iii) strengthen our research and development capability and quality control for our dyeing services; and (iv) expand our integrated enterprise resource planning system.

FINANCIAL REVIEW

Revenue

The Group provides dyeing services as well as sale and manufacture of lace to its customers. The Group's customers are mainly lace and swim wear manufacturers. Substantial portion of the Group's revenue are domestic sales.

Revenue by product types

Breakdown of the Group's revenue by product types is as follows:

	Year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Dyeing	121,803	61.4	117,937	58.0
Lace				
– High density	50,020	25.2	53,749	26.4
– Regular density	26,655	13.4	31,757	15.6
Sub-total	76,675	38.6	85,506	42.0
Total	198,478	100.0	203,443	100.0

Revenue by geographical regions

Breakdown of the Group's revenue by geographical regions is as follows:

	Year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Domestic sales	196,672	99.1	200,943	98.8
International sales	1,806	0.9	2,500	1.2
Total	198,478	100.0	203,443	100.0

Dyeing

The Group's dyeing revenue increased by approximately 3.3% from approximately RMB117.9 million for the year ended 31 December 2019 to approximately RMB121.8 million for the Reporting Period, primarily attributable to the increase in average price of dyeing services.

Lace

The Group's lace products are classified into (i) regular density lace, and (ii) high density lace. The lace revenue decreased by approximately 10.3% from approximately RMB85.5 million for the year ended 31 December 2019 to approximately RMB76.7 million for the Reporting Period, primarily attributable to outbreak of COVID-19 in January 2020, in particular, caused decrease in the Group's lace revenue in Guangdong.

Gross profit and gross profit margin

Gross profit increased by approximately 10.4% from approximately RMB66.9 million for the year ended 31 December 2019 to approximately RMB73.9 million for the Reporting Period, primarily reflecting the significant increase in the gross profit margin driven by the decrease in purchase costs of raw materials.

Gross profit margin increased from approximately 32.9% for the year ended 31 December 2019 to approximately 37.2% for the Reporting Period.

Other income

Other income increased from approximately RMB0.7 million for the year ended 31 December 2019 to approximately RMB5.3 million for the Reporting Period, primarily attributable to the local government grants to support the listing.

Other losses, net

The Group recorded net other losses of approximately RMB6,000 for the year ended 31 December 2019 and such losses increased to approximately RMB1.6 million for the Reporting Period, primarily attributable to the increase in losses on disposal of properties, plant and equipment and exchange losses arising from the foreign currency transaction.

Selling and distribution expenses

Selling and distribution expenses primarily consist of packaging expenses and staff cost in relation to sales and marketing staff. Selling and distribution expenses remained at similar level of approximately RMB2.3 million for the year ended 31 December 2019 and for the Reporting Period.

Administrative expenses

Administrative expenses increased from approximately RMB14.3 million for the year ended 31 December 2019 to approximately RMB22.1 million for the Reporting Period, primarily due to the increase in listing expenses.

Finance costs, net

The net finance costs decreased from approximately RMB1.9 million for the year ended 31 December 2019 to approximately RMB0.2 million for the Reporting Period, primarily due to the decrease in average bank borrowings from approximately RMB39.8 million for the year ended 31 December 2019 to approximately RMB13.0 million for the Reporting Period. The average amount of bank borrowings was calculated by multiplying the principal of bank borrowings by the respective days borrowed during the year divided by number of days for the year.

Income tax expenses

Deyun Technology, principal operating subsidiary of the Group, is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% for the year ended 31 December 2019 and for the Reporting Period. The income tax expenses increased from approximately RMB7.2 million for the year ended 31 December 2019 to approximately RMB8.8 million for the Reporting Period, mainly due to the recognition of listing expenses which were non-deductible for tax purpose.

For the same reason, effective income tax rate increased from approximately 14.7% for the year ended 31 December 2019 to approximately 16.7% for the Reporting Period.

Net profit and net profit margin

As a result of foregoing, the Group's net profit for the year ended 31 December 2019 increased from approximately RMB41.9 million to approximately RMB43.8 million for the Reporting Period. Net profit margin increased from approximately 20.6% for the year ended 31 December 2019 to approximately 22.1% for the Reporting Period.

Dividend

The Board does not recommend the payment of dividend for the Reporting Period (2019: nil).

LIQUIDITY, CAPITAL RESOURCES AND GEARING

Net current assets

The Group had net current assets of approximately RMB74.2 million as at 31 December 2020 (2019: approximately RMB30.2 million). The current ratio of the Group increased from approximately 1.6 times as at 31 December 2019 to approximately 2.0 times as at 31 December 2020. The increase in net current assets and improvement of current ratio as at 31 December 2020 was primarily attributable to the expedited cash collection process after the outbreak of COVID-19.

Cash and cash equivalents, borrowings and pledge of assets

The Group funds its business and working capital requirements by using a balanced mix of internal resources, borrowings and funds from listing. The Group will adjust its mix of funding mix depending on the costs of funding and its actual needs.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB109.5 million (2019: approximately RMB38.5 million) and they were denominated in RMB, USD and HKD. The significant increase in cash and cash equivalents as at 31 December 2020 was primarily due to the increase in cash generated from the Group's business operations and the significant decrease in the amount of bank borrowings repaid during the year ended 31 December 2020 as compared with those for corresponding period in 2019.

As at 31 December 2020, the Group had bank borrowings of RMB13.0 million for the finance of business operations and the fulfilment of working capital requirements (2019: RMB13.0 million).

As at 31 December 2020, the Group's bank borrowings carried floating rates at 4.4% per annum (2019: 5.0% per annum). The Group's bank borrowings were denominated in RMB and they were secured by the Group's properties, plant and equipment with carrying amount of approximately RMB19.4 million (2019: approximately RMB20.2 million).

As at 31 December 2020, the Group's total undrawn banking facilities amounted to RMB62.0 million (2019: RMB40.0 million).

Gearing ratio

As at 31 December 2020, the Group had a gearing ratio of approximately 5.8%, calculated by dividing total debt by total equity (2019: approximately 7.3%). The decrease in the gearing ratio was primarily due to the increase in the Group's equity base.

Capital structure

As at the date of this announcement, the Company's issued share capital was HKD12,600,000 and the number of issued shares of the Company was 1,260,000,000 ordinary shares of HKD0.01 each.

Capital expenditure

For the Reporting Period, the Group incurred cash flows on capital expenditures for the purchase of properties, plant and equipment in the amount of approximately RMB2.0 million (2019: approximately RMB9.8 million).

Foreign exchange risks and hedging

The majority of assets and liabilities of the Group are denominated in RMB, USD and HKD, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB, which is the functional currency of the major operating companies within the Group. During the Reporting Period, the Group did not hedge its foreign currency exposure. The Group regularly monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments of approximately RMB2.8 million in relation to the purchase of properties, plant and equipment (2019: approximately RMB0.6 million).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: nil).

EMPLOYEES AND REMUNERATION POLICY

The Group's employees are generally remunerated by way of fixed salary and they may also be entitled to a number of welfare benefits, including but not limited to job-nature based subsidy, performance-based bonus, paid leave and share options. The Group also make contributions to mandatory social security funds for its employees. The Group utilises an appraisal system for its employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. To enhance the performance of the employees, the Group provides its employees with adequate and regular trainings.

As at 31 December 2020, the Group had 469 employees (2019: 540 employees) and the Group's total employee benefit expenses (including directors' emoluments) for the Reporting Period amounted to approximately RMB37.7 million (2019: approximately RMB36.8 million).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed herein, the Group did not have any significant investments, material acquisitions and disposals during the Reporting Period.

FUTURE PLANS FOR MAJOR INVESTMENT

During the Reporting Period, save for the expansion plans as disclosed in the sections headed “Business” and “Future Plans and Use of Proceeds” in the prospectus of the Company dated 28 December 2020, the Group had no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Net proceeds from the initial public offering (the “IPO”), after deducting underwriting commissions and other relevant expenses, amounted to approximately HKD85.6 million. As of the date of this announcement, the net proceeds from the IPO had been applied as follows:

	Planned use of net proceeds <i>HKD million</i>	Net proceeds used as of the date of this announcement <i>HKD million</i>	Unused balance as of the date of this announcement <i>HKD million</i>	Timeframe for the unused balance
Expand dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring machineries and facilities	49.9	14.1	35.8	By end of 2022
Strengthen research and development capability and quality control for dyeing services	3.4	1.5	1.9	By end of 2021
Replace a coal-burning-boiler by a natural-gas-boiler	13.6	5.1	8.5	By end of 2021
Expand integrated enterprise planning resource system	0.9	0.3	0.6	By end of 2021
Repayment of bank loan	9.5	9.5	–	N/A
General working capital	8.3	2	6.3	By end of 2021
	<u>85.6</u>	<u>32.5</u>	<u>53.1</u>	

As of the date of this announcement, the Group has applied the net proceeds from the IPO in the manner and proportion set out in the prospectus of the Company dated 28 December 2020.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 16 December 2020 (the “**Adoption Date**”), which become effective on the Listing Date. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to eligible participants, including any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group; and to promote the success of the business of the Group.

The Share Option Scheme remains valid for a period of ten years commencing on the Adoption Date. As of 31 December 2020 and the date of this announcement, no share options had been granted or agreed to be granted under the Share Option Scheme. As a result, the total number of shares available for issue under the Share Option Scheme as of the date of this announcement was 126,000,000, representing 10% of the issued share capital of the Company as of the Adoption Date.

CLOSURE OF THE REGISTER OF MEMBERS

For the purposes of determining the shareholders’ eligibility to attend and vote at the forthcoming annual general meeting to be held on 25 May 2021 (Tuesday), the register of members of the Company will be closed from 20 May 2021 (Thursday) to 25 May 2021 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 18 May 2021 (Tuesday). During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged 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, Wan Chai, Hong Kong before 4:30 p.m. on 18 May 2021 (Tuesday).

CORPORATE GOVERNANCE

The Board recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted a set of corporate governance practices which aligns with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) since the Listing Date. The Company has complied with the code provisions set out in the CG Code since the Listing Date to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code since the Listing Date to the date of this announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date to the date of this announcement, except for the IPO, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as of the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

AUDIT COMMITTEE

The Group established an audit committee (the “**Audit Committee**”) on 16 December 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 and paragraph D3 of the Code as set forth in Appendix 14 to the Listing Rules. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee consists of four independent non-executive Directors, namely Mr. Chow Kit Ting (Chairman), Mr. Sheng Zijiu, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund.

The Audit Committee has reviewed with the management of the Company the consolidated financial statements of the Company for the Reporting Period, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the Reporting Period as set out in this preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s consolidated financial statements for the Reporting Period.

The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

EVENT AFTER THE REPORTING PERIOD

On 13 January 2021, the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited. Saved as disclosed herein, the Group does not have any important events after the Reporting Period and up to the date of this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.ds-lace.com). The annual report of the Company for the Reporting Period will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, suppliers, bankers and other business associates for their trust and support.

By order of the Board
Deyun Holding Ltd.
Mr. Lin Minqiang
Chairman

Hong Kong, 29 March 2021

As of the date of this announcement, the Board comprises of Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Lin Chaowen, Mr. Lin Bingzhong, Mr. Wei Cunzhuo and Ms. Lin Lili as executive Directors, and Mr. Sheng Zijiu, Mr. Chow Kit Ting, Mr. Yip Koon Shing, and Mr. Wong Chun Sek Edmond as independent non-executive Directors.

* *For identification purposes only*