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亞東

Yadong Group Holdings Limited

亞東集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1795)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately RMB95.2 million or approximately 11.0% from approximately RMB866.7 million for the year ended 31 December 2019 to approximately RMB771.5 million for the year ended 31 December 2020.
- Gross profit decreased by approximately RMB2.6 million or approximately 2.0% from approximately RMB129.5 million for the year ended 31 December 2019 to approximately RMB126.9 million for the year ended 31 December 2020.
- Gross profit margin increased from approximately 14.9% for the year ended 31 December 2019 to approximately 16.4% for the year ended 31 December 2020.
- Profit decreased by approximately RMB16.7 million or approximately 31.7% from approximately RMB52.7 million for the year ended 31 December 2019 to approximately RMB36.0 million for the year ended 31 December 2020.
- Basic and diluted earnings per share was approximately RMB7.68 cents for the year ended 31 December 2020.
- The Board has proposed a final dividend of HK\$3.0 cents per share in respect of the year ended 31 December 2020, which is subject to the approval of the Shareholders at the AGM.

The board (the “**Board**”) of directors (the “**Directors**”) of Yadong Group Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the corresponding year ended 31 December 2019. This annual results announcement is the first annual results announcement of the Company following the successful listing (the “**Listing**”) of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The content of this annual results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) in relation to preliminary announcements of annual results which is prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, the financial data of the Company are presented in Renminbi (“**RMB**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | <i>Notes</i> | 2020 RMB'000 | 2019 RMB'000 |
|---|--------------|-------------------------------|------------------|
| Revenue | 4 | 771,461 | 866,674 |
| Cost of sales | | <u>(644,525)</u> | <u>(737,131)</u> |
| Gross profit | | 126,936 | 129,543 |
| Other income | 6 | 6,685 | 1,877 |
| Selling and distribution expenses | | (23,582) | (20,819) |
| Administrative expenses | | (47,553) | (31,287) |
| Finance costs | 7 | <u>(5,621)</u> | <u>(5,405)</u> |
| Profit before tax | | 56,865 | 73,909 |
| Income tax expenses | 8 | <u>(20,873)</u> | <u>(21,245)</u> |
| Profit for the year | 9 | <u>35,992</u> | <u>52,664</u> |
| Other comprehensive (expense) income for the year: | | | |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange difference arising on translating a foreign operation | | <u>(3,791)</u> | <u>1,253</u> |
| Total comprehensive income for the year attributable to owners of the Company | | <u>32,201</u> | <u>53,917</u> |
| Earnings per share | | | |
| Basic and diluted (RMB cents) | 11 | <u>7.68</u> | <u>11.70</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

| | <i>Notes</i> | 2020 RMB'000 | 2019 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| Non-current Assets | | | |
| Property, plant and equipment | | 73,170 | 70,239 |
| Right-of-use assets | <i>12</i> | 11,530 | 13,208 |
| Intangible asset | | 415 | 313 |
| Deposits paid for acquisition of property, plant and equipment | | 9,050 | 1,149 |
| Deferred tax assets | | 183 | 164 |
| | | 94,348 | 85,073 |
| Current Assets | | | |
| Inventories | <i>13</i> | 74,250 | 65,618 |
| Trade and bills receivables | <i>14</i> | 248,364 | 172,130 |
| Prepayments and other receivables | <i>15</i> | 18,853 | 9,569 |
| Amount due from a related company | | 65 | 1,321 |
| Bank balances and cash | | 129,233 | 62,124 |
| | | 470,765 | 310,762 |
| Current Liabilities | | | |
| Trade and bills payables | <i>16</i> | 199,102 | 162,519 |
| Accruals and other payables | <i>17</i> | 34,873 | 25,924 |
| Contract liabilities | <i>18</i> | 1,467 | 1,533 |
| Income tax payable | | 10,729 | 23,476 |
| Amount due to the controlling shareholder | | — | 4,263 |
| Lease liabilities | <i>12</i> | 898 | 3,153 |
| Borrowings | | 95,590 | 70,590 |
| | | 342,659 | 291,458 |
| Net current assets | | 128,106 | 19,304 |
| Total assets less current liabilities | | 222,454 | 104,377 |

| | <i>Notes</i> | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|--------------------------------|--------------|--------------------------------------|------------------------|
| Non-current Liabilities | | | |
| Lease liabilities | <i>12</i> | 864 | 119 |
| Deferred tax liabilities | | <u>13,084</u> | <u>9,333</u> |
| | | <u>13,948</u> | <u>9,452</u> |
| Net assets | | <u>208,506</u> | <u>94,925</u> |
| Capital and Reserves | | | |
| Share capital | | 5,035 | 1 |
| Reserves | | <u>203,471</u> | <u>94,924</u> |
| Total Equity | | <u>208,506</u> | <u>94,925</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. CORPORATE INFORMATION

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

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and the principal place of business of the Company in Hong Kong is located at Unit B, 11/F, Eton Building, 288 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company and the Group is principally engaged in sales of fabrics products and provision of dyeing and processing services.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2020:

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

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

New and amendments to HKFRSs issued but not yet effective

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

4. REVENUE

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

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Sale of plain weave fabrics | 499,418 | 625,430 |
| Sale of corduroy fabrics | 229,369 | 197,221 |
| Provision of dyeing and processing services | <u>42,674</u> | <u>44,023</u> |
| | <u><u>771,461</u></u> | <u><u>866,674</u></u> |

5. SEGMENT INFORMATION

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

Geographical information

The Group's manufacturing and operations are all located in the People's Republic of China (the "PRC"). Non-current assets of the Group are all located in the PRC.

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

| | Revenue from external customers | |
|---------|--|------------------------|
| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
| The PRC | 622,769 | 669,189 |
| Japan | 49,959 | 101,106 |
| Other | <u>98,733</u> | <u>96,379</u> |
| | <u><u>771,461</u></u> | <u><u>866,674</u></u> |

Information about major customers

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

6. OTHER INCOME

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

Note:

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

7. FINANCE COSTS

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Interests on: | | |
| Borrowings | 5,291 | 4,784 |
| Lease liabilities | 245 | 381 |
| Guarantee fees | <u>85</u> | <u>240</u> |
| | <u><u>5,621</u></u> | <u><u>5,405</u></u> |

8. INCOME TAX EXPENSES

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|-----------------------------------|------------------------|------------------------|
| Current tax: | | |
| Hong Kong Profits Tax | 2,539 | 4,727 |
| PRC Enterprise Income Tax (“EIT”) | <u>14,602</u> | <u>13,236</u> |
| | <u><u>17,141</u></u> | <u><u>17,963</u></u> |
| Deferred tax: | | |
| Current year | <u>3,732</u> | <u>3,282</u> |
| | <u><u>20,873</u></u> | <u><u>21,245</u></u> |

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

9. PROFIT FOR THE YEAR

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

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.

10. DIVIDENDS

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

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

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

11. EARNINGS PER SHARE

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

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

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

Diluted earnings per share

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

12. LEASES

(i) Right-of-use assets

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|-------------------------------|------------------------|------------------------|
| Land | 6,372 | 6,518 |
| Factory, warehouse and office | <u>5,158</u> | <u>6,690</u> |
| | <u><u>11,530</u></u> | <u><u>13,208</u></u> |

(ii) Lease Liabilities

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|---------------------|------------------------|------------------------|
| Analysed as: | | |
| Current portion | 898 | 3,153 |
| Non-current portion | <u>864</u> | <u>119</u> |
| | <u><u>1,762</u></u> | <u><u>3,272</u></u> |

13. INVENTORIES

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

14. TRADE AND BILLS RECEIVABLES

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

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

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

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

15. PREPAYMENTS AND OTHER RECEIVABLES

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|-------------|------------------------|------------------------|
| Prepayments | 18,684 | 7,772 |
| Others | <u>169</u> | <u>1,797</u> |
| | <u>18,853</u> | <u>9,569</u> |

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

16. TRADE AND BILLS PAYABLES

| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Trade payables | 194,552 | 157,269 |
| Bills payables | <u>4,550</u> | <u>5,250</u> |
| | <u>199,102</u> | <u>162,519</u> |

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

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

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

17. ACCRUALS AND OTHER PAYABLES

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

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

18. CONTRACT LIABILITIES

| | 2020 | 2019 |
|----------------------|---------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Contract liabilities | <u>1,467</u> | <u>1,533</u> |

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

BUSINESS OVERVIEW

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

as to maximise the production capacity. Nonetheless, compared with 2019, the revenue and profit of the Group for the year ended 31 December 2020 decreased by approximately 11.0% and 31.7%, respectively.

PROSPECT

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

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

FINANCIAL REVIEW

Revenue

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

Cost of Sales

The cost of sales of the Group decreased by approximately RMB92.6 million or approximately 12.6% from approximately RMB737.1 million for the year ended 31 December 2019 to approximately RMB644.5 million for the year ended 31 December 2020. Such decrease was primarily attributable to (i) the decrease in the cost of materials from approximately RMB596.8 million to approximately RMB524.0 million during the same period, which was in line with the decrease in the total sales and processing volume by approximately 10.2%; (ii) the decrease in the subcontracting costs from approximately RMB29.3 million to approximately RMB17.7 million during the same period, which was

due to a lower demand of subcontracting resulted from the decrease of sales; (iii) the decrease in the utility cost from approximately RMB55.2 million to approximately RMB50.9 million during the same period; and (iv) the decrease in the direct labour cost from approximately RMB33.0 million to approximately RMB30.3 million during the same period, which was due to the lower level of production activities taken place for the textile fabric product.

Gross Profit and Gross Profit Margin

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

Other Income

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Finance Costs

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

Income Tax Expenses

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

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

Profit

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

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2020.

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

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

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

GEARING RATIO

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

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

CHARGE ON ASSETS

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

During the year ended 31 December 2020, the Group is not subject to any major environmental claims, lawsuits, penalties, administrative or disciplinary actions.

SUBSEQUENT EVENT AFTER REPORTING PERIOD

As at the date of this announcement, the Group has no significant event occurred after the year ended 31 December 2020 which require additional disclosures or adjustments.

USE OF NET PROCEEDS FROM LISTING

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

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

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

DIVIDEND

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

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold the AGM on Tuesday, 29 June 2021. The register of members of the Company will be closed from Thursday, 24 June 2021 to Tuesday, 29 June 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the

Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 23 June 2021.

The register of members of the Company will also be closed from Tuesday, 6 July 2021 to Thursday, 8 July 2021, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 5 July 2021.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code for the period from the Listing Date to 31 December 2020, except for deviation from code provision A.2.1 as explained under the paragraph headed “Chairman and Chief Executive Officer” below.

Chairman and Chief Executive Officer

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the period from the Listing Date to 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's audited financial results for the year ended 31 December 2020 and the accounting principles and practices adopted by the Group and discussed risk management, internal control and financing reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2020.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yadongtextile.com), and the annual report of the Company for the year ended 31 December 2020 will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company according to the requirements of the Listing Rules.

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

Hong Kong, 30 March 2021

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