bonny 博尼

2020 ANNUAL REPORT

Stock Code:1906

博 尼 国 际 控 股 有 限 公 司

Bonny International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Jin Guojun *(Chairman)*
Mr. Zhao Hui

Non-executive Directors

Ms. Gong Lijin
Ms. Huang Jingyi

Independent Non-executive Directors

Mr. Wang Jian
Mr. Chan Yin Tsung
Mr. Chow Chi Hang Tony

COMPANY SECRETARY

Ms. Chen Chun

AUTHORISED REPRESENTATIVES

Mr. Jin Guojun
Ms. Chen Chun

AUDIT COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
Mr. Wang Jian
Mr. Chow Chi Hang Tony

REMUNERATION COMMITTEE

Mr. Wang Jian *(Chairman)*
Mr. Jin Guojun
Mr. Chan Yin Tsung

NOMINATION COMMITTEE

Mr. Jin Guojun *(Chairman)*
Mr. Chan Yin Tsung
Mr. Wang Jian

REGISTERED OFFICE

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Cayman Islands

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Zhejiang Province
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PRINCIPAL BANKERS

China Construction Bank (Yiwu Branch)
Industrial and Commercial Bank of China Limited (Yiwu Branch)
China Zheshang Bank Co., Ltd (Yiwu Branch)

STOCK CODE

1906

Chairman's Statement

To the Shareholders:

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Bonny International Holding Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**").

BUSINESS REVIEW

As a manufacturer of seamless and traditional intimate wear products, the Group operates business through two segments. The Group's original design manufacturer ("**ODM**") sales products segment sells one-piece intimate wear to ODM's customers in the People's Republic of China (the "**PRC**") and overseas. The Group's branded sales products segment sells mainly traditional intimate wear products under its "Bonny" and "U+Bonny" brands through its nationwide retail network in the PRC.

The Company faced huge difficulties and challenges in 2020. At the beginning of 2020, the wide-spreading COVID-19 pandemic in the PRC and overseas countries resulted in the delay in resumption of production, the suspension of operation of brand stores and the cancellation of ODM orders of the Company, which inevitably and materially affected the ODM business and branded business of the Company. In order to tide over such difficult time, the Board and management of the Company took various measures to maintain the stable operation of the Company, including:

i) engaging in new facial masks production and sales business;

ii) leveraging the communication functions of Hong Kong and the United State offices to keep abreast of the latest COVID-19 pandemic development in overseas regions and the operation and demands of key customers;

iii) providing domestic ODM customers, particularly e-commerce customers who have emerged during the COVID-19 pandemic, with more tailor-made services and accelerating research and development and production progress; and

iv) controlling costs and expenses.

As the COVID-19 pandemic had been quickly contained in China and the facial masks project had supported the stable operation of the Company, the ODM business and branded business of the Company showed rapid recovery in the second half of 2020.

During the Reporting Period, the Group's total revenue amounted to approximately RMB287.8 million, representing an increase of approximately 1.2% as compared to 2019 (2019: approximately RMB284.5 million).

FUTURE PLAN AND PROSPECTS

Looking ahead to 2021, the Company will take various measures to mitigate the following risks:

i) Risks in relation to the fluctuation of external environment: the outbreak of COVID-19 pandemic has materially affected the global economy. Despite the improving situation in China, there are still great uncertainties over the development of the COVID-19 pandemic and the precautionary measures around the world. In addition, the oscillations in the Sino-US economic and trade relations and the complexity of geopolitics will add uncertainties to the external environment in 2021. In the face of the above risks, the Company will put great efforts in preventing and controlling the COVID-19 pandemic to ensure its stable production and operation and the normal operation of its brand stores. The Company will also leverage the communication functions of Hong Kong and the United States offices to keep abreast of the overseas economic and COVID-19 pandemic situation. Emergency response plans will be in place to overcome the adverse effects brought by the COVID-19 pandemic and changes in economic policies. The Company will also expand its customer base and channels;

ii) Risks in relation to the fluctuation in exchange rate: the export sales accounts for nearly 25% of the total income of the Company and is mainly settled in U.S. dollars and Euros. Foreign exchange gains and losses resulting from the fluctuation in exchange rate will affect the operation results of the Company to a certain extent. The Company will strive to expand its domestic market while paying close attention to the trend of exchange rate. Foreign exchange settlement will be made in a timely manner to minimize the impact of fluctuation in exchange rate on the operation results of the Company. The Company will also enter into currency hedging agreements when necessary;

iii) Risks in relation to costs and expenses: the rapidly-rising cost of raw materials and human resources in recent years has posed great challenges to the cost control of the Company. The Company will deal with the adverse effects of rising costs through optimizing its product structure, strengthening cost control, and further improving its overall competitiveness.

Since the disposal of the production site of the Group at Suxi Town, Yiwu, Zhejiang, the PRC (the "**Suxi Production site**") on 31 December 2020, the Company has relocated its production and office facilities to the production site of the Group at Beiyuan Street, Yiwu, Zhejiang Province, the PRC (the "**Beiyuan Production Site**"). The Company intends to grasp the opportunities arising from the relocation of production site to overcome internal and external challenges with optimized structure and new initiatives. Major initiatives include:

i) establishing automatic and informatized production and management system and upgrading the intelligent production system to improve production efficiency;

ii) reducing costs and improving efficiency by refining internal management;

iii) putting efforts in supporting potential high-quality customers, in particular e-commerce customers, to grasp the emerging opportunities for growth arising from domestic online retail customers; and

iv) further improving and upgrading the brand image while expanding e-commerce network by extending online sales channels (including micronets, live-streaming sales and social media sales).

Phase III of the Beiyuan Production Site is under construction and is expected to be completed by 30 June 2022.

As mentioned in the 2019 annual report and 2020 interim report of the Group, due to the COVID-19 pandemic and its impact on the domestic and global economy, the outlook of future sales prospect is unclear. As a result, the Group has decided to delay the additional purchase of seamless circular knitting machines and other ancillary equipment with unutilised proceeds as described in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 12 Apr 2019 (the "**Prospectus**") and the announcements of the Company dated 24 May 2019 and 29 May 2020. The Board will consider to resume the proposed purchase and installation of the equipment based on the recovery of product sales and production capacity of the Group.

APPRECIATION

On behalf of the Board, I would like to express my most sincere gratitude towards the continual support from the shareholders and the valuable contributions of the staff. The management team will continue to fulfil its duties to create more values for the shareholders.

Jin Guojun
Chairman

Zhejiang, PRC, 31 March 2021

BUSINESS AND OPERATIONS REVIEW

During the Reporting Period, the Group's total revenue amounted to approximately RMB287.8 million, representing an increase approximately 1.2% as compared to 2019 (2019: approximately RMB284.5 million). The Group recorded a gross profit of approximately RMB117.7 million (2019: approximately RMB102.1 million) with a gross profit margin of approximately 40.9% (2019: approximately 35.9%).

The Group recorded a profit attributable to owners of the Company for the Reporting Period of approximately RMB48.3 million (2019: a loss of approximately RMB12.2 million). The profit for the Reporting Period was mainly attributable to an increase in other income and gains as compared with the same period of last year as a result of the gain on disposal of land due to the disposal of the Suxi Production Site.

The Group had a provision in the amount of approximately RMB0.2 million as at 31 December 2020 for the non-compliance of Shanghai Bonny Apparel Co., Ltd.* (上海博尼服裝有限公司) ("**Shanghai Bonny**") with the Regulations on the Administration of Housing Provident Fund of the PRC《(中華人民共和國住房公積金管理條例》) and had a provision of nil as at 31 December 2020 for the non-compliance of Shanghai Bonny with the Social Insurance Law of the PRC《(中華人民共和國社會保險法》). As at 31 December 2020, the amount of outstanding housing provident fund contribution of Shanghai Bonny for the Reporting Period was approximately RMB0.4 million and the amount of social insurance payment underpaid by Shanghai Bonny for the Reporting Period was approximately RMB0.1 million. Hunan Bonny Apparel Co., Ltd.* (湖南博尼服裝有限公司) ("**Hunan Bonny**") was deregistered in May 2020. As at 31 December 2020, there were no underpaid housing provident fund contribution and social insurance payment.

Brand management

For the Group's branded sales, the Group sells products under the Group's "Bonny" brand and "U+ Bonny" brand through the Group's retail network in the PRC.

The Group has been continuously investing in its brands to further raise brand recognition and acceptance. The Group has been focusing on marketing and promoting its brands and products through a variety of means including advertisements on print media and outdoor billboards, participation in fashion shows in shopping malls, and sponsorship to modelling competitions, and presence in trade shows and exhibitions.

Sales network

The Group sells its branded products principally through an extensive and structured nationwide retail network in the PRC. In order to optimise cost-effectiveness of the Group's outlets, the Group continued to streamline its retail network in the PRC during the Reporting Period. The Group appropriately optimised its retail network by closing retail outlets with less satisfactory financial or operational performance so as to enhance the overall efficiency of its sales network.

As at 31 December 2020, the Group had 137 self-operated retail outlets (comprising 129 self-operated concession counters and 8 self-operated standalone stores) and 42 franchised retail outlets, covering 14 provinces, municipalities and autonomous regions in the PRC, and did not involve distributors or multiple layers of franchisees. The total number of the Group's retail outlets decreased from 190 as at 31 December 2019 to 179 as at 31 December 2020. The decrease was mainly because of the early close-down and termination of agreement of certain loss-making stores during the COVID-19 pandemic.

Meanwhile, the Group's products are also available for sale through its current e-commerce network and different well-recognised e-commerce platforms. In response to the change in consumption pattern towards online shopping in the PRC, the Group is enhancing its current e-commerce network into a comprehensive online shopping platform for intimate wear products, as a complementary sales channel to its brick and mortar outlets to allow coherent multi-channel customer experience.

Product design, research and development

The Group is committed to improving and developing the functionality and designs of its products, and continues to devote resources to the design, research and development of new products. With innovation of new designs, the Group continued to bring diversified product portfolio of excellent quality to the market.

During the Reporting Period, the Group introduced 118 distinct types of products in terms of style, size and colour under different product categories for the Group's branded sales into the domestic retail market. For the Reporting Period, expenses for product design, research and development was approximately RMB20.7 million (2019: approximately RMB18.5 million).

As at 31 December 2020, the Group had a total of 78 registered trademarks in the PRC, 1 registered trademark in Hong Kong, 5 registered domain names, 4 registered software copyrights in the PRC, and 26 registered patents in the PRC, including 3 invention patents and 23 utility model patents.

Moving ahead, the Group plans to further improve its research and development capability by continuing to focus on research and development efforts to improve product quality, functionality and designs.

Production capacity

During the Reporting Period, the Group only conducts its production operations at the Group's production base located at the Suxi Production Site. The construction of phase I of the Beiyuan Production Site was completed in September 2016. The construction of phase II of the Beiyuan Production Site was completed as at 30 September 2020. Since the disposal of the Suxi Production Site on 31 December 2020, the Company has relocated its production and office facilities to the Beiyuan Production Site. Phase I and Phase II of the Beiyuan Production Site have commenced operation officially. During the Reporting Period, there was no change in the seamless production capacity of the Company.

Due to the COVID-19 pandemic and its impact on the domestic and global economy, the outlook of future sales prospect is unclear. As a result, the Group has decided to delay the purchase of additional seamless circular knitting machines and other ancillary equipment with unutilised proceeds as described in the section of "Future Plans and Use of Proceeds" in the Prospectus and the announcements of the Company dated 24 May 2019 and 29 May 2020, respectively. The Board will consider to resume the proposed purchase and installation of the equipment based on the recovery of product sales and production capacity of the Group at the time.

On 31 December 2020 (after trading hours), Zhejiang Bonny Fashion Holding Group Co., Ltd.* (浙江博尼時尚控股集團有限公司) ("**Zhejiang Bonny**"), a wholly-owned subsidiary of the Company, entered into a disposal agreement (the "**Disposal Agreement**") with the People's Government of Suxi, Yiwu, Zhejiang, the PRC (the "**Local Government**") and the Local Government's nominee, pursuant to which Zhejiang Bonny will sell a parcel of land (the "**Land**") of approximately 40,000 square meters situated at 168 Haopai Road, Suxi, the PRC together with the buildings thereon to the Local Government for an aggregate compensation of RMB163,719,238 to be settled by cash. The Suxi Production Site is situated on the Land. According to the Disposal Agreement, it is expected that the production facilities at the Suxi Production Site shall be vacated within six months upon receiving the first part of the compensation. The Group has formulated a relocation timetable and will ensure that the Suxi Production Site will be relocated to the Beiyuan Production Site in accordance with the timetable. The Beiyuan Production Site has been fully renovated and has more useable area than the Suxi Production Site and will be installed with automatic production system to significantly increase the production capacity of the Group. The Suxi Production Site can accommodate 271 sets of machines for the production of seamless intimate wear products while the second phase of the Beiyuan Production Site, the construction of which is completed, can accommodate up to 400 sets of machines. Phase III of the Beiyuan Production Site, which is under construction, is expected to be completed by 30 June 2022. Accordingly, the Company considers that the second phase of the Beiyuan Production Site alone can meet the expected production capacity after the disposal of the Suxi Production Site. For details, please refer to the announcement of the Company dated 31 December 2020.

Human resources

Tight labour supply in the PRC have resulted in continuous wage increase. The Group endeavoured to attract and retain its employees through measures such as providing on-site training and improving employee benefits to enhance solidarity.

The Group enters into individual employment contracts with its employees, and enters into labour dispatch agreements with independent third party employment agents. The number of full-time employees of the Group decreased to 720 as at 31 December 2020 (31 December 2019: 779). The employee benefit expense (excluding directors' and chief executive's remunerations) for the Reporting Period was approximately RMB42.3 million (2019: approximately RMB47.8 million). The service fee payment to the employment agent for the Reporting Period was RMB64,800 (2019: RMB66,648.5).

In addition to direct employment and labour dispatch, the Group engages production subcontractors to provide on-site sub-contracting staff. The Group's human resources policy does not apply to workers of the relevant production subcontractor and the Group neither determines nor directly pays wages to the subcontracting staff. Subcontracting fees, calculated based on the quantity of goods or services delivered to the Group for the Reporting Period was approximately RMB37.8 million (2019: approximately RMB31.4 million).

Financial Review

Revenue

Revenue for the Reporting Period was approximately RMB287.8 million, representing an increase of approximately RMB3.3 million, or approximately 1.2%, from approximately RMB284.5 million for the corresponding period last year.

The ODM products segment revenue for the Reporting Period was approximately RMB232.6 million, representing an increase of approximately RMB31.3 million, or approximately 15.5%, from segment revenue of approximately RMB201.3 million for the corresponding period last year. This increase was primarily due to income from the sales of facial masks.

The brand products segment revenue for the Reporting Period was approximately RMB55.2 million, representing a decrease of approximately RMB27.9 million, or approximately 33.6% for the corresponding period last year (2019: approximately RMB83.1 million). Such decrease was primarily due to i）temporary suspension of business of certain stores under measures on COVID-19 pandemic prevention and control during the first half of the Reporting Period; ii）the Company closing down 42 loss-making brand stores and delayed its plans to open new stores; and iii) the number of customers decreased due to the outbreak of COVID-19.

Gross Profit

Gross profit for the Reporting Period was approximately RMB117.7 million, representing an increase of approximately RMB15.6 million, or approximately 15.3%, from approximately RMB102.1 million for the corresponding period last year due to the higher gross profit of new facial masks business.

Segment gross profit for ODM products for the Reporting Period was approximately RMB88.8 million which increased from approximately RMB56.8 million for the corresponding period last year due to i) an increase of approximately 14.7% in the income from ODM business; and ii) the higher gross profit of facial mask products.

Segment gross profit for brand products for the Reporting Period was approximately RMB27.6 million, which decreased from approximately RMB45.3 million for the corresponding period last year primarily due to a decrease in income from brand products segment.

Other Income and Gains

Other income and gains for the Reporting Period was approximately RMB76.1 million, representing an increase of approximately RMB61.7 million, or approximately 428.5%, from approximately RMB14.4 million for the corresponding period last year. The increase was primarily due to the gain on disposal of land due to the disposal of the Suxi Production Site.

Selling and Distribution Expenses

Selling and distribution costs for the Reporting Period were approximately RMB48.5 million, representing a decrease of approximately RMB11.3 million, or approximately 18.9%, from approximately RMB59.8 million for the corresponding period last year. The decrease was primarily due to a decrease in the number of promotion activities of brand stores and in concession fees.

Administrative and Other Expenses

Administrative and other expenses for the Reporting Period were approximately RMB64.9 million, representing an increase of approximately RMB7.6 million, or approximately 13.3%, from approximately RMB57.3 million for the corresponding period last year due to i) an increase of approximately RMB2.2 million in research and development expenses; and ii) an increase of approximately RMB16.0 million in impairment of other assets as a result of the depreciation of equipment and raw materials for facial mask production. The above increase was partially netted off by the decrease of listing expenses, which were nil for the Reporting Period compared with approximately RMB11.0 million for the corresponding period last year.

Finance Costs

Finance costs for the Reporting Period were approximately RMB10.7 million, representing a decrease of approximately RMB3.2 million, or approximately 23%, from approximately RMB13.9 million for the corresponding period last year due to bank loan concession policies offered by banking institutions during the COVID-19 pandemic as advocated by the government.

Income Tax Expense

Income tax expenses for the Reporting Period were approximately RMB6.2 million as compared to the income tax credit of RMB3.4 million for the corresponding period last year. The income tax expenses incurred during the Reporting Period was due to the positive profits of the Group.

Profit Attributable to Equity Holders of the Parent

As a result of the foregoing, profit attributable to ordinary equity holders of the parent for the Reporting Period was approximately RMB48.3 million, representing an increase of approximately RMB60.5 million, or approximately 495.9%, from a loss of approximately RMB12.2 million for the corresponding period last year.

Other payables and accruals

Other payables and accruals for the year ended 31 December 2020 were approximately RMB147.3 million, representing an increase of approximately RMB103.9 million, or approximately 239.4%, from approximately RMB43.4 million for the corresponding period last year. The increase was primarily due to the increase of deferred revenue. Since the relocation of the factory of the Suxi Production Site has not been completed, the relevant receipt from government with approximately RMB81.0 million was recognised as deferred revenue.

Future Plan and Prospects

Looking ahead to 2021, it is expected that the COVID-19 pandemic will linger and the Company will face risks in relation to the changes in economic conditions, the fluctuation in exchange rate and rising costs and expense, which will post huge challenges to the operation of the Company. The Company is well-prepared for mitigating all kinds of risks and will focus on providing one-stop in-house intimate wear manufacturing solutions to ODM customers in the PRC and overseas countries. Since the disposal of the Suxi Production Site on 31 December 2020, the Company has relocated its production and office facilities to the Beiyuan Production Site. The Company intends to grasp the opportunities arising from the relocation of production site to overcome internal and external challenges with optimized structure and new initiatives. Major initiatives include:

i) establishing automatic and informatized production and management system and upgrading the intelligent production system to improve production efficiency;

ii) reducing costs and improving efficiency by refining internal management;

iii) putting efforts in supporting potential high-quality customers, in particular e-commerce customers, to grasp the emerging opportunities for growth arising from domestic online retail customers; and

iv) further improving and upgrading the brand image while expanding e-commerce network by extending online sales channels (including micronets, live-streaming sales and social media sales).

Phase III of the Beiyuan Production Site is under construction and is expected to be completed by 30 June 2022.

As mentioned in the 2019 annual report and 2020 interim report of the Group, due to the COVID-19 pandemic and its impact on the domestic and global economy, the outlook of future sales prospect is unclear. As a result, the Group has decided to delay the additional purchase of seamless circular knitting machines and other ancillary equipment with unutilised proceeds as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus and the announcements of the Company dated 24 May 2019 and 29 May 2020. The Board will consider to resume the proposed purchase and installation of the equipment based on the recovery of product sales and production capacity of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers. As at 31 December 2020, the Group had cash and cash equivalents, which are mostly denominated in Renminbi, U.S. dollars and Hong Kong dollars currency unit, of approximately RMB48.3 million (31 December 2019: approximately RMB59.2 million). The interest-bearing liabilities as at 31 December 2020 was approximately RMB124.5 million (2019: approximately RMB233.8 million) with interest rates ranging from approximately 4.15% to 5.20% per annum. The Group's gearing ratio as at 31 December 2020, calculated based on net debts to the total capital and net debts, was approximately 33.7% (as at 31 December 2019: approximately 46.0%). The Group recorded net current assets of approximately RMB78.5 million as of 31 December 2020. It is expected that the phase II of the Beiyuan Production Site will commence production in the second half of 2020. The Group intends to incur material capital expenditure for construction of phase III of the Beiyuan Production Site upon obtaining additional bank loans. The management believes that the Group has maintained adequate financial resources to fulfil its working capital requirements. During the Reporting Period, no financial instruments had been used for hedging purpose.

FOREIGN EXCHANGE RISK

The monetary assets and liabilities and business transactions of the Group are mainly carried out and conducted in Renminbi, U.S. dollars and Hong Kong dollars currency unit. In view of the stability of the exchange rate between these currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk for the Reporting Period. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement, if necessary. During the Reporting Period, no forward foreign exchange or hedging contracts had been entered into by the Group. The Group will continue to evaluate the Group's foreign currency exposure and take actions as appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group has made no material acquisitions or disposals of subsidiaries, associates and joint ventures.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had total capital commitments of RMB93.8 million (as at 31 December 2019: RMB22.1 million), primarily related to the construction of phase III of the Beiyuan Production Site.

These capital commitments are expected to be financed by internal resources of the Group.

CONTINGENT LIABILITIES

In December 2020, the Company received a "Civil Complaint" (民事起訴狀) served by Jinhua City Intermediate People's Court of Zhejiang Province, and became aware that the case in relation to the procurement contract dispute between A Barcs & Co Nominees Pty Ltd and Zhejiang Bonny had been accepted by such court. For details, please refer to the announcement of the Company dated 13 January 2021.

A subsidiary of the Group is currently a defendant in a lawsuit brought by Shanghai Yuli Import & Export Co., Ltd. ("**Yuli**") that the subsidiary breached a procurement contract pursuant to which Yuli procured face masks from the subsidiary. Yuli claimed for the return of prepayment in the amount of RMB240,000 plus interest thereon, as well as for the termination of the contract and legal costs. The Directors, based on the advice from the Group's legal counsel in the PRC, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

A subsidiary of the Group is in a lawsuit brought by E&B Trading Co., Ltd ("**E&B**") that the subsidiary breached a procurement contract pursuant to which E&B procured face masks from the subsidiary. E&B claimed for RMB1,360,000, which is two times of the deposit paid by E&B, as well as the termination of the contract and legal costs. Based on the advice from the Group's external legal counsel in the PRC, the Directors believe that E&B defaulted the contract at the beginning, thus, the subsidiary has not provided for any claim arising from the litigation, other than the related legal and other costs.

Saved as disclosed above, as at 31 December 2020, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2020, save for (i) bank deposits of approximately RMB488,000 (2019: RMB9,629,000) and unlisted investments with a fair value of nil (2019: RMB1,321,000) which were pledged for bills payables; (ii) the Group's leasehold lands with a net carrying amounts of RMB21,740,000 (2019: RMB27,155,000) and certain of the Group's buildings and machinery and equipment with a net carrying amounts of approximately RMB106,121,000 (2019: RMB49,220,000) which were pledged to secure general banking facilities, (iii) certain of the Group's machinery and equipment with a net carrying amount of RMB17,586,000 (2019: Nil) were pledged to secure the property preservation applied by A Barcs & Co Nominees Pty Ltd who has a legal arbitration of contract dispute with the Group; and (iv) the Group's deposits with a net carrying amount of RMB1,054,000 (2019: Nil) was frozen to secure the property preservation applied by E&B who has a legal dispute with a subsidiary of the Group, the Group did not pledge any other assets. Details of the Group's assets pledged for Group's bank loans, and for bills payables granted to major suppliers are included in Notes 13, 15, 16, 23 and 25 respectively, to the consolidated financial statements.

USE OF PROCEEDS

The shares of the Company were listed ("**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 26 April 2019 (the "**Listing Date**") by way of global offering. The net proceeds of the Group raised from the initial public offering were approximately HK$131.3 million, after deducting the underwriting fees, commissions and other listing expenses. The unutilised amount of net proceeds at the date of this report are placed in licensed banks in Hong Kong and the PRC.

On 29 May 2020, the Board reallocated (the "**Change of Use of Net Proceeds**") HK$50 million from the unutilised net proceeds of HK$74.5 million originally allocated for the acquisition and implementation of additional production equipment at the Beiyuan Production Site to acquisition of mask production line and ancillary equipment and constructing medical mask production workshop. The Board was of the view that the Change of Use of Net Proceeds is fair and reasonable, allowing the Group to use its financial resources in a more favourable and effective way. The Board believed that, despite the above-mentioned Change of Use of Net Proceeds, the business development direction of the Group in the long run remains consistent with that disclosed in the Prospectus, and the mask production business will be a complementary business to the Company's production of seamless and traditional intimate wear products to mitigate adverse impact under current economic situation. The above-mentioned Change of Use of Net Proceeds can better serve the interest of the Group and its shareholders as a whole, and will not cause any material and adverse impact on the existing business and operation of the Group. The Board believed that the income from ODM orders and brands of the Group will improve once the retail industry recovers. For details, please refer to the announcement of the Company dated 29 May 2020.

The table below sets out the use of net proceeds from the initial public offering and the unutilised amounts as at 31 December 2020:

Use of Net Proceeds	Planned allocation of Net Proceeds as stated in the Prospectus *HK$ million*	Remaining net proceeds to be utilised for such item after revised allocation *HK$ million*	Utilised amount as at 31 December 2020 *HK$ million*	Unutilised amount as at 31 December 2020 *HK$ million*	Expected timeline of fully utilization of the remaining proceeds
Beiyuan Production Site for expansion of our seamless production capacity					
— construction of phase II of the Beiyuan Production Site	26.3	(7.5)[Note 1, 2]	26.3	—	N/A
— acquisition and implementation of additional production equipment at the Beiyuan Production Site	78.8	24.5	4.3	24.5	31 December 2026
Enhancing product design, research and development capability	13.1	(0.4)[Note 2]	13.1	—	N/A
Working capital and general corporate purposes	13.1	(0.7)[Note 2]	13.1	—	N/A
Acquiring mask production line and ancillary equipment and constructing medical mask production workshop	—	50	50	—	N/A
Total	**131.3**	**65.9**	**106.8**	**24.5**	

Notes: 1. The utilised amount for the construction of phase II of the Beiyuan Production Site exceeded the initially planned amount by HK$7.5 million due to: (i) an additional amount utilised for an improved design of the factory blueprint in order to raise the utilisation rate of the production space and the quality of basic constructions; and (ii) multiple rounds of modifications to the construction blueprint and adjustments made in implementing the construction accordingly.

2. The aforesaid HK$7.5 million incurred on the construction of phase II of the Beiyuan Production Site, HK$0.4 million incurred on enhancing product design, research and development capability, HK$0.7 million used for working capital and general corporate purposes were sourced from internal funds of the Company.

SUBSEQUENT EVENT

Up to the date of this report, the Group had no significant event occurred which would materially affect the Group's operating and financial performance.

EMPLOYEE AND REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results. The total remuneration of employees includes basic salaries and performance bonus. Directors and senior management of the Group receive compensation in the form of fees, salaries, allowances, discretionary bonus, defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses its Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages (including incentive plans) of its Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Group. The Company has adopted a share option scheme on 19 March 2019 as incentive or reward to the Directors, senior management and other selected participant.

During the Reporting Period, no remuneration or compensation was paid or payable by the Group to any of the five highest paid individuals in the Group, the Directors and the chief executive officer of the Company as an inducement to join or upon joining the Group or as compensation for any loss of office. None of the Directors has waived any remuneration during the Reporting Period.

SIGNIFICANT INVESTMENTS HELD

During the Reporting Period, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and the announcement of the Company dated 24 May 2019, the Group did not have other future plans for material investments and capital assets.

EXECUTIVE DIRECTORS

Mr. Jin Guojun (金國軍), aged 44, is our chairman and was appointed as a Director on 19 July 2017 and was re-designated as an executive Director and appointed as the chief executive officer on 19 September 2018. He co-founded our Group with Ms. Gong Lijin on 21 August 2001 and is primarily responsible for overseeing the daily operational management and the business performance of our Group, as well as for the overall strategy planning and management of our Company's business. Mr. Jin is currently the director of each of our Company's subsidiaries (except Yiwu Bonny E-Commerce Co., Ltd.* (義烏博尼電子商務有限公司) ("**Yiwu Bonny**")), namely, Hong Kong Bonny Ltd. ("**Bonny HK**"), Zhejiang Bonny, Shanghai Bonny, Yiwu Fayue Apparel Co., Ltd.* (義烏法悅服飾有限公司) ("**Yiwu Fayue**"), Zhejiang Bonny Protective Equipment Co., Ltd.*（浙江博尼防護用品有限公司）(formerly known as Yiwu Bonny Sportswear Co., Ltd.* (義烏博尼運動服裝有限公司)) ("**Bonny Protective**") and Yiwu Leyishang Apparel Co., Ltd.* (義烏樂衣尚服飾有限公司) ("**Yiwu Leyishang**"). He is also the manager of Zhejiang Bonny, Shanghai Bonny, Yiwu Fayue, Bonny Protective and Yiwu Leyishang. He acted as the director and manager of Hunan Bonny from June 2019 to May 2020. Mr. Jin is the chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the Remuneration Committee of the Company (the "**Remuneration Committee**").

Mr. Jin has over 19 years of experience in the intimate wear manufacturing industry. Mr. Jin established our Group's business through Zhejiang Bonny on 21 August 2001 and has since been serving as the chairman of the board of Zhejiang Bonny. Prior to founding our Group, Mr. Jin worked at Yiwu Office of State Administration of Taxation (義烏市國家稅務局) of Zhejiang Province from October 1997 to September 2001. He co-founded Bode Holding Co., Ltd.* (博德控股集團有限公司) ("**Bode Holding**") in September 2007 with Ms. Gong Lijin, our non-executive Director and spouse of Mr. Jin, in which he was served as the chairman of the board until December 2019. Mr. Jin acted as the chairman of the board of the subsidiaries of Bode Holding, namely, Zhejiang Deshipu Polyamide Technology Co., Ltd.* (浙江德施普錦綸科技有限公司) ("**Deshipu Polyamide**") and Zhejiang Deshipu New Materials Technology Co., Ltd.* (浙江德施普新材料科技有限公司) ("**Deshipu New Materials**") from December 2006 to January 2020 and from December 2010 to January 2020, respectively. Since November 2016, Mr. Jin has been acting as executive director and manager of Zhejiang Baicheng Trading Co., Ltd. (浙江柏成貿易有限公司) (formerly known as Yiwu Junhe Cross-Border Electronic Commerce Industrial Park Management Co., Ltd.* (義烏俊和跨境電商產業園管理有限公司)), a company jointly controlled by Mr. Jin and Ms. Gong Lijin, our non-executive Director and spouse of Mr. Jin. Mr. Jin has also worked as the supervisor of Yiwu Junhe Intelligent Technology Co., Ltd.* (義烏俊和智能科技有限公司) since April 2011. Mr. Jin has been the vice president of the 10th Executive Committee of Yiwu Association of Industry and Commerce* (義烏市工商業聯合會第十屆執行委員會) since July 2017 and the executive president of Zhejiang Seamless Knitting Association* (浙江省無縫織造行業協會) since December 2011. Mr. Jin graduated from Correspondence College of the Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) in the PRC majoring in economic management through distance learning in June 2001 and Chongqing University (重慶大學) in the PRC majoring in engineering management through distance learning in January 2014.

Mr. Jin is the spouse of Ms. Gong Lijin, a non-executive Director and is the uncle of Ms. Huang Jingyi, a non-executive Director. He is one of the controlling shareholders of the Company.

Mr. Zhao Hui (趙輝), aged 51, was appointed as a Director on 19 July 2017 and was re-designated as an executive Director on 19 September 2018. He joined our Group on 26 December 2007 and has acted as the chief financial officer of Zhejiang Bonny, and since November 2013, Mr. Zhao has acted as the secretary to the board and deputy general manager of Zhejiang Bonny. He is primarily responsible for overseeing our Group's financial strategies and management and internal compliance.

Mr. Zhao has over 29 years of experience in accounting and management in the textiles and clothing industry. Prior to joining our Group, from July 1990 to May 2003, he worked at Ezhou General Textiles Mill* (鄂州市針織總廠), which principally engages in the production and sale of socks and Mr. Zhao was primarily responsible for calculating wages and financial reporting of the company. From June 2003 to December 2007, Mr. Zhao served as the chief financial officer and deputy general manager of Zhejiang Hengxiang Cotton Textile Limited* (浙江恆祥棉紡織造有限公司), a company engages in the production and sale of cotton yarn and Mr. Zhao was primarily responsible for the financial management of the company.

Mr. Zhao graduated from Wuhan University of Technology (武漢理工大學) in the PRC majoring in accounting through distance learning in July 2013.

NON-EXECUTIVE DIRECTORS

Ms. Gong Lijin (龔麗瑾), aged 42, was appointed as a Director on 19 July 2017 and re-designated as a non-executive Director on 19 September 2018. She co-founded our Group with Mr. Jin and is primarily responsible for providing strategic advice on the operations and management of our Group. She joined our Group as the general manager of the International Business Department of Zhejiang Bonny on 21 August 2001, and has served as the supervisor of Shanghai Bonny since December 2007 and the executive director and manager of Yiwu Leyishang in March 2016, respectively. Ms. Gong resigned from the positions in Zhejiang Bonny and Yiwu Leyishang on 31 December 2013 and 6 February 2019, respectively. She acted as the supervisor of Hunan Bonny from June 2019 to May 2020.

Ms. Gong has nearly 19 years of experience in accounting and management. Prior to joining our Group, she worked as an accountant in Yiwu Zhicheng Accounting Firm* (義烏市至誠會計師事務所) from September 1995 to January 2002. Ms. Gong has been serving as the supervisor of Deshipu Polyamide, Bode Holding and Deshipu New Materials since December 2006, September 2007 and December 2010, respectively.

Ms. Gong graduated from Yiwu Industrial School* (義烏市工業學校) in the PRC majoring in computer accounting in June 1995 and Correspondence College of the Central Party School of the Communist Party of China* (中共中央黨校函授學院) in the PRC majoring in economic management through distance learning in June 2001.

Ms. Gong is the spouse of Mr. Jin Guojun, our executive Director and the aunt of Ms. Huang Jingyi, a non-executive Director.

Ms. Huang Jingyi (黃靜怡), aged 24, was appointed as a non-executive Director on 1 November 2020. She joined the Group from March to November 2018 as an export sales at Zhejiang Bonny. Ms. Huang joined Bode Holding since January 2020 as a business manager. Ms. Huang graduated from Chongqing University (重慶大學) in the PRC majoring in business management through distance learning in January 2017.

Ms. Huang is the niece of Mr. Jin Guojun, an executive Director and the chairman of the Company and Ms. Gong Lijin, a non-executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jian (王健), aged 60, was appointed as an independent non-executive Director on 19 March 2019. He is the chairman of the Remuneration Committee and a member of the audit committee of the Company (the "**Audit Committee**") and the Nomination Committee. Mr. Wang served as a lecturer and an associate professor at the Physical Education Science and Technology Research Center of Hangzhou University (now known as Zhejiang University)* (杭州大學體育科學與技術研究所) from 1987 to 1998. From 1998 to 2017, he served as an associate professor and a professor at the College of Education of Zhejiang University* (浙江大學教育學院). He currently serves as the head of the Physical Education department of the College of Education of Zhejiang University (浙江大學教育學院體育學系) a professor of the Center for Psychological Sciences at Zhejiang University* (浙江大學心理科學研究中心) and head of Sports Science and Health Engineering Research Institute at Zhejiang University.

Mr. Wang has been the director of the Chinese Ergonomics Society (中國人類工效學學會) from 2012 to 2016. He has also been the vice chairman of the Health Industry Professional Committee* (健康產業專業委員會) of China International Exchange and Promotive Association for Medical and Health Care (中國醫療保健國際交流促進會) since August 2014 and the vice chairman of Zhejiang Provincial Sports Reform and Development Committee* (浙江省體育改革發展委員會) since April 2016. Mr. Wang has also served as a member of the China Health Care Association* (中國保健協會), a member of the expert committee and the chairman of its Healthy Textile Branch* (健康紡織分會) of such association since December 2016 and the chairman of the Human-Computer Interaction Professional Committee of the Innovation Design Alliance of China* (中國創新設計產業聯盟) since November 2017.

Mr. Wang obtained a bachelor of exercise physiology from Shanxi University* (山西大學) in the PRC in August 1982. He obtained a master of education and a doctor of engineering from Hangzhou University* (杭州大學) in the PRC in September 1987 and June 1996, respectively.

Mr. Chan Yin Tsung (陳彥璁), aged 41, was appointed as an independent non-executive Director on 1 July 2020. He is the chairman of the Audit Committee and member of each of the Remuneration Committee and the Nomination Committee. Mr. Chan has over 17 years of experience in initial public offering, corporate merger and acquisitions, restructuring, due diligence, audit, financial modeling and business valuation.

From November 2003 to July 2010, he held various positions in Ernst & Young, KPMG Transaction Advisory Services and PricewaterhouseCoopers Corporate Finance. Mr. Chan joined the investment banking division of Essence International Financial Holdings Limited from October 2010 to April 2011. From June 2011 to July 2012, Mr. Chan joined the private equity department of the same company as a senior manager. From September 2014 to September 2019, Mr. Chan was appointed as the independent non-executive director, the chairman of audit committee and nomination committee, and a member of remuneration committee of Zhidao International (Holdings) Limited (a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1220)). Since November 2016, Mr. Chan has severed as the independent non-executive director, chairman of the audit committee and remuneration committee and the member of nomination committee of China Ludao Technology Company Limited (a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2023)). Since December 2016, Mr. Chan has served as the independent non-executive director and the chairman of the audit committee of Beijing Jingneng Clean Energy Co., Limited ("Beijing Jingneng Clean Engergy", a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 579)) and has served as the member of legal and compliance management committee of this company since January 2021.

Mr. Chan graduated from the University of British Columbia in November 2001 and obtained a bachelor degree in commerce and graduated from The Hong Kong University of Science and Technology in November 2011 and obtained a master degree in financial analysis. Mr. Chan is a Certified Public Accountant certified under the American Institute of Certified Public Accountants.

Mr. Chow Chi Hang Tony (周志恒), aged 29, was appointed as an independent non-executive Director on 5 February 2021. He is a member of the Audit Committee.

Mr. Chow is a practicing Barrister-At-Law in Hong Kong. He obtained a degree of Bachelor of Laws and a Postgraduate Certificate in Laws from The Chinese University of Hong Kong in November 2014 and July 2015 respectively. Mr. Chow has been appointed as an independent non-executive director of P.B. Group Limited (formerly known as Feishang Non-metal Materials Technology Limited and HangKan Group Limited, a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8331)) since January 2018.

SENIOR MANAGEMENT

Mr. Li Zhanhai (李占海), aged 41, joined our Group as the administration and human resource manager in August 2008 and has been the vice general manager of the corporate management centre of our Group since July 2012. He is primarily responsible for the administrative and human resource management of our Group.

Mr. Li has nearly 15 years of experience in administrative management. Prior to joining our Group, he was the office manager of Yiwu Huafeng Hotel Co., Ltd.* (義烏市華豐賓館有限公司) from July 2004 to June 2008. He subsequently worked for Zhejiang Gangmei Fashion Co., Ltd.* (浙江港美服飾有限公司) as the executive vice president (常務副總) from July 2011 to June 2012.

Mr. Li graduated from Longdong College* (隴東學院) in the PRC majoring in politics and history education in June 2004.

Mr. Gao Jiangpeng (高江鵬), aged 36, joined our Group as the manager of the Shanxi Office of Zhejiang Bonny on 21 March 2011. He subsequently worked as the director overseeing the northwest area of the PRC for Zhejiang Bonny from January 2014 to October 2016 and the director of the brand project department of Shanghai Bonny from November 2016 to July 2017. Since July 2017, he has been promoted as the deputy general manager of Shanghai Bonny. He is primarily responsible for the retail operation of our Group.

Mr. Gao has over 12 years of experience in the intimate apparel industry. Prior to joining our Group, he worked as the manager of the Xi'an Office at Embry (China) Fashion Co., Ltd.* (安莉芳 (中國) 服裝有限公司), a company engages in the production and sale of intimate wear from April 2006 to February 2011, and was responsible for the retail operation of the company.

Mr. Gao graduated from Xi'an University of Finance and Economics* (西安財經學院) in the PRC majoring in marketing in June 2006.

Mr. Zhu Zhengxi (朱正喜), aged 36, joined our Group as the secretary to the chairman on July 2008 and has been working as the director of the cross-border e-commerce centre of Zhejiang Bonny since 16 December 2015. He is primarily responsible for the e-commerce operation of our Group.

Mr. Zhu has over 9 years of experience in management. He has served as the executive director and manager of both Yiwu Jintuo Handicraft Co., Ltd.* (義烏市錦拓工藝品有限公司) and Shenzhen Jintuo Handicraft Co., Ltd.* (深圳市錦拓工藝品有限公司) from April 2011 and May 2015, respectively, both of which provides the sale of toys, bags and office supplies and he was primarily responsible for the retail operation of the companies.

Mr. Zhu obtained a bachelor of English from Chuzhou University* (滁州學院) in the PRC in July 2008.

Mr. Zhou Donggen (周冬根), aged 45, joined our Group on 23 January 2011 and has acted as the general manager of our intimate wear production centre of Zhejiang Bonny. Since June 2016, he has been promoted as the production manager of Zhejiang Bonny. He is primarily responsible for research and development, production and quality control of the company.

Mr. Zhou has over 17 years of experience in the intimate apparel industry. Prior to joining our Group, he worked as the director at Guangzhou Painter Clothing Co., Ltd.* (廣州市畫爾服飾有限公司) from March 2008 to January 2011. He worked as the assistant general manager at Shenzhen Yves Clothing Co., Ltd.* (深圳市伊維斯服裝有限公司), a company engages in the production and sale of intimate wear from June 2003 to June 2007. He also worked as the assistant general manager at Guangdong Dongguan Yongcheng Garment Co., Ltd.* (廣東省東莞永誠製衣有限公司) from June 1997 to August 2001.

Mr. Zhou graduated from Nanchang University* (南昌大學) in the PRC majoring in information economics in July 1996.

COMPANY SECRETARY

Ms. Chen Chun (陳淳) was appointed as a company secretary of our Company on 19 September 2018. Ms. Chen joined SWCS Corporate Services Group (Hong Kong) Limited in December 2013, and currently serves as a company secretarial executive providing support and advisory on listed companies' company secretarial work and compliance matters.

Ms. Chen was admitted associate of The Hong Kong Institute of Chartered Secretaries and elected associate of the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in March 2016. She obtained a bachelor degree of economics from Shanghai Lixin University of Accounting and Finance* (上海立信會計金融學院) (formerly known as Shanghai Finance University) in July 2010.

CORPORATE GOVERNANCE MEASURES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") to ensure that the Company's business activities and decision-making processes are regulated in a proper and prudent manner.

During the Reporting Period, the Company has complied with all the applicable code provisions of the CG Code, except for code provision A.2.1 and code provision A.5.1.

Details of the deviation from the code provision A.2.1 and the code provision A.5.1 are explained in the section "Chairman and chief executive officer" and "Independent non-executive directors" of this corporate governance report, respectively.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities.

Upon specific enquiry, all Directors have confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

THE BOARD

Board Composition

The Board currently comprises of seven members, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Jin Guojun *(Chairman)*
Mr. Zhao Hui

Non-executive Directors

Ms. Gong Lijin
Ms. Huang Jingyi

Independent non-executive Directors

Mr. Wang Jian
Mr. Chan Yin Tsung
Mr. Chow Chi Hang Tony

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

The biographical details of the directors of the Company are set out under "Directors and Senior Management" section in this annual report. Save as Ms. Gong Lijin who is the spouse of Mr. Jin Guojun and Ms. Huang Jingyi is the niece of Mr. Jin Guojun and Ms. Gong Lijin, none of the members of the Board had relationship (including financial, business, family or other material relationships) with each other.

Chairman and chief executive officer

Mr. Jin Guojun ("**Mr. Jin**") is the chairman of the Board and chief executive officer of the Company. Although this deviates from the practice under code provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Mr. Jin has considerable experience in the enterprise operation and management of the Company, the Board believes that it is in the best interests of the Company and its shareholders as a whole to continue to have Mr. Jin as chairman of the Board so that it can benefit from his experience and capability in leading the Board in the long-term development of the Company. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to monopolize the decision-making of the Board. The Board considers that the balance of power between the Board and management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action be taken should the need arise.

Independent non-executive directors

Mr. Zhang Senquan resigned as an independent non-executive Director, the chairman of the Audit Committee and members of each of the Remuneration Committee and the Nomination Committee with effect from 19 June 2020. Following the resignation of Mr. Zhang Senquan, the Company failed to meet the requirements under Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules and under the code provision A.5.1 of the CG Code. The Company subsequently appointed Mr. Chan Yin Tsung as an independent non-executive Director, the chairman of the Audit Committee and members of each of the Remuneration committee and the Nomination Committee with effect from 1 July 2020. Following the appointment of Mr. Chan Yin Tsung, the Company had complied with the requirements under Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules and the code provision A.5.1 of the CG Code again. For details, please refer to the announcements of the Company dated 18 June 2020 and 30 June 2020, respectively.

Save as disclosed above, during the Reporting Period, the Board has at all times met the requirements of Rules 3.10 and 3.10A of the Listing Rules of having three independent non-executive Directors (representing at least one third of the Board) with at least one of them possessing appropriate professional qualifications, or accounting or related financial management expertise.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through active participation at Board meeting, taking the lead in managing issues involving potential conflict of interests, all independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in Rule 3.13 of the Listing Rules.

Appointment and re-election of directors and non-executive directors

All directors of the Company are appointed for a specific term, subject to renewal upon expiry of the existing term. Each of the executive Directors, non-executive Directors and independent non-executive Directors is engaged on a service agreement for a term of three years. The appointment may be terminated by either party by not less than three months' written notice for the case of executive Directors and non-executive Directors and one month's written notice for the case of independent non-executive Directors. Each of the independent non-executive directors of the Company is appointed for a term of three years.

The procedure and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association (the "**Articles**"). The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of directors and assessing the independent non-executive directors.

In accordance with article 109 of the Articles, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. By virtue of article 109 of the Articles, Mr. Jin Guojun and Mr. Wang Jian will retire from office and, being eligible, will offer himself/herself for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

In accordance with article 113 of the Articles, Mr. Chan Yin Tsung, Ms. Huang Jingyi and Mr. Chow Chi Hang Tony, each being appointed as a Director to fill a casual vacancy on 1 July 2020, 1 November 2020 and 5 February 2021, respectively, will hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting. By virtue of article 113 of the Articles, Mr. Chan Yin Tsung, Ms. Huang Jingyi and Mr. Chow Chi Hang Tony will retire from office and, being eligible, will offer himself/herself for re-election at the AGM.

The Board and the Nomination Committee recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above recommended persons as required by the Listing Rules.

Duties performed by the Board and management

The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategy of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring that the Directors perform their proper duties and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All Directors are entitled to raise and include any matters that should be submitted to the Board for discussion in the agenda of the board meeting. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Group and to better facilitate the discharge of their duties. The management team is accountable to the Board, executing the strategies and plans formulated by the Board, and making decisions in relation to the day-to-day operation of the Group.

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

The Board is also responsible for determining the Company's corporate governance policies which include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of the directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to the directors and employees; and

(e) to review the compliance with the CG Code and disclosures in the corporate governance report.

Appropriate directors' liability insurance cover has been arranged to indemnify the Board members for liabilities arising out of corporate activities.

Training, Induction and Continuing Development of Directors

Induction materials and briefings regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest in the Group will be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary. The Company will continue to arrange and fund the training in accordance with code provision A.6.5 of the CG Code.

According to the records of the Company, for the year ended 31 December 2020, all Directors have received the following training, the emphasis of which were on the roles, functions and duties of directors of companies listed on the Stock Exchange, in order to comply with the relevant requirements under the CG Code in relation to continuous professional development of directors:

	Reading materials	**Attending seminars/ briefings**
Executive Directors		
Mr. Jin Guojun *(Chairman)*	√	√
Mr. Zhao Hui	√	√
Non-executive Directors		
Ms. Gong Lijin	√	√
Ms. Huang Jingyi	√	√
Independent Non-executive Directors		
Mr. Li Youxing *(Note 1)*	√	√
Mr. Wang Jian	√	√
Mr. Chan Yin Tsung	√	√
Mr. Chow Chi Hang Tony *(Note 2)*	√	√

Notes:

1. Mr. Li Youxing resigned as an independent non-executive Director on 5 February 2021.

2. Mr. Chow Chi Hang Tony was appointed as an independent non-executive Director on 5 February 2021.

Directors' Attendance at Meetings

During the Reporting Period, seven Board meetings were held. Details of the attendance records of Directors' attendance at the Board meetings, Board committee meetings and general meeting are set out below:

	Meetings Attended/Meetings Held				
	Board	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**General Meeting**
Executive Directors					
Mr. Jin Guojun *(Chairman)*	7/7		1/1	1/1	1/1
Mr. Zhao Hui	7/7				1/1
Non-executive Directors					
Ms. Gong Lijin	7/7				1/1
Mr. Luo Weixing *(Note 1)*	3/5				1/1
Ms. Huang Jingyi *(Note 2)*	2/2				—
Independent Non-executive Directors					
Mr. Li Youxing *(Note 3)*	7/7	4/4			1/1
Mr. Wang Jian	6/7	4/4	1/1	1/1	1/1
Mr. Zhang Senquan *(Note 4)*	2/2	2/2	—	—	—
Mr. Chan Yin Tsung *(Note 5)*	4/4	2/2	—	—	—
Mr. Chow Chi Hang Tony *(Note 6)*	—	—	—	—	—

During the Reporting Period, save as disclosed in the above table, the chairman has held a meeting with the independent non-executive Directors.

Notes:

1. Mr. Luo Weixing resigned as a non-executive Director on 1 November 2020.

2. Ms. Huang Jingyi was appointed as a non-executive Director on 1 November 2020.

3. Mr. Li Youxing resigned as an independent non-executive Director on 5 February 2021.

4. Mr. Zhang Senquan resigned as an independent non-executive Director on 19 June 2020.

5. Mr. Chan Yin Tsung was appointed as an independent non-executive Director on 1 July 2020.

6. Mr. Chow Chi Hang Tony was appointed as an independent non-executive Director on 5 February 2021.

Board committees

Nomination committee

The Company established a Nomination Committee on 19 March 2019 with written terms of reference in compliance with paragraph A.5 of the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Nomination Committee include, without limitation, (a) to review the structure, size, composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to determine the policy for the nomination of directors, identify individuals suitably qualified to become members of the Board and may select individuals nominated for directorship; (c) to assess the independence of the independent non-executive directors; and (d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive, taking into the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

The Nomination Committee consists of one executive Director, namely Mr. Jin Guojun, and two independent non-executive Directors, namely Mr. Wang Jian and Mr. Chan Yin Tsung. Mr. Jin Guojun is the chairman of the Nomination Committee.

The Nomination Committee met once to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company.

The Company recognizes and embraces the benefits of diversity in Board members. A board with diversified members includes and capitalizes of different skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board. As at the date of this report, the Board was comprised of seven Directors, including five male Directors and two female Directors. Among all Directors, two of them are aged 30 or below, two of them are aged 31 to 50 and two of them are aged 51 or above.

Implementation

The Nomination Committee will review annually the structure, size and composition of the Board and, where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy.

In reviewing and assessing the Board composition and the nomination of directors (as applicable), board diversity has to be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, industry and regional experience and length of services.

The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board. As at the date of this report, the Board comprises seven Directors with different appropriate skills, knowledge and experience to promote and achieve better performance of the Company. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process.

Nomination Policy

A "Nomination Policy" for Directors was formally adopted and this incorporated the nomination criteria and principles for Directors that are set out in the Nomination Committee's terms of reference. The Nomination Policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Nomination Policy aims to (i) set out the criteria and process in the nomination and appointment of directors of the Company; (ii) ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and (iii) ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination process

Appointment of new directors

(i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

(ii) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(v) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of directors at general meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

Audit committee

The Company established an Audit Committee on 19 March 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code.

The primary duties of the Audit Committee include, without limitation, (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and (c) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems.

The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Chan Yin Tsung, Mr. Wang Jian and Mr. Chow Chi Hang Tony. Mr. Chan Yin Tsung is the chairman of the Audit Committee.

During the Reporting Period, the Audit Committee met four times to review the annual results and annual report of the Group for the year ended 31 December 2019, the interim results announcement and interim report of the Group for the six months ended 30 June 2020, the effectiveness of the Company's financial controls, internal control and risk management systems. The Audit Committee has reviewed the audited consolidated financial statements and results of the Group for the Reporting Period, and discussed and recommended to the Board on the re-appointment of external auditor.

Remuneration committee

The Company established a Remuneration Committee on 19 March 2019 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Remuneration Committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) to make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management; and (c) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee currently consists of two independent non-executive Directors, namely Mr. Wang Jian and Mr. Chan Yin Tsung and one executive Director, namely Mr. Jin Guojun. Mr. Wang Jian is the chairman of the Remuneration Committee.

During the Reporting Period, the Remuneration Committee met once to review the remuneration policy for all directors and senior management.

COMPANY SECRETARY

The company secretary of the Company is Ms. Chen Chun, a company secretary executive of SWCS Corporate Services Group (Hong Kong) Limited, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Chen Chun are set out under "Directors and Senior Management" section in this annual report. During the Reporting Period, Ms. Chen has taken not less than 15 hours of relevant professional training in compliance with the requirements of Rule 3.29 of the Listing Rules. The main contact person of the Company is Mr. Zhao Hui, an executive Director.

SENIOR MANAGEMENT'S REMUNERATION

The remuneration of the senior management of the Group by band for the Reporting Period is set out below:

Band of remuneration (HK$)	**No. of person**
Nil to 500,000	9

EXTERNAL AUDITORS AND REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2020 is set out in the Independent Auditor's Report on pages 79 to 85 of this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services for the year ended 31 December 2020 are analysed below:

Types of services provided by the external auditors	**Fees paid/ payable** *RMB'000*
Audit services — audit fee for the year ended 31 December 2020	1,750
Non-audit service — working capital sufficiency comfort letter	170

SHAREHOLDER RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two Months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at shareholders' meeting

If a shareholder wishes to put forward proposals at a shareholders' meeting, the shareholder, who has satisfied the shareholding requirements set out in the above paragraph headed "Procedures for shareholders to convene an extraordinary general meeting", may follow the same procedures by sending a written requisition to the Board. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the Company to make necessary arrangement.

Procedures for directing shareholder's enquiries to the Board

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board. Contact details are as follows:

Address: 40th Floor, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong
(For the attention of the Board of Bonny International Holding Limited)

Email address: ppd@bonnychina.com

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

INVESTOR RELATIONS

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

The general meetings of the Company provide a platform for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or in their absence, other members of the respective committees, and, where applicable, the chairman of the independent board committee are available to answer questions at shareholders' meeting.

To promote effective communication, the Company maintains a website at www.bonnychina.com where up-to-date information and updates on the Company's business operations and development, financial information and other information are available to public access.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the shareholders passed on 19 March 2019, the amended and restated memorandum was effective from 19 March 2019 and the amended and restated articles of association of the Company was adopted with effect from the Listing Date. Save as disclosed above, there was no change in the memorandum and articles of association of the Company during the Reporting Period.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

OVERVIEW

About the Group

Bonny International Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**" or "**We**") is pleased to present this Environmental, Social and Governance Report of 2020 (the "**Report**"). The Group is the third largest seamless intimate wear manufacturer in the PRC and has possessed over 200 sets of seamless circular knitting machines, as the Company's core production equipment for seamless production. Our products are best-selling in more than 20 countries, including the United States, Germany, the United Kingdom, South Korea, Netherlands and the PRC. We are committed to building an environmentally friendly corporation, while maintaining high quality standards in design, production and sales of seamless and traditional intimate wears including bras, underpants, thermal clothes and loungewear as well as functional sportswear for mass production.

As of 31 December 2020, the Group's retail network comprised of 137 self-operated retail outlets and 42 franchised retail outlets in 14 provinces, municipalities and autonomous regions in the PRC. The Group has two production sites, Suxi Production Site and Beiyuan Production Site, which are located at Yiwu, Zhejiang Province, the PRC. As at 31 December 2020, the land and buildings of our Suxi Production Site were sold. The Beiyuan Production Site commenced production in February 2021.

In order to become a sustainable enterprise, it is important for the Group to raise awareness of our employees about industrial pollution, climate change and human rights. This Report demonstrates our commitment to performing our social and environmental responsibilities. The objectives of our environmental protection efforts are clean production, environmental hygiene and compliance with local environmental protection laws and regulations. This Report is prepared to enhance the transparency of the Group's business and the confidence of stakeholders in our operation.

Basis of this Report

This Report has been prepared with reference to the disclosure requirements in the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). For details of our corporate governance, please see "Corporate Governance Report" section in the Annual Report 2020.

Reporting Period and Scope

Unless otherwise specified, this Report covers the period from 1 January 2020 to 31 December 2020 (the "**FY2020**" or the "**Reporting Period**").

During the FY2020, the impact of our operations on the environment and community in Hong Kong was relatively small as our production facilities were located in the PRC and our operations in Hong Kong and the United States were carried out under an office-based environment. Therefore, in addition to the presentation of the policies and measures of the Group on environmental protection, this Report mainly provides the major social and environmental key performance indicators of our offices in the PRC and the Suxi Production Site in Zhejiang Province. The data of Beiyuan Production Site was not included in this Report as the production had not yet commenced during the Reporting Period.

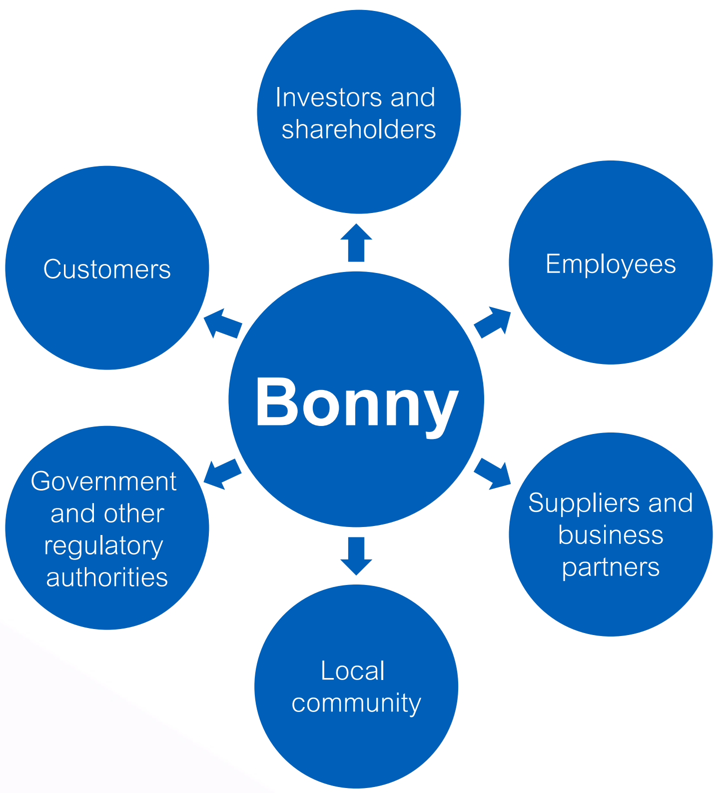
Comments and Feedback

Stakeholders' opinions help us better understand their needs and improve our performance on environmental, social and governance. Please contact the Group via the channels below for any questions or comments about this Report.

Address:	40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong *(For the attention of the Board of Bonny International Holding Limited)*
E-mail address:	ppd@bonnychina.com
Telephone:	3150 6788

Stakeholder Engagement

To accomplish our long-term sustainable development goal, we believe that good communication with stakeholders is essential. The Group has established various channels to enable stakeholders to keep contact with us and receive information about the Group. Our stakeholders include:



From the feedbacks from stakeholders, the Group is able to understand the impact of our business on the environment and the society. They also allow the Group to realize stakeholders' concerns. Their opinions will be considered when formulating our future development plan. The Group has established the following formal and informal communication channels for stakeholders to express their expectations on the Group. We analyze information collected from these channels to determine the basic framework of this Report.

Stakeholders	Communication channels	Issues concerned
Investors and shareholders	• General meetings • Regular corporate publications (such as annual reports, financial reports, circulars and announcements) • Group website • Direct communication • Meetings, phone and written enquiries	• Business strategies and sustainability of the Group • Financial performance • Investment return • Corporate governance
Customers	• Direct communication • Group website • Email/telephone • Business meetings	• Product and service quality • After-sales service • Customers information security • Business ethics
Employees	• Appraisals • On-the-job coaching • Internal meetings • Group website • Human resources manual • Trainings • Employee activities • Exit interview	• Employee rights and welfare • Occupational health and safety • Equal opportunities • Training and development • Prospects of the Group
Suppliers and business partners	• Direct communication • Onsite inspection • Business meetings • Email/telephone • Tendering for procurement of products or services	• Fair competition • Creation of win-win cooperating relationship • Fulfillment of contract commitment • Payment schedule
Government and other regulatory authorities	• Correspondence • Regular corporate publications (such as annual reports, financial reports, circulars and announcements) • Email/telephone	• Compliance with law and regulations • Treatment of inside information • Co-operation with enquiries
Local community	• Group website • Public media • Community activities • Donations	• Participation in community and charity activities • Legality and compliance of business • Performance on environmental protection • Fair employment opportunities

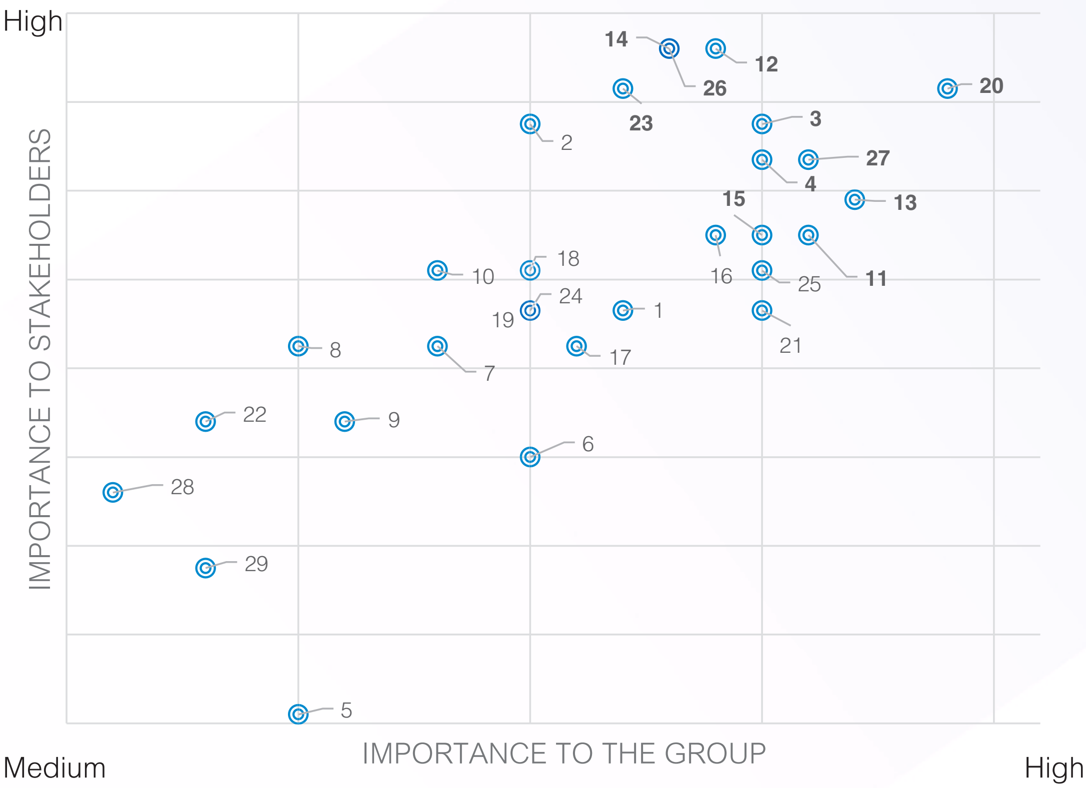
MATERIALITY ASSESSMENT

In order to understand the main concern of the stakeholders for the ESG issues related to our business, we have maintained close communications with the stakeholders through various communication channels and also conducted online questionnaires to analyze the opinions of stakeholders in depth. We follow four principles established by the Stock Exchange, including materiality, quantitative, balance and consistency, in designing the questionnaire. The questionnaire covers the following, among others, ESG issues:

	ESG aspects	Material ESG issues of the Group
A. Environmental	A1 Emissions A2 Use of Resources A3 The Environment and Natural Resources	1. Greenhouse Gas Emission Management 2. Air Emission Management 3. Sewage Discharge Management 4. Hazardous Waste Disposal 5. Non-hazardous Waste Disposal 6. Energy Consumption 7. Water Consumption 8. Packaging Material Management 9. Green Procurement
B. Social	B1 Employment B2 Health and Safety B3 Development and Training B4 Labour Standards B5 Supply Chain Management B6 Product Responsibility B7 Anti-corruption B8 Community Investment	10. Equal Opportunity, Diversity and Anti-discrimination 11. Employment Relationship 12. Occupational Safety and Health 13. Employee Training and Development 14. Prevention of Child and Forced Labor 15. Staff Remuneration and Benefits 16. Supply Chain Management 17. Franchisee Management 18. Anti-fraud and Anti-corruption 19. Disaster Emergency Plan 20. Quality of Products and Services 21. Product Innovation 22. Product Recall 23. Product Safety 24. Complaint Handling 25. Intellectual Property Rights 26. Customers' Privacy Protection 27. Customer Satisfaction 28. Participation in Welfare Activities 29. Charitable Donations

We have analyzed the data collected from the stakeholders and management of the Group and built a materiality matrix. The issues in the upper right of the matrix are the ESG issues that most matter to the stakeholders. This Report covers all major issues, which will be taken account into when formulating strategies for sustainable development in the future.

ANALYSIS OF THE MATERIALITY OF EACH ISSUE



Material ESG issues of the Group	Issue number	Disclosure Section	Page
Sewage Discharge Management	3	Environmental Protection	45
Hazardous Waste Disposal	4	Environmental Protection	45
Employment Relationship	11	Social Responsibility	53
Occupational Safety and Health	12	Employees' Health and Safety	56
Employee Training and Development	13	Employee Development and Training	56
Prevention of Child and Forced Labor	14	Labor Standards	57
Staff Remuneration and Benefits	15	Employment and Remuneration Policies	53
Quality of Products and Services	20	Product Responsibility	59
Product Safety	23	Product Responsibility	59
Customer Satisfaction	27	Product Responsibility	59
Customers' Privacy Protection	26	Privacy Protection for Store Customers	62

CORPORATE GOVERNANCE AND RISK MANAGEMENT

In order to maintain sound corporate governance, the Group regularly reviews its business practices, holds meetings to discuss matters that require follow up and assesses the appropriateness of any amendments of its business practices. Departments involved include marketing, manufacturing, quality control, office and procurement departments. Each department is required to identify risks of its products, services or operation involved in planning, implementation and process control, including environmental and social risks, such as requirements and reputation evaluation of suppliers on environment protection, regulation on manufacturing materials, contract review, operation assessment of production site, product quality, regulation on human resources and identification and evaluation on environmental factors.

For environmental risks, we have implemented strict management measures to evaluate, manage and mitigate any risks identified. According to the "List of Material Environmental Factors" of the "Environmental Factors Identification and Evaluation Management Measures", we evaluate any activities, products and services of the Company to identify potential environmental risks in eight aspects, namely the emission of pollutants into atmosphere, sewage emission, waste management and by-product, land pollution, usage of energy and raw material and natural resources, other local environmental issues or community issues, energy release and physical characteristics. We analyze the scope and extent, frequency, social concern, regulatory compliance, resources consumption and the possible extent of energy saving of such risks and adopt measures to avoid, bear and eliminate the source of risks and to reduce, partake and alleviate risks in order to mitigate their impact on the Group and the environment.

APPROACH TO SUSTAINABILITY DEVELOPMENT

The Group adhered to its policies on business management, including the provision of high-quality products, gaining user satisfaction, optimization of human resources, streamlining of work procedures; clean production, maintaining environmental hygiene, complying with laws and regulations, and achieving sustainable development. The Group has implemented the "Quality and Environment Management Handbook", which was formulated according to the ISO9001:2015 Certification in Quality Management System, the ISO14001:2015 Environmental Management System and the business status of the Company. All departments and production sites are required to follow the standards in relation to environmental issues, including pollution prevention, conservation of resources, slowing and adapting to climate changes and biological diversity and ecosystem protection, to ensure the sustainable development of the Company. We had formulated the "Management of Social Responsibilities", which specifies the social responsibilities and obligation of the Group in its operation and development, including production safety, environmental protection, resources conservation, employment opportunities and employee interest and rights protection.

This Report discloses the Group's performance on environmental protection, employees' interests and rights protection and contribution to society during the Reporting Period. Our employees are required to do their best in a professional manner and provide premium services to our customers and work together for our sustainable development.

ENVIRONMENTAL PROTECTION

The Group has formulated the standard of environment management based on the "Quality and Environment Management Handbook". The Group is committed to undertaking the responsibility of mitigating the environmental impacts of its business operation. It also strives to use resources effectively, reduce emissions and waste and alleviate its business operation impacts on various social aspects in order to fulfill its environmental protection commitment. Apart from complying with environmental protection laws and regulations that are applicable to the PRC, the Group also proactively adopts measures to reduce its negative impacts on the environment. As its business involves production process, it is inevitable for the Company to produce air pollutants and consume energy and other natural resources. As such, we have set various environmental targets based on the nature of our respective departments since January 2019. Daily work assessment and irregular inspections have also been carried out to review whether our targets have been fully achieved. Please refer to the following table for detailed information of our environmental targets:

Department	Assessing Item
Office	• 100% disposal of domestic wastes
Quality management department	• 100% disposal of defective products
Production department	• 100% utilization of equipment
	• 100% collection of workshop solid wastes
Marketing department	• 100% promotion of environmentally-friendly products
Procurement department	• 100% issuance of environmental protection notices
Workshop	• 100% effective workshop fire-fighting equipment
Warehouse	• 100% effective warehouse fire-fighting equipment

As compared to the performance of each target in the reporting year of 2019, the Group has fulfilled the percentage as mentioned in the assessment item this year and there were no differences occurred.

ENVIRONMENT MANAGEMENT

The Group is committed to exceptional environment management by reducing waste at source and increasing recycle rate of resources. We also improve our profitability, market competitiveness and build positive reputation of the Group through environment management. To ensure that our production business complies with national standards, the Group has designated personnel to perform regular inspection of its operation procedures, which covers air and noise pollution, sewage and waste emission. The designated personnel analyze data collected and review potential risks to the environment. The assessment report will be submitted to the management of the Group to formulate specific solutions. Proactive participation of the management accelerates the implementation of improvement measures for reducing the impacts of our business on the environment. Hence, the participation of the management is essential to the success of the comprehensive corporate governance of the Group.

Our management team will implement the guidelines of risk management and continuously monitor potential environmental risks of our business, such as assessing the implementation of emission permission to ensure strict compliance with third party environmental assessment proposal, communicating with each department to ensure that relevant personnel understand the environmental targets of the Group, and implementing measures to achieve these targets. The management team will keep abreast of relevant environmental laws and regulations issued by China, regional governments and relevant regulatory authorities and refine the Quality and Environment Management Manual to ensure business compliance. Our business is subject to the following laws and regulations, including but not limited to:

- The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)
- The Appraising of Environment Impact Law of the PRC (《中華人民共和國環境影響評價法》)
- The Integrated Emission Standard of Air Pollutants《大氣污染綜合排放標準》(GB16297-1996)
- The Ambient Air Quality Standards《環境空氣質量標準》(GB3095-1996)

During the Reporting Period, the Group did not violate any environmental laws and regulations in China related to air and greenhouse gas emission, waste disposal to water and land, hazardous and non-hazardous waste which would result in circumstances with penalty or punishment imposed.

EMISSION MANAGEMENT

As many seamless circular knitting machines are used in the production process of our seamless intimate wear, air pollution, sewage and solid wastes are generated. We continuously review our existing measures and implement improving policies to reduce such emissions. With our efforts in enhancing our competitive advantages and fulfilling our environmental protection commitment, we have been awarded quality standard certification of ISO14001:2015 in respect of our environment management system. This has proven our devotion in solving potential environmental issues in the production, sales and disposal processes of our products. We endeavor to improve our operating approach, reduce energy consumption and raw material wastage so as to maximize our productivity and minimize our carbon emission and resources consumption.

AIR AND GREENHOUSE GAS EMISSIONS

The Group ensures that it complies with laws and regulations related to air and greenhouse gas emissions for the purpose of the “Compliance Evaluation” as set out in the “Quality and Environment Management Handbook”. Based on the “Compliance Evaluation”, the Group is required to appoint an office commissioner to determine the frequency of compliance evaluation in accordance with the local laws and regulations, based on which the management shall evaluate the impact of construction projects and business on our emission level each year. In case of any violation of local requirements in our production procedures, we will require relevant departments to implement rectifying measures. The office commissioner reports the data from daily inspection to the relevant departments, especially any abnormalities and exceedances, which shall be notified promptly in accordance with the “Management Provisions on Identification and Rectification of Production Safety Hazards” and shall be rectified within a specific time limit. The overall compliance will be presented on the evaluation meeting of the management of the Company and the result of regular evaluation will be recorded. Emission reduction measures adopted by us include:

- Prioritize the purchase of highly efficient and least polluting machineries for our production line;

- Manage the numbers and models of company vehicles to reduce fuel consumption and emission;

- Transforming coal boiler into natural gas boiler to reduce greenhouse gas emissions;

- Arrange proper delivery schedule to deliver goods during non-peak hours for the avoidance of inefficient operation and energy loss brought by congestion;

- Encourage employees to conduct video conferencing and use emails instead of taking long distance business trips. A total of 40 telephone conferences were conducted with the reduction of 60 travels in 2020; and

- Choose direct flights for unavoidable business trips to reduce fuel consumption due to transfers.

During the Reporting Period, the air emissions of the Group are mainly exhaust gas generated by vehicles. Direct emission of greenhouse gases includes emissions from combustion of vehicle engine and fuel consumption of factory boilers and refrigerants. Indirect emission is primarily the emission from the generation of electricity used. Apart from management of the numbers and models of vehicles, the Group seeks to minimize air emissions by requiring drivers to turn off the engines of idling vehicles.

The air emissions generated by vehicles include Sulphur Oxides (SOx), Nitrogen Oxide (NOx), and particulate matter (PM). The emissions generated during the Reporting Period and their comparison with 2019 are set out in the table below:

Air and greenhouse gas emissions	Unit	2020[1]	2019[2]
Air emissions			
Nitrogen Oxide (NOx)	kg	1,697.09	81.21
Sulphur Oxide (SOx)	kg	357.45	0.31
Particulate matter (PM)	kg	18.47	7.78
Greenhouse gas emissions[3]			
Scope 1 Direct emissions	tonnes of Co_2e	2,153.63	271.44
Scope 2 Indirect emissions	tonnes of Co_2e	7,163.23	8,737.14
Total	**tonnes of Co_2e**	**9,316.86**	**9,008.58**
Total greenhouse gas emissions intensity (Scope 1 and 2)	tonnes of Co_2e/ RMB million	32.37	31.67

1 As natural gas consumption was included in calculating the air and greenhouse gas emissions for 2020 to accurately reflect the actual emission, it is advised that the data for the year should not be directly compared with 2019.

2 With reference to the emission factors for Mainland China based operations associated with purchased electricity newly supplemented in "How to prepare an ESG report" published by the Hong Kong Stock Exchange, the data of scope 2 (indirect emissions) for 2019 has been restated.

3 According to the Greenhouse Gas Protocol — Corporate Accounting and Reporting Standard (Revised) issued by World Business Council for Sustainable Development and World Resources Institute, scope 1 direct emissions includes greenhouse gas emissions directly produced by businesses owned or controlled by the Group; scope 2 indirect emissions includes greenhouse gas emissions from "indirect energy" caused by internal consumption (purchased or acquired) of electricity, thermal energy, refrigeration and steam of the Group.

Waste Disposal

Major wastes produced by the Group are industrial wastes and office paper. The Group has taken the following measures to reduce wastes:

- Set up waste separation bins and recycling bins in the office and production site for separating materials such as waste paper, metal and plastic. Designated staff are arranged for recycling;
- We utilize various communication channels to send waste reduction slogans and promotions through email and notification as a reminder for employees;
- We prioritize environmentally-friendly suppliers in the selection of suppliers. In the pursuit of our green procurement vision, we purchase materials and products that cause less adverse environmental impacts;
- As store renovation requires a lot of construction materials, we encourage each store to reuse existing materials to keep in line with the environmental protection vision of the Group; and
- Template and spray-painting suppliers are required to improve their techniques to reduce the production of hazardous wastes.

We formulate specific guidelines for waste management based on the waste classification standards of the place where we operate to guide our employees in properly handling various wastes. We produce hazardous liquid wastes such as sewage and sludge during the production process which we pass to specialized organizations for reuse. In addition, hazardous solid waste including used lead-acid battery and dye packaging bag and non- hazardous solid waste including office paper, construction and demolition waste as well as plastic packaging materials used during decoration are produced during the production process. We strictly comply with relevant local environmental policies regarding such solid waste and engage reliable third-party waste recyclers to handle such waste. Please refer to the table below for waste produced by the Group in 2020:

		2020			2019		
Type of liquid waste	**Unit**	**Produced**	**Processed**	**Processed percentage**	**Produced**	**Processed**	**Processed percentage**
Hazardous liquid waste							
Industrial sewage	Tonnes	85,541	50,999	59.62%	89,868	54,606	60.76%
Sludge	Tonnes	132	119	90.15%	103	90	87.38%
Total	**Tonnes**	**85,673**	**51,118**	**59.67%**	**89,971**	**54,696**	**60.80%**
Intensity of total liquid waste	Tonnes/RMB million	297.67	177.61		316.29	192.29	

Type of solid waste	Unit	Volume of solid waste generated in 2020	Volume of solid waste generated in 2019
Hazardous solid waste			
Used lead-acid battery	Tonnes	0.0030	0.63
Dye packaging bag	Tonnes	0.06	0.0921
Total	**Tonnes**	**0.063**	**0.7221**
Intensity of total hazardous solid waste	Tonnes/RMB million	0.00021	0.00254
Non-hazardous solid waste			
Office paper	Tonnes	1.50	1.45[4]
Construction and demolition waste	Tonnes	N/A[5]	32
Plastic packaging materials produced during renovation	Tonnes	N/A[5]	0.22
General industrial waste	Tonnes	220.70[6]	N/A
Total	**Tonnes**	**222.20**	**33.67**
Intensity of total non-hazardous solid waste	Tonnes/RMB million	0.77	0.12

CONSUMPTION OF RESOURCES

Efficient use of Energy

During the Reporting Period, the energy resources we consumed were mainly electricity and natural gas. The Group has been committed to minimizing energy usage to improve our operating efficiency. We have implemented the following measures optimize the use of resources:

- Deploy more natural light;
- Conduct regular check and maintenance on machines and appliances to improve efficiency;
- Separate light switches for production site and office area and post notices to remind employees to turn off unnecessary lights and appliances when leaving the working area;
- Use electronic ballasts which cause less power loss to replace traditional electromagnetic ballasts to improve energy saving efficiency;
- Install motion sensors in areas not frequently used. Lights will only be turned on when employees pass through to reduce unnecessary electricity consumption;
- Prioritize the use of energy saving lighting devices;

4 The data of office paper consumption for 2019 has been adjusted to accurately reflect the actual consumption.
5 The Group did not produce any construction and demolition waste and plastic packaging materials produced during renovation within the Reporting Period.
6 As the Group optimized the data collection practice during the Reporting Period, the Group is able to fully disclose the data of general industrial waste.

- Maintain indoor temperature within an energy-efficient level of 24–26°C; and
- Require our employees to switch off printers and communication technology equipment completely when leaving the working area after work.

The following table illustrates the consumption volume by energy in 2020 and its comparison with 2019:

Energy	Unit	2020	2019
Purchased electricity	MWh	8,902.85	10,859.98
Natural gas	MWh	9,661.37	13,676.63[7]
Diesel oil	MWh	29.70[8]	N/A
Unleaded petrol	MWh	28.78[8]	N/A
Total	**MWh**	**18,622.70**	**24,536.61**
Intensity of energy consumption	MWh/RMB million	64.71	86.26

SAVING WATER RESOURCES

As the business of the Group consumes water resources, we have implemented comprehensive water resources management solution to fully save water and formulated the "Energy Saving and Emission Reduction Management Procedures". Procedures include water saving production methods and water saving methods for relevant machines to enhance water efficiency which we require our employees to apply in the work process. We have also implemented the following measures to reduce water consumption during daily operation:

Environmental protection measures	Method
Efficient use of water resources	• Dispose industrial sewage produced during production process in strict compliance with local laws; some of the processed sewage that reaches the standard can be reused in the production process; • Recycle and reuse wastewater for cleaning and irrigation; • Use dual-flush toilet that can adjust flushing volume; • Check and repair the pipes of production site and office for any leaks on a regular basis; and • Read the water readings at regular interval to check for hidden water leaks promptly.

7 The data of natural gas for 2019 was disclosed in cubic meter. As the Group optimized the calculation in order to accurately reflect the actual consumption, the data of natural gas for the year was measured in MWh.

8 As the Group optimized its record practice for vehicle fuel consumption, the Group is able to fully disclose the data of energy consumption of different types of fuel for the year.

During the Reporting Period, we used a total of 119,996 tonnes of water and did not encounter any issues in acquiring suitable water sources.

	Unit	2020	2019
Volume of water used	Tonnes	119,996	144,167
Intensity of water consumption	Tonnes/RMB million	416.93	506.83

REDUCTION OF PACKAGING MATERIALS

Products produced by the Group contain packaging materials, including plastic bags, liner plates and packaging boxes. Packaging of each product sold at the stores also features materials such as tags, gun needles and stickers. Packaging materials used during the current Reporting Period can be categorized as paper or plastic. Please refer to the table below for consumption of each material:

Packaging materials	Unit	2020	2019[9]
Paper	Tonnes	3,686.66	3,686.55
Plastic	Tonnes	483.46	458.48
Other	Tonnes	10.65	63.50
Total	**Tonnes**	**4,180.77**	**4,208.53**
Intensity of packaging materials	Tonnes/RMB million	14.53	14.80

9 The data of packaging materials for 2019 was disclosed by pieces. As the Group optimized the data collection practice and calculation for packaging materials to accurately reflect the actual consumption in 2020, it is advised that the data for the year should not be compared with that for 2019 directly.

CHERISH RESOURCES STARTING FROM CHANGING EMPLOYEES' PRACTICES

The Group promotes the importance of cherishing natural resources and environment protection mainly based on the "Quality and Environment Management Handbook" and "Energy Saving and Emission Reduction Management Procedures". Although the impacts of our production process on natural resources are not material, we do our best in minimizing the use of paper to achieve environmental protection. We have implemented the following measures with an aim to reduce natural resources consumption indirectly through daily operation and adjusting working habits.

Environmental protection measures	Method
Paper reduction	• Office printers are defaulted with eco-friendly printing mode to reduce paper usage; • Single-sided paper is placed in recycling box for staff to reuse; • Encourage staff to choose double-sided printing to avoid excessive paper usage; • Encourage staff to use electronic communication tools to read and store information instead of printing; and • Reduce the consumption of packaging, logistics and sales model through reuse of carton box package for internal logistics.
Hold environment protection training	• The purpose of training seminars was to enhance employees' awareness on the importance of the control and management of sewage, air emissions, solid waste, noise and dust produced by the Company, and require them to abide by the environmental management policies of the Company and relevant local regulations and to minimize the harm on environment and employees' health caused by personal habits and business operations.

SOCIAL RESPONSIBILITY

The Group considers the contribution of our employees as an essential part of the sustainable development of the Company. We communicate with employees through various channels to understand their expectations and build up mutual trust. We believe that providing multi-cultural working environment and competitive remuneration packages are the keys to retain and attract outstanding talents to the Group.

Employment and Remuneration Policies

Offering competitive remuneration packages helps retaining high quality talents who provide professional services to our customers, which significantly improve the results of operation of the Company. To this end, our remuneration packages have been structured by the Group with reference to those offered by our peers in the industry in order to maintain our market competitiveness.

To ensure that each of our employee is equally treated, our "Employee Handbook" and relevant employment policies are formulated in accordance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the local laws and regulations related to employment. The Group strictly complies with these laws and regulations and contributes to social security insurance covering pension insurance, medical insurance, unemployment insurance, occupational injury insurance, maternity insurance (where applicable) and housing fund for its employees. In addition, we also provide benefits including accommodation allowance, catering allowance, attendance bonus and traveling allowance.

All new employees will receive a staff handbook which contains the policies related to labor laws, regulations and industry practice, and information related to salary, dismissal, promotion, working hours, recruitment, holidays, diversity and other benefits and remuneration packages, as well as the expectations of the Group. The corporate management center (企業管理中心) will amend and update the staff handbook according to the operation and development of the Company at the end of each year.

The Group has zero tolerance on sexual harassment or abuse in the workplace in any form, which is a violation of the labor laws in all countries. During the Reporting Period, the Group did not materially violate any employment laws and regulations regarding salary and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversified composition, anti-discrimination and other remuneration packages and benefits.

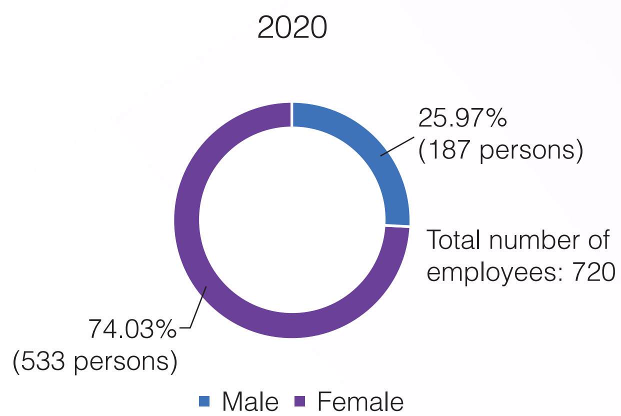
Recruitment

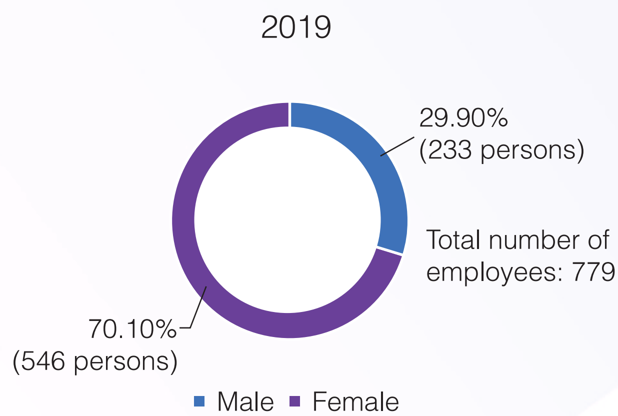
As the third largest manufacturer of seamless and intimate wear products in the PRC, the Group is an equal opportunity employer in the industry, setting an exceptional example for its peers. Each employee is given equal opportunities to make good use of his/her expertise and talents. Our recruitment process is fair and open and the employment is determined by the performance and skills of each candidate. We undertake to provide each candidate with equal employment opportunity regardless of their age, gender, physical and mental health status, marital status, family status, race, skin color, nationality, religion, political stance and other factors.

The Group formulated the "Management System of Employment" which sets out the procedures and management of recruitment. Major recruitment channels of the Company include job fair, internal referral, online recruitment, recruitment advertisement, headhunting and school campus recruitment. The Human Resources Department will arrange interview with qualified candidates in accordance with the requirement set out in the job description and the manpower requirement proposal to ensure the candidate are equipped with the required qualifications and abilities. Department heads and management may arrange second interview with candidates if required.

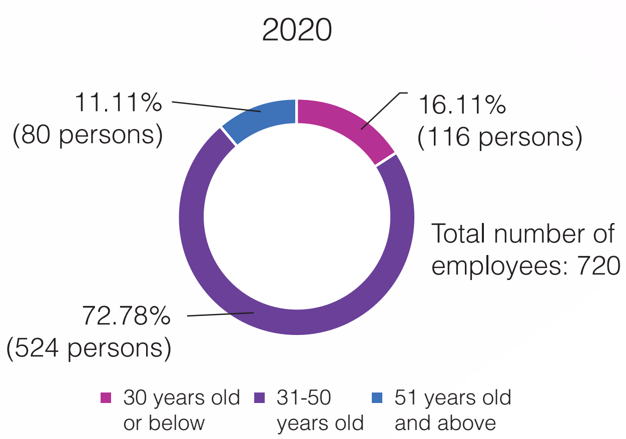
As at 31 December 2020, the Group had 720 full-time employees, including 636 (88.33%) general and technical staff, 74 (10.28%) middle management members and 10 (1.39%) senior management members. The compositions of our employees by gender and age group in 2020 and 2019 are as follows:

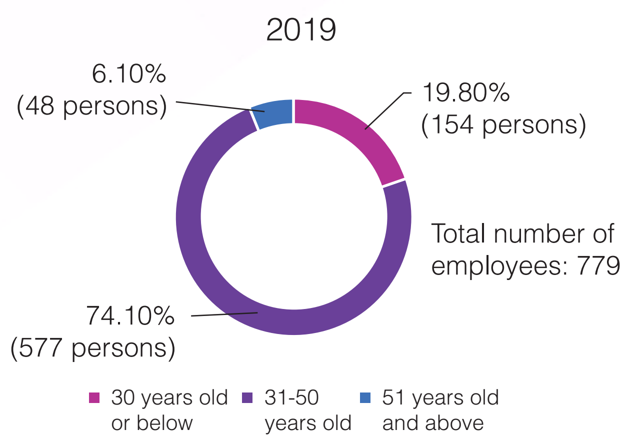
By Gender





By Age Group





EMPLOYEE PROMOTION

All employees have equal promotion opportunity. We have formulated the "Performance Appraisal of Employees" as the appraisal guideline for our management. The Group conducts performance appraisal annually according to a number of standards including operation targets, employees' personal targets, performance, attitude and creativity. The human resources department will consider promotion, salary increment, award, transfer and training for each employee in accordance with the appraisal results.

EMPLOYEES' HEALTH AND SAFETY

The working environment and quality are the major concerns of the Group. It is our objective to create a healthy and safe working environment for our employees. We have formulated the production procedures and safety standards in strict compliance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Labors' Interest and Right Protection Law (《勞動者權益保護法》) and other applicable laws and regulations. The Group has received a "Work Safety Standardization Certification" by the State Administration of Work Safety. We will organize safety training programs for our employees when appropriate to enhance their awareness of occupational safety.

In addition to safety training programs, we have appointed an officer from the administrative department to assess the risk of the working environment of each department. The officer will assess the existing and potential risks of the working environment and propose effective measures to mitigate the identified hazards. Furthermore, the building management office will also arrange emergency, fire and evacuation drills to maintain the safety awareness of our employees.

The Group did not have any material safety incidences at our workplaces or work-related fatalities or injuries, or any material non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to the provision of a safe working environment and the protection of employees from occupational hazards during the Reporting Period.

EMPLOYEE DEVELOPMENT AND TRAINING

Providing comprehensive training programs to our employees can improve their knowledge, potential and skills as well as the operation efficiency of the Group and is beneficial to both the employees and the Group. We also encourage job rotation to facilitate communication and learning skills. In 2020, the Group organized 4 sessions of training programs for our employees of 20 hours in total including new recruits training programme and vocational training, with 542 employees attended.

For our front-line staff who represents our brand image by dealing with customers, we provide comprehensive and high quality training in order to ensure the consistency of service quality required by the Group. To this end, we organized internal training programs for outlet staff in relation to product knowledge, sales techniques, customer service, store operation and safety measures to understand the practice of retail operation. The Group offers reimbursement of course fee and study leave to employees who wish to improve their occupational skills as an encouragement.

For the management, the Group organized off-duty seminars and on-duty training for its management for in-depth understanding of our business operation and communication. New working skills recently learnt from our projects are usually shared in the seminars. Furthermore, directors are given with guidance and preparation meetings about the Group's business and his/her duties responsibilities under the Listing Rules and the relevant statutory and regulatory requirements when newly appointed. The directors will be briefed regularly on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure upkeep of good corporate governance practices of the Group.

LABOR STANDARDS

The Group has formulated the employee recruitment and employment procedure in accordance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Prohibition of Child Labor (《禁止使用童工規定》). In order to comply with applicable laws of child and forced labor, the Human Resources Department will verify the identity documents of candidates to make sure that they have reached the age eligibility for employment under the local labor law. In addition, to avoid forced labor, application for overtime work by employees must be approved by the officer-in-charge of the relevant department before the performance of overtime working and payment of allowance. If child labor or forced labor is found, we will immediately terminate their employment and request them to leave the workplace. We will also review and amend the employment procedure to prevent similar incidents in the future.

During the Reporting Period, the Group did not materially violate any laws and regulations related to child labor and forced labor.

SUPPLY CHAIN MANAGEMENT

The Group is committed to developing and maintaining effective working relationships with the business partners (suppliers, subcontractors, franchisees and transporters, etc.) under the philosophy of mutual benefits of all parties. In order to better manage our relationship with business partners, the Group conducts appraisal on business partners according to the "Procurement Management System", the "Material Procurement Management System" and the "Selection and Supervision of Dealers and Franchisee" annually. The appraisal aspects include their supply, production, technology and equipment, sample and punctuality, product quality, product delivery schedule and means of transportation, urgent order processing, exchanging early warning, product price and service quality. To prevent any adverse effect on our product quality, we will immediately terminate our partnership with a supplier if the supplier fails to meet our standards. By providing these guidelines to our suppliers, our suppliers are expected to comply with the commercial ethics and do their best to provide high quality products.

During the Reporting Period, the Group had a total of 204 suppliers and 42 franchisees. Our suppliers included suppliers of raw material, logistic services, engineering services and cross border e-commerce procurement services.

SUPPLIER MANAGEMENT

As we have suppliers from different countries, a comprehensive management system is in place to monitor our suppliers. The Group has formulated the "Procurement Management System" to govern the selection, acceptance, assessment, evaluation, appraisal and dismissal of suppliers. In selecting new suppliers, our Procurement Department will establish a selection team comprising representatives from the Quality Management Department, the Production Center and the Technology Department. The selection team examines the business license, financial status, quality certification, management, production capacity, product quality, price as well as pre-sales and after-sales services and prepares the "Evaluation Report on Basic Information of Supplier" for approval by the management. Suppliers who fulfill our requirements are required to provide samples to the Quality Department of the Group for inspection. In addition, we will conduct on-site inspection on such suppliers and prepare the "Inspection Report on Supplier" for review by the management.

As a leading seamless intimate wear product manufacturer, we place great emphasis on the quality of raw material. The Procurement Department keeps track of the production progress of raw materials of suppliers on-site. Our quality control personnel inspect the quality of raw materials and evaluate the quality and delivery schedule. Any quality problem of raw materials will be reported to the Procurement Department.

At the end of each year, an evaluation team comprising representatives from the Procurement Department, the Finance Department, the User Department and the Quality Department evaluates existing suppliers and reviews the qualification, operating conditions, credit ratings, service quality, purchase price and product quality and problems of the suppliers. The evaluation results will be submitted to the management for final decision. Any supplier who fails to meet the standards of the Group will be removed from the "Qualified Supplier List" by the Procurement Department and any supplier who has material adverse impact on the Group will be listed on the supplier blacklist.

Besides year end inspection, the Procurement Department will also conduct ad-hoc examination regarding delivery of suppliers and record the results in the Quarterly Supplier Assessment Form, which will be considered during year end assessment. The rating, order size and payment policy of the suppliers will be determined on the basis of the assessment. During the Reporting Period, the Group did not have any material claims against the suppliers due to defective quality of raw materials.

Semi-finished products and finished products from subcontractors will be stringently inspected before acceptance to ensure that the products comply with the specifications stipulated in the supply agreement. Our representative will also conduct regular onsite random product examination of subcontractors and inspect the production process. If quality of the goods supplied does not conform with our standards, the Group will demand replacement or refund.

The Group is aware of the importance of environmental protection in its supply chain during business development. Suppliers of our production facilities and office are selected in accordance with the environment protection policies of the local government. Suppliers are required to use environmental-friendly packaging materials and reduce the use of materials that are harmful to the environment, including plastics, to maintain the sustainable development of our supply chain.

FRANCHISEE MANAGEMENT

The Group has formulated the "Selection and Supervision of Distributors and Franchisees" as well as "Selection and Evaluation System" for franchisee. We consider various factors, including franchisee's recognition of the brand vision of Bonny, reputation, image, financial status, operation management, store location and interest conflict of franchisee, and franchisee's participation in joint events with the Group, to choose the most suitable franchisee for cooperation. To ensure that the service quality of franchisees is up to the expectation of the Group, our branches will regularly monitor and inspect franchisees in respect of their financial condition, products and daily operation to ensure their stable supply. We also offer training programs on daily operation, including selling skills, product knowledge, service awareness, store operation and safety measures, to the staff of franchisees. The Group conducts regular inspection and guidance on the image of franchisee to make sure that their brand images are consistent with that of the Group.

PRODUCT RESPONSIBILITY

In order to constantly provide quality products and gain customers' confidence in our brand, we have been operating our business in a responsible manner to ensure product safety. In an effort to protect customers' rights, we have formulated policies that control product quality, including the "Production Management System (Seamless Knitting)", "Premium Production Management System" and "Defective Products Recall System", so that our customers can purchase our products with confidence.

To fulfill our promises to customers, all department are required to strictly comply with the quality standards set out in the "Quality and Environment Management Handbook", including:

Department	Indicator
Quality management department	• $\leq$ 3% products uninspected • Prompt inspection of testing instruments, 100% weekly inspection
Production department	• $\geq$ 96% product initial pass rate • $\leq$ 2% equipment failure
Marketing department	• 100% contract review in time • Customer satisfaction $\geq$ 95 points
Procurement department	• 100% supplier assessment
Workshop	• $\geq$ 96% products initial pass rate • 100% successful process execution

The achievements of each quality standards for the 2020 and 2019 reporting periods met the percentages required.

PRODUCT QUALITY

Besides our requirements on the suppliers and partners, the Group has also equally strict standards on its production to ensure its product quality and maintain its brand value and image.

The Group has obtained the certification of ISO9001:2015 Quality Management System and has obtained the Oeko-TexRStandard 100 certification (product category II) since 2016, which ensure its product safety. The Group regulates its production procedures, duties of relevant staff and inspection requirements in accordance with the ISO9001:2015 Quality Management System, "Production Management System (Seamless Knitting)" and "Premium Production Management System". The production of bras and seamless products is inspected at every step of production process, and only qualified products can proceed to the next production process. All finished products are inspected before packaging. Defective products will be sent to substandard and spare goods warehouse for follow-up procedures by the quality management department. Packaged finished products will be subject to full or random check as required by customers before delivery.

We have formulated the "Defective Products Recall System" based on laws and regulations including the Product Quality Law of the PRC (《中華人民共和國產品質量法》). Products will be recalled if there are potential risks including safety risk, harmful risk to physical health or life, failure to pass the inspection or using third party registered trademark. The regulatory department will immediately suspend the selling of such products, inform consumers to stop using and return the products and contact the relevant management department to follow up. Recalled products will be destroyed or processed to eliminate harmful features. As a responsible enterprise, we will report to the industry and commerce administration and relevant regulatory authorities.

During the Reporting Period, the Group had not, due to product quality issues, (i) received any fine, product recall order or other penalty from any regulatory body, (ii) received any material product return request from its customers and franchisees, or (iii) received any material complaint from consumers of its products. We were not aware of any non-compliance with laws and regulations in relation to product quality.

PRODUCT INNOVATION

We proactively modify and develop products with the latest and high-quality functions and features and are committed to providing diversified product portfolios for our customers. In 2020, the Group has developed a total of 73 and 141 new product series and new products, of which 49 and 118 have passed review, respectively.

INTELLECTUAL PROPERTY RIGHTS MANAGEMENT

The Group have various systems to manage intellectual properties under three categories, namely patent, trademark and software, to safeguard our intellectual property rights. The general manager office is responsible for the application, registration, renewal, amendment, transfer and license of intellectual properties to safeguard the efforts of the working team of the Company. During the year, we had two additional utility model patents, two trademarks and renewal of copyright of existing computing software. To protect the intellectual property rights of the Group, the Human Resources Department will provide occupational trainings on protection of intellectual property rights of patents for new recruits and staff of departments that have direct involvement of patent technology, including technology development department and marketing department. For trademarks and software, we have a list of trademarks and record of software copyrights for staff of the general manager office to promptly handle trademark update and inspect required information anytime.

In case of intellectual property right infringement, we will inform the senior management promptly to arrange for investigation and search for evidence. Serious infringement will be reported to relevant local authority or filed with the People's Court. We encourage employees to report any infringement and will honor the act of whistle-blowing in internal corporate publication or conference and offer a small amount of rewards. During the Reporting Period, we were not involved in any legal cases related to the infringement of intellectual property rights of third parties.

SERVICE QUALITY

In 2020, the Group's salespersons covered 137 self-operated retail outlets across the PRC. To ensure the salespersons reach the ideal servicing quality standards, we offer regular and comprehensive internal training sessions and assessments, including on-board training for new recruits, sales counter field training lessons, and the final probation assessment. Current salespersons are offered with monthly training and assessments to ensure that they are familiar with the products and operation of the Company and to improve their service attitude, emergency response and product knowledge.

Acceptance of customers' opinion enables the Group to improve and understand customer expectations more effectively. We are open to opinions and provide channels to receive feedback from customers. We have service hotlines to answer customers' inquiries on franchisee, product quality, order status and product return, etc. In case of customer complaints, the Group will rectify as soon as possible in accordance with specific procedures and follow up complaints of relevant customers promptly. If we fail to fulfil customers' expectation, we will evaluate the current handling procedures and conduct necessary training programs to prevent similar issues.

During the Reporting Period, the Group did not violate any laws and regulations in relation to service quality.

HEALTH AND SAFETY OF CUSTOMERS

We are aware that customers do not only consider the quality of brand during shopping process, but also the safety when they visit our retail outlets. We operate our outlets in compliance with fire-prevention and security requirement of shopping malls and sign the safety responsibility statement with outlet property management companies to undertake that our outlet staff will put utmost efforts to protect customers' safety. For suspected theft, employees who received safety training are willing to assist customers by reporting to the police in a professional manner or refer the case to the relevant department for investigation. Our procedures are based on the Law on the Protection of Consumers' Rights and Interests (《消費者權益保護法》).

The Group did not receive any complaints from customers regarding health or safety issues of retail outlets of the Group or contravention of local laws and regulations with this regard during the Reporting Period.

PRIVACY PROTECTION FOR STORE CUSTOMERS

It has become more important to protect the privacy of customer information in the era of technology advancement. The Group is committed to protecting personal data of the customers. Only authorized staff can have access to data of specific customers. All staff are required to sign a non-disclosure agreement upon employment to state that they are not allowed to disclose any data to unauthorized third parties. In addition, to maintain the reputation of quality products of the Group, we comply with the highest ethical standard and relevant local laws and regulations including the Law of the PRC on the Protection of Consumers' Rights and Interests (《中華人民共和國消費者權益保護法》), enabling our customers to use our products without concerns.

During the Reporting Period, the Group did not receive any complaints regarding customer privacy exposure or loss of customer information.

ADVERTISEMENT AND LABEL

As effective advertisements can strengthen brand publicity and increase sales of the Group, the Group uses various promotion channels to promote our products and release our latest information. Our promotion methods comply with the laws and regulations of the Advertising Law of the PRC (《中華人民共和國廣告法》). Our product labels contain complete and detailed product information.

During the Reporting Period, the Group was not involved in any legal cases in respect of violation of market promotion communications (including advertisement, marketing and sponsorship) or commodity label.

ANTI-CORRUPTION

The Group attaches great importance to mutual trust with its staff and expect them to strictly comply with work ethics. We have zero tolerance to any unethical business conduct including corruption, bribery, extortion, fraud and money laundering. We are aware of our responsibility to prevent shareholders, investors, customers and the wider public from any inappropriate behaviour or organizational malpractice that compromises their interest. In this regard, we have formulated the "Code of Conducts Manual", the "Procedures for Staff Complaint, Advice and Reporting" and the "Management System of Internal Reporting and Anti-corruption" based on laws and regulations relating to anti-corruption and probity construction, including the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), so as to regulate work ethics of our staff and to remind them of the importance of laws and discipline compliance. Such systems include provisions for conflicts of interest, privacy and confidentiality of information, due diligence, bribery and anti-corruption. The Internal Investigation Department is responsible for establishing the mechanism and updating the systems when necessary.

All staff can report on issues regarding corporate management or any breach of rules and provisions of the Company. The whistle-blower may complain through telephone, letter, email or face to face approach. The Group undertakes to protect whistle-blowers and the relevant department shall inform the whistle-blower of the handling result with the same way of receiving such report. The Internal Investigation Department shall handover verified cases to any judicial authority for further investigation and follow-up. If the public security authority does not accept our cases, the Group will launch the internal investigation procedures, and the Internal Investigation Department will form an investigation team for further investigation of such cases. If the employee involved is confirmed to have contravened the management system regarding anti-corruption, he/she will face disciplinary actions, which could result in dismissal for serious misconduct.

During the Reporting Period, the Group was not subject to any litigation regarding bribery, extortion, fraud or money laundering that has been instituted against the Group and its staff.

CONTRIBUTING TO THE SOCIETY

The sustainable development of the Group relies on the support from its stakeholders. Recognizing the importance of contributing to society, we are committed to providing support to the community development of the place where we operate. The "Administrative Measures on Social Responsibilities" sets forth details regarding social donation, including rights and duties, and provides that the Group shall make donation based on its own capabilities. Employees are not allowed to donate any properties owned by the Company in his/her own name and the Company shall actively participate in social welfare activities based on its capabilities.

During the Reporting Period, in order to mitigate the effects of 2019 Coronavirus Disease (COVID-19) on the world, in May 2020, the Group successfully developed seamless environmental protective facial masks through its seamless production technology and established a production line for facial masks with a daily production capacity of approximately 200,000 facial masks by using its existing production site, capital and resources. In order to meet customers' needs and quality requirements, we have obtained a certification from the United States Food and Drug Administration and the mandatory conformity marking for certain products sold within the European Economic Area (CE Marking) for our environmental protective facial masks. Our facial masks are available in the United States and European markets.

Furthermore, we proactively listen to any voices and opinions from the community and undertake to devote more effort, time, professional knowledge and other resources to contribute to the society. The Group continuously encourages its employees to participate in various community projects to facilitate community development by actions.

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company is investment holding. Principal activities of the subsidiaries are set out in Note 1 to the consolidated financial statements. A review of the business of the Group during the Reporting Period, a discussion on the Group's future business development and an analysis of the Group's performance during the Reporting Period using key financial performance indicators are provided in the "Chairman Statement" on pages 4 to 7 and the "Management Discussion and Analysis" on pages 8 to 19 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the Reporting Period, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

The Group recognises that employees, customers and suppliers are keys to the Group's sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing high quality products and services to its customers and maintain cooperation with its suppliers. The Group provides a fair and safe workplace, promotes diversity to its employees and provides competitive remuneration packages and career development opportunities based on their performance and experience. The Group also provides regular training and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions. The trade receivables and credit risk of the Group are set out in Note 19 and Note 37 to the consolidated financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group include market and financial risks.

Market Risks

The fluctuation of prices of raw materials exposes us to risks. While we monitor the price of raw materials and adjust our price quotations accordingly, we may not be able to directly pass on any increase in the price of raw materials to our customers in time or at all, which may have a material adverse effect on our business, financial condition and results of operations.

Financial Risks

The financial risk management objectives and policies of the Group are shown in Note 37 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations. During the Reporting Period, the Group did not violate any relevant environmental regulations and rules which gives rise of significant impact to the Group's development, performance and businesses. The environmental, social and governance report is included in this annual report on page 39 to page 63.

CONSOLIDATED FINANCIAL STATEMENTS

The results of the Group for the Reporting Period and the financial position of the Group as at 31 December 2020 are set out in the consolidated financial statements on pages 79 to 174 of this annual report.

DIVIDENDS

The Board does not recommend a final dividend for the Reporting Period.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on 30 June 2021, the register of members of the Company will be closed from 25 June 2021 to 30 June 2021, both dates inclusive, during which Reporting Period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of the Company should ensure that all share transfer documents, accompanied by the relevant share certificates, are 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, Wanchai, Hong Kong not later than 4:30 p.m. on 24 June 2021.

FIVE YEARS FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the past five financial years are set out on pages 175 to 176 of this annual report. The summary does not form part of the audited financial statements.

INVESTMENT PROPERTIES

The Group's investment properties consist of industrial properties situated at No.129, Chunhan Street, Beiyuan Road, Yiwu City, Zhejiang Province, PRC, which is used as offices and warehouses. The Group's investment properties were transferred to property, plant and equipment as own-occupied property on 31 December 2020 and the fair value amounted to RMB48,130,000 was based on valuations performed by AVISTA Valuation Advisory Limited ("**AVISTA**"), an independent firm of professionally qualified valuers. Further summary details of which are included in Note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the Group's property, plant and equipment during the Reporting Period are set out in Note 13 to the consolidated financial statements.

BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2020 are set out in Note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in the Company's share capital during the Reporting Period are set out in Note 28 to the consolidated financial statements.

DIVIDEND POLICY

On 19 March 2019, the Board approved and adopted a dividend policy (the "**Dividend Policy**") that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value.

The Board shall take into account the following factors of the Group when considering the declaration and payments of dividends:

(i) Financial results;

(ii) Cash flow situation;

(iii) Business conditions and strategies;

(iv) Future operations and earnings;

(v) Capital requirements and expenditure plans;

(vi) Interests of shareholders;

(vii) Any restrictions on payment of dividends; and

(viii) Any other factors that the Board may consider relevant.

The Board will review the Dividend Policy from time to time in light of results of operations, cash flows, financial condition, shareholders' interest, capital requirements, general business conditions and strategies, and other factors the Board may deem relevant in determining whether dividends are to be declared and paid.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

DONATIONS

The Group did not make any charitable donations during the Reporting Period.

RESERVES

Details of the movement in reserves of the Company and the Group during the Reporting Period are set out in Note 29 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately RMB205.2 million which consisted of share premium of approximately RMB205.2 million.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Jin Guojun *(Chairman)*
Mr. Zhao Hui

Non-executive Directors

Ms. Gong Lijin
Mr. Luo Weixing *(resigned on 1 November 2020)*
Ms. Huang Jingyi *(appointed on 1 November 2020)*

Independent non-executive Directors

Mr. Li Youxing *(resigned on 5 February 2021)*
Mr. Wang Jian
Mr. Zhang Senquan *(resigned on 19 June 2020)*
Mr. Chan Yin Tsung *(appointed on 1 July 2020)*
Mr. Chow Chi Hang Tony *(appointed on 5 February 2021)*

In accordance with article 109 of the Articles, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. By virtue of article 109 of the Articles, Mr. Jin Guojun and Mr. Wang Jian will retire from office and, being eligible, will offer himself/herself for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

In accordance with article 113 of the Articles, Mr. Chan Yin Tsung, Ms. Huang Jingyi and Mr. Chow Chi Hang Tony, each being appointed as a Director to fill a casual vacancy on 1 July 2020, 1 November 2020 and 5 February 2021, respectively, will hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting. By virtue of article 113 of the Articles, Mr. Chan Yin Tsung, Ms. Huang Jingyi and Mr. Chow Chi Hang Tony will retire from office and, being eligible, will offer himself/herself for re-election at the AGM.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of the Directors, which are required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules, are set out below:

Mr. Chan Yin Tsung has served as the member of legal and compliance management committee of Beijing Jingneng Clean Energy since January 2021.

Further biographical details and other information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' REMUNERATION

Details of the remuneration of the Directors are set out in Note 8 to the consolidated financial statements.

FIVE HIGHEST PAID INDIVIDUALS

Details of the five highest paid individuals in the Group are set out in Note 9 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, non-executive directors and independent non-executive Directors entered into a service contract with the Company for a term of three years commencing from their respective effective date of appointment, which may be terminated by either party giving not less than three months' notice in writing for the case of executive Directors and non-executive Directors and one month's written notice for the case of independent non-executive Directors. The Company has issued a letter of appointment to each of the independent non-executive directors for a term of three years commencing from the Listing Date, unless terminated by either party giving to the other not less than one month's notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions" in this report and Note 34 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

Save as disclosed in the Prospectus, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which the controlling shareholders or an entity connected with the controlling shareholders had a material interest, either directly or indirectly, subsisted during or at the end of the Reporting Period.

DEBENTURES IN ISSUE

During the Reporting Period, the Group did not issue any debentures.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the paragraph headed "Share Option Scheme" below, at no time during the Reporting Period from the Listing Date and up to 31 December 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares, or debt securities, including debentures, of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have taken under such provisions of the SFO), or were recorded in the register required to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the issued ordinary shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding *(Note 1)*
Jin Guojun	Interested in controlled corporation *(Note 2)*	634,500,000	52.88%
Gong Lijin	Interest of spouse *(Note 3)*	634,500,000	52.88%
Huang Jingyi	Beneficial owner	10,033,461	0. 83%

Notes:

1. As at 31 December 2020, the total number of issued shares of the Company is 1,200,000,000 shares.
2. These shares are held by Maximax Holding Corporation ("**Maximax**"), which is wholly owned by Jin Guojun. By virtue of the SFO, Jin Guojun is deemed to be interested in the shares held by Maximax.
3. Jin Guojun is the spouse of Gong Lijin. By virtue of the SFO, Gong Lijin is deemed to be interested in the shares interested by Jin Guojun.

Long Position in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Jin Guojun	Maximax Holding Corporation *(Note 1)*	Interest in controlled corporation	1	100%

Note:

1. Maximax Holding Corporation is one of the controlling shareholders of the Company and is wholly owned by Jin Guojun.

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

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, so far as known to the Directors, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Capacity/Nature of Interest	Number of shares or held	Approximate percentage of shareholding (Note 1)
Maximax Holding Corporation	Beneficial Owner	634,500,000	52.88%
Jin Xiaohong	Beneficial Owner	63,000,000	5.25%
Zhejiang Yiwu Gaoxin District Development and Construction Co., Ltd.* (浙江義烏高新區開發建設有限公司)	Person having a security interest in the shares	243,025,715	20.25%

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any other persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on 19 March 2019. No share option was granted by the Company under the Share Option Scheme since the date of its adoption.

A summary of the key terms of the Share Option Scheme is set out below. The terms of the Share Option Scheme have complied with the requirements of Chapter 17 of the Listing Rules.

(i) Purpose

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

(ii) Eligible Participants

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants ("**Eligible Participants**"), to take up options to subscribe for Shares:

(a). any employee or non-executive director of the Company or any of the subsidiaries or any entity in which the Group holds an equity interest;

(b). any supplier, customer, research and development or other technological support provider, shareholder, advisor or consultant, business partner (by way of joint venture, business alliance or other business arrangement) of any member of the Group or any entity in which the Group holds an equity interest.

(iii) Maximum number of Shares

The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not exceed 30% of the issued share capital of the Company from time to time and must not in aggregate exceed 10% of the Shares in issue on the day on which dealings in the Shares first commence on the Stock Exchange (i.e. not exceeding 120,000,000 Shares).

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

Any further grant of options in excess of the above limit shall be subject to separate Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting.

(v) Grant of options to connected persons

Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the option).

Any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the Shareholders in general meeting. The Company must send a circular to the Shareholders. The grantee, his associates and all connected persons of the Company must abstain from voting in favor at such general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme shall be determined at the discretion of the Directors, provided that it shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five Business Days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(viii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

During the Reporting Period, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

During the Reporting Period, save for the Share Option Scheme previously mentioned, the Company has not entered into any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2020.

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. Jin Guojun and Maximax, in respect of their compliance with the non-competition undertaking provided in favour of the Company. The independent non-executive Directors have reviewed the said undertaking and are of the view that Mr. Jin Guojun and Maximax have complied with the non-competition undertaking since the Listing Date up to the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors has interests in business which competes or may compete with the Group's business.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the section "Continuing Connected Transactions and Related Party Transactions" below, no contract of significance has been entered into among the Company or any of its subsidiaries and the controlling Shareholders or any of their respective subsidiaries during the Reporting Period.

CONTINUING CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Upon Listing, transactions between members of the Group and connected persons of the Company have become connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the Group's continuing connected transactions, the terms of which took effect on the Listing Date, are set out as follows.

Non-exempt Continuing Connected Transaction

Framework purchasing agreement between Zhejiang Bonny and Deshipu New Materials

On 19 March 2019, Zhejiang Bonny, the indirect wholly owned subsidiary of the Company, as buyer, has entered into a framework purchasing agreement with Deshipu New Materials, as seller in relation to the supply of polyamide by Deshipu New Materials to Zhejiang Bonny (the "**Framework Purchasing Agreement**"). Deshipu New Materials is wholly owned by Bode Holding, a company established in the PRC with its entire equity interest being held by Mr. Jin Guojun during the Reporting Period until such equity interest was transferred by Mr. Jin to his sister and a PRC company owned by his sister and her husband in January 2020. Therefore, Deshipu New Materials was an associate of Mr. Jin and hence a connected person of our Company.

Date of the agreement	:	19 March 2019
Buyer	:	Zhejiang Bonny
Seller	:	Deshipu New Materials
Goods	:	Polyamide
Term	:	Listing Date to 31 December 2021 or the date on which Deshipu New Materials ceases to be a connected person, whichever comes earlier

The transactions under the Framework Purchasing Agreement enable Zhejiang Bonny to obtain the necessary raw materials for production at the prevailing market price which shall not be higher than the price that the Group can purchase the similar products from independent third parties.

Subject to the Framework Purchasing Agreement, Zhejiang Bonny would enter into specific agreements ("**Procurement Agreements**") or place purchase orders with Deshipu New Materials for the procurement of polyamide. As set out in the section headed "Continuing Connected Transactions — Non-Exempt Continuing Connected Transaction" in the Prospectus, the Company has set the maximum annual amount in respect of the transactions under the Framework Purchasing Agreement (the "**Annual Caps**") for each of the three years ended/ending 31 December 2019, 2020 and 2021 at RMB30 million.

The Company has, pursuant to Rule 14A.105 of the Listing Rules, applied for and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules subject to the condition that the aggregate value of the Framework Purchasing Agreement stated above for each financial year does not exceed the relevant Annual Caps.

Exceeding the Annual Caps in the Reporting Period

As disclosed in the announcement of the Company dated 11 May 2020, during the four months ended 30 April 2020, 19 Procurements Agreements were entered with an aggregate purchase price of approximately RMB81.0 million, and Zhejiang Bonny prepaid approximately RMB80.9 million upon the signing of the Procurement Agreements. 10 of these Procurement Agreements with an aggregate amount of approximately RMB60.1 million were subsequently cancelled and approximately RMB56.0 million were refunded, whereas the remaining amount of approximately RMB4.0 million will be used to offset payment for purchase of polyamide from Deshipu New Materials. The total purchase of polyamide from Deshipu New Materials was approximately RMB17.4 million (including VAT) for the four months ended 30 April 2020 and up to the date of the said announcement. For the year ended 31 December 2020, the total purchase of polyamide from Deshipu New Materials was approximately RMB20.1 million (including VAT).

Saved from disclosed above, during the Reporting Period, the Company did not enter into any Procurements Agreements.

Opinion from the independent non-executive Directors on the non-exempt continuing connected transaction

Save for the Procurement Agreements and the prepayments made thereunder that could have resulted in the exceeding of the Annual Caps had they not been cancelled, which was not in accordance with the relevant agreements governing such transactions, the independent non-executive Directors have reviewed the connected transactions of the executed Procurement Agreements in respect of the purchase of raw materials between Zhejiang Bonny and Deshipu New Materials amounting to approximately RMB20.1 million (including VAT) for the year ended 31 December 2020 and confirmed that this connected transaction has been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company has received a letter from its auditor containing their finding and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules, which the Directors concur. Having taken into account that (i) the Procurement Agreements were not approved by the Directors; and (ii) the aggregate amount of the Procurement Agreement exceeded the Annual Caps, which was not in accordance with the relevant agreements governing such transactions, the auditor has expressed a qualified conclusion that (i) the continuing connected transactions have not been approved by the Board; (ii) the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iii) the continuing connected transactions have exceeded the relevant annual cap. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Details of related party transactions of the Group during the Reporting Period which constitute exempt connected transactions under Chapter 14A of the Listing Rules (save and except transactions under the Framework Purchasing Agreement discussed above which constitute continuing connected transaction) are set out in note 34 to the consolidated financial statements in this annual report. Save as disclosed in the notes to the consolidated financial statements, the Group has not entered into any connected transaction or continuing connected transaction during the Reporting Period which should be disclosed pursuant to the requirements under the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Revenue	**Purchases**
The largest customer	30%	N/A
The five largest customers in aggregate	54%	N/A
The largest supplier	N/A	9%
The five largest suppliers in aggregate	N/A	25%

Save for Deshipu New Materials, which was our largest supplier for the Reporting Period, none of our Directors or their respective associates or any shareholder (whom to the knowledge of our Directors owns more than 5% of the issued shares) had any interest in any of our five largest suppliers and our five largest customers during the Reporting Period. For further details of the transactions between our Group and Deshipu New Materials, please refer to section headed "Continuing Connected Transactions" in the Prospectus.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

PERMITTED INDEMNITY PROVISION

The Articles provides that every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur by the execution of his/her duty, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors liability insurance in respect of legal action against any Directors.

TAX RELIEF

The Directors are not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

PROFESSIONAL TAX ADVICE

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by Ernst & Young. A resolution to re-appoint the retiring auditors, Ernst & Young, is to be proposed at the forthcoming annual general meeting of the Company. The Company has not changed its external auditor in the past three years.

ON BEHALF OF THE BOARD

Jin Guojun
Chairman

Zhejiang, PRC, 31 March 2021

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Bonny International Holding Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Bonny International Holding Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 86 to 174, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for trade receivables and other receivables	
As at 31 December 2020, the net carrying amount of the Group's trade receivables amounted to approximately RMB70,781,000, after netting off a loss allowance for impairment of RMB7,546,000 which represented 10.7% of the Group's total assets. The Group applies the simplified approach in calculating the expected credit losses ("**ECLs**") for trade receivables. As at 31 December 2020, the net carrying amount of the Group's other receivables amounted to approximately RMB5,870,000, after netting off a loss allowance for impairment of RMB12,624,000, which were individually assessed as default. Management performed periodic assessments on the recoverability of the trade receivables and other receivables and the sufficiency of provision for impairment, based on reasonable and supportable information such as the credit profile of different groups of customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, on-going trading relationships with the relevant customers, financial position and credit information of other debtors. Management also considered forward-looking information in performing the impairment assessment. The measurement of ECLs involves significant judgement and estimates, including the consideration of historical and forward-looking information. The accounting policies and disclosures for trade receivables and other receivables are included in notes 2.4, 3, 19 and 20 to the consolidated financial statements.	Our audit procedures included but not limited to the following: • We gained an understanding of and evaluated the key controls that the Group has implemented to manage and monitor the credit risk of its debtors; • We tested the ageing of the trade receivables, on a sample basis, as at 31 December 2020 and subsequent settlements to bank receipts; • We inquired of management about the on-going business relationship with the customers as debtors based on the trade records; • We assessed the financial information of the debtors individually assessed by management as default; and • We examined the key inputs and assumptions applied in the ECL model, including historical and forward-looking information.

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2020, the Group's net carrying value of inventories amounted to RMB168,772,000, after netting of a provision of impairment of RMB12,211,000, which represented 25.6% of the Group's total assets. The Group's inventories are carried at the lower of cost and net realisable value which requires management's significant estimation of the net realisable value of the inventories based on the historical experience, current market condition, customer demands and fashion trends, expected selling prices, estimated costs to sell and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. The accounting policies and disclosures for inventories are included in notes 2.4, 3 and 18 to the consolidated financial statements.	Our audit procedures included but not limited to the following: • We gained an understanding of and evaluated the key controls that the Group has implemented to identify slow-moving and obsolete inventories; • We observed the inventory count performed by management, undertook our own test counts on a sample basis and assessed the physical condition of inventories at the balance sheet date; • We assessed, on a sample basis, the ageing of inventories by checking the inventory receipt notes; • We tested the computation of the obsolescence level based on the mechanisms and other parameters applied in the Group's inventory provision policy; • We assessed the subsequent or expected selling prices and estimated costs to sell by reviewing the historical costs incurred; and • We inquired of management of the current and future fashion trends and potential market condition and checked the subsequent consumptions.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment	
As at 31 December 2020, the Group had property, plant and equipment for the face mask business of RMB19,360,000, before netting of an impairment provision of RMB13,505,000. Due to the decline of the face mask price and orders, management performed impairment assessment by comparing the carrying amount of the cash-generating unit ("**CGU**") of face mask with the recoverable amount which is the higher of the value in use and the fair value less costs of disposal and determined the provision for individual assets. During the year ended 31 December 2020, a provision for impairment of RMB13,505,000 was recorded which is determined based on fair value less costs of disposal evaluated by an external valuer. Significant judgement was involved in the assessment of the recoverable amount of the CGU, including the evaluation of replacement value of machines by using the quoted price and estimating transportation and installation fees and the rate of newness by considering physical deterioration. The accounting policies and disclosures for inventories are included in notes 2.4, 3 and 13 to the consolidated financial statements.	Our audit procedures included but not limited to the following: • We discussed with management to understand management's process for identifying impairment indicators, and considered management's assessment of impairment; • We assessed the reasonableness of the identification and allocation of the CGU; • We evaluated the objectivity, competence and capabilities of the external specialists engaged and reviewed their valuation reports, including the reasonableness of the key assumptions used in determining the fair value of the property, plant and equipment; • We involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology and the reasonableness of certain key assumptions used in the valuation; and • We also reviewed the related disclosures in the financial statements.

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2021

Consolidated Statements of Profit or Loss

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**287,809**	284,449
Cost of sales		**(170,093)**	(182,310)
Gross profit		**117,716**	102,139
Other income and gains	5	**76,099**	14,436
Selling and distribution expenses		**(48,534)**	(59,768)
Administrative expenses		**(27,226)**	(38,494)
Impairment losses on financial assets, net		**(15,229)**	(1,347)
Other expenses		**(37,698)**	(18,799)
Finance costs	7	**(10,686)**	(13,886)
PROFIT/(LOSS) BEFORE TAX	6	**54,442**	(15,719)
Income tax (expense)/credit	10	**(6,168)**	3,357
PROFIT/(LOSS) FOR THE YEAR		**48,274**	(12,362)
Attributable to:			
Owners of the parent		**48,281**	(12,199)
Non-controlling interests		**(7)**	(163)
		48,274	(12,362)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF PARENT	12		
Basic and diluted		**RMB4.0 cents**	RMB(1.1 cents)

Consolidated Statements of Comprehensive Income

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**48,274**	(12,362)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation from functional currency to presentation currency	**12,298**	(5,005)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation from functional currency to presentation currency	**(12,655)**	5,759
Gains on property revaluation	**—**	193
Income tax effect	**—**	(29)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(12,655)**	5,923
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(357)**	918
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**47,917**	(11,444)
Attributable to:		
Owners of the parent	**47,924**	(11,281)
Non-controlling interests	**(7)**	(163)
	47,917	(11,444)

Consolidated Statements of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**222,679**	172,176
Advance payments for property, plant and equipment		**18,178**	22,617
Investment properties	14	**—**	46,510
Right-of-use assets	15	**25,566**	40,028
Intangible assets	16	**937**	1,174
Deferred tax assets	27	**—**	2,418
Other non-current assets		**5,170**	5,170
Total non-current assets		**272,530**	290,093
CURRENT ASSETS			
Inventories	18	**168,772**	136,053
Trade receivables	19	**70,781**	88,776
Prepayments, other receivables and other assets	20	**28,446**	34,782
Assets held for sale	17	**59,503**	—
Financial assets at fair value through profit or loss	21	**—**	1,321
Due from related parties	34(c)	**8,710**	375
Pledged deposits	22	**1,542**	9,629
Cash and cash equivalents	22	**48,259**	59,165
Total current assets		**386,013**	330,101
CURRENT LIABILITIES			
Trade and bills payables	23	**34,986**	43,676
Advances from customers, other payables and accruals	24	**147,325**	43,369
Interest-bearing bank and other borrowings	25	**124,152**	232,397
Due to related parties	34(c)	**—**	232
Tax payable		**1,080**	1,035
Provision	26	**—**	267
Total current liabilities		**307,543**	320,976

	Notes	2020 RMB'000	2019 RMB'000
NET CURRENT ASSETS		**78,470**	9,125
TOTAL ASSETS LESS CURRENT LIABILITIES		**351,000**	299,218
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**366**	1,388
Provision	26	**927**	—
Deferred tax liabilities	27	**3,980**	—
Total non-current liabilities		**5,273**	1,388
Net assets		**345,727**	297,830
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	**80,827**	80,827
Share premium	28	**205,242**	205,242
Other reserves	29	**58,578**	10,997
		344,647	297,066
Non-controlling interests		**1,080**	764
Total equity		**345,727**	297,830

Consolidated Statements of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Asset revaluation reserve*# RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	400	147,602	(41,769)	14,976	8,585	15,970	24,516	170,280	927	171,207
Loss for the year	—	—	—	—	—	—	(12,199)	(12,199)	(163)	(12,362)
Other comprehensive income for the year:										
Gains on property revaluation, net of tax	—	—	—	—	—	164	—	164	—	164
Exchange differences on translation from functional currency to presentation currency	—	—	—	—	754	—	—	754	—	754
Total comprehensive income for the year	—	—	—	—	754	164	(12,199)	(11,281)	(163)	(11,444)
Issue of shares *(note 28)*	20,257	129,481	—	—	—	—	—	149,738	—	149,738
Share issue expenses	—	(11,671)	—	—	—	—	—	(11,671)	—	(11,671)
Share premium converted into ordinary shares	60,170	(60,170)	—	—	—	—	—	—	—	—
At 31 December 2019	80,827	205,242	(41,769)	14,976	9,339	16,134	12,317	297,066	764	297,830

	Attributable to owners of the parent									
	Share capital RMB'000	**Share premium RMB'000**	**Capital reserve* RMB'000**	**Statutory surplus reserve* RMB'000**	**Exchange fluctuation reserve* RMB'000**	**Asset revaluation reserve*# RMB'000**	**Retained profits* RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 31 December 2019 and 1 January 2020	**80,827**	**205,242**	**(41,769)**	**14,976**	**9,339**	**16,134**	**12,317**	**297,066**	**764**	**297,830**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**48,281**	**48,281**	**(7)**	**48,274**
Other comprehensive income for the year:										
Exchange differences on translation from functional currency to presentation currency	**–**	**–**	**–**	**–**	**(357)**	**–**	**–**	**(357)**	**–**	**(357)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(357)**	**–**	**48,281**	**47,924**	**(7)**	**47,917**
Acquisition of non-controlling interests	**–**	**–**	**(343)**	**–**	**–**	**–**	**–**	**(343)**	**323**	**(20)**
Transfer to statutory surplus reserve	**–**	**–**	**–**	**4,682**	**–**	**–**	**(4,682)**	**–**	**–**	**–**
At 31 December 2020	**80,827**	**205,242**	**(42,112)**	**19,658**	**8,982**	**16,134**	**55,916**	**344,647**	**1,080**	**345,727**

* These reserve accounts comprise the consolidated other reserves of RMB58,578,000 (2019: RMB10,997,000) in the consolidated statement of financial position.

The asset revaluation reserve arose from a change in use from owner-occupied properties to investment properties.

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**54,442**	(15,719)
Adjustments for:			
Loss on disposal of items of property, plant and equipment	6	**79**	36
Gain on government acquisition	6	**(65,677)**	—
Covid-19-related rent concessions from lessors		**(95)**	—
Gain on derecognition of right-of-use assets		**(79)**	—
Finance costs	7	**10,686**	13,886
Interest income		**(374)**	(1,885)
Depreciation	13	**15,198**	12,546
Changes in fair value of investment properties	14	**(1,620)**	(3,328)
Depreciation of right-of-use assets	15	**4,789**	4,042
Amortisation of intangible assets	16	**654**	731
Impairment of inventories	18	**2,988**	3,934
Impairment of trade receivables and other receivables		**15,229**	1,347
Impairment of prepayments		**2,504**	—
Impairment of property, plant and equipment	13	**13,505**	—
Foreign exchange differences, net		**(247)**	720
		51,982	16,310
Increase in inventories		**(35,707)**	(7,168)
Decrease in trade receivables		**15,391**	3,571
Decrease/(increase) in prepayments, other receivables and other assets		**4,308**	(16,599)
Decrease in pledged deposits		**8,087**	7,247
Increase in amounts due from related parties		**(6,076)**	(9,075)
Decrease in trade and bills payables		**(8,690)**	(12,819)
Increase in other payables and accruals		**25,649**	1,468
(Decrease)/increase in amounts due to related parties		**(2,117)**	2,071
Cash generated from/(used in) operations		**52,827**	(14,994)
Income tax received/(paid)		**200**	(2,258)
Net cash flows from/(used in) operating activities		**53,027**	(17,252)

	Notes	2020 RMB'000	2019 RMB'000
Net cash flows from/(used in) operating activities		**53,027**	(17,252)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(94,173)**	(66,757)
Proceeds from government acquisition	5(b)	**150,172**	—
Proceeds from disposal of property, plant and equipment		**531**	254
Additions to other intangible assets		**(417)**	(141)
Purchase of financial assets at fair value through profit or loss		**—**	(1,321)
Repayment of loans from related parties		**—**	13,292
Proceeds from derecognition of financial assets at fair value through profit or loss		**1,321**	—
Net cash flows from/(used in) investing activities		**57,434**	(54,673)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	149,738
Underwriting fee		**—**	(4,478)
New bank loans		**475,850**	556,901
Repayment of bank loans		**(579,300)**	(576,414)
Principal portion of lease payments		**(7,312)**	(6,215)
Interest paid		**(10,480)**	(13,914)
Net cash flows (used in)/from financing activities		**(121,242)**	105,618
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(10,781)**	33,693
Cash and cash equivalents at beginning of year		**59,165**	25,438
Effect of foreign exchange rate changes, net		**(125)**	34
CASH AND CASH EQUIVALENTS AT END OF YEAR		**48,259**	59,165
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**48,259**	59,165

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated with limited liability in the Cayman Islands on 19 July 2017. The registered office address of the Company is 4th Floor Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Group was principally involved in the manufacture and sale of brassieres, functional sportswear, panties and thermal underwear in the People's Republic of China (the "**PRC**"). In the opinion of the directors, the ultimate controlling shareholder of the Group is Mr. Jin Guojun.

On 26 April 2019, the Company achieved a successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Hong Kong Bonny Ltd. ("**Bonny HK**")	Hong Kong 4 September 2017	HKD10 thousand	100	—	Investment holding and trading of brassieres, panties and thermal underwear
Zhejiang Bonny Fashion Holding Group Co., Ltd. ("**Zhejiang Bonny**")*	PRC/ Mainland China 21 August 2001	RMB218 million	—	100	Manufacture and trading of brassieres, panties, thermal underwear and functional sportswear
Shanghai Bonny Apparel Co., Ltd. ("**Shanghai Bonny**")*	PRC/ Mainland China 29 December 2007	RMB1 million	—	100	Trading of brassieres, panties and thermal underwear
Yiwu Bonny E-Commerce Co., Ltd. ("**Yiwu Bonny**")*	PRC/ Mainland China 16 May 2016	RMB12 million	—	70	Trading of brassieres, panties and thermal underwear
Yiwu Leyishang Apparel Co., Ltd. ("**Yiwu Leyishang**")*	PRC/ Mainland China 10 March 2016	RMB6 million	—	100	Trading of brassieres, panties and thermal underwear
Zhejiang Bonny Protective Equipment Co., Ltd. ("**Bonny Protective**")*/#	PRC/ Mainland China 25 May 2017	RMB1 million	—	100	Trading of brassieres, panties and thermal underwear
Yiwu Fayue Apparel Co., Ltd. ("**Yiwu Fayue**")*	PRC/ Mainland China 26 May 2017	RMB1 million	—	100	Trading of brassieres, panties and thermal underwear
Hunan Bonny Apparel Co., Ltd. ("**Hunan Bonny**")*	PRC/ Mainland China 4 June 2019	RMB2 million	—	100	Manufacture of brassieres, panties and thermal underwear
Bonny USA Ltd. (Bonny USA)**	USA/ New York 15 May 2019	N/A	—	100	Trading of brassieres, panties and thermal underwear

* These entities are limited liability enterprises established under PRC law.

** The entity is a limited liability enterprise established under USA law.

\# Bonny Protective was renamed from Yiwu Bonny Sportswear Co., Ltd. on 28 April, 2020.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value. Assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRS are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities.

Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$95,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

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

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

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

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK (IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK (IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Renminbi ("**RMB**") based on the People's Bank of China Offered Rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its investment properties and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates or estimated useful life used for this purpose are as follows:

Buildings	$3^1/_3$%
Machinery and equipment	10%
Motor vehicles	20%
Computer and office equipment	10% to 20%
Leasehold improvements	Over the shorter of the lease terms and 2 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents, licences and trademarks

Purchased patents, licences and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Machinery and equipment	10 years
Retail shops and offices	Over the lease terms

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of operating leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to operating leases that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Transfer of the asset is a sale

The Group applies the requirements for determining when a performance obligation is satisfied in HKFRS 15 to determine whether the transfer of an asset (government acquisition, note 5) is accounted for as a sale of that asset.

If the transfer of an asset by the seller—lessee satisfies the requirements of HKFRS 15 to be accounted for as a sale of the asset:

(a) the seller—lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(b) the buyer—lessor shall account for the purchase of the asset applying applicable standards, and for the lease applying the lessor accounting requirements in this standard.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the related parties and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods

The Group is mainly engaged in the sale of products of face mask, brassieres, panties and thermal underwear via distributors, partnership, a chain of concessionary counters and retail stores and over third-party online retail platforms such as Tmall.com. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods or upon confirmation of receipt of the goods.

Some contracts for the sale of goods provide customers with rights of return. The rights of return give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

The Group participates in the national pension scheme as defined by the laws of the countries in which it has operations.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB, which is the presentation currency of the Group. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the Hong Kong dollar ("**HKD**") and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Property lease classification — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The Group specifically assesses debtor's credit and financial position to calculate ECLs for other receivables.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and other receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in note 19 and note 20 to the financial statements, respectively.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2020, the provision for impairment of property, plant and equipment amounted to RMB13,505,000 (2019: Nil).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2020 was RMB1,503,000 (2019: RMB3,237,000). The amount of unrecognised tax losses at 31 December 2020 was RMB19,488,000 (2019: RMB19,417,000). Further details are contained in note 27 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimation of fair value of investment properties

Investment properties carried at fair value, were revalued at the end of each reporting period based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

The principal assumptions for the Group's estimation of the fair value include those related to estimated rental values with reference to the current market rents for similar properties in the same location and condition, appropriate capitalisation rates and expected profit margin. The carrying amount of investment properties transferred to property, plant and equipment at 31 December 2020 was RMB48,130,000 (notes 13 and 14).

Impairment of inventories

The Group manufactures and sells goods and is subject to changing consumer demands and fashion trends. As a result, it is necessary to consider the recoverability of the cost of inventories and the associated provision required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated sales of finished goods and future usage of raw materials.

Provision

An obligation related to a contingency shall be recognised by the Group as a provision when all of the following conditions are satisfied, except for contingent considerations and contingent liabilities assumed in a business combination not involving entities under common control: (i) the obligation is a present obligation of the Group; (ii) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money as a whole. Provisions are reviewed at the end of each reporting period. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate. The carrying value of the provision at 31 December 2020 was RMB927,000 (2019: RMB267,000). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has two reportable segments as follows:

(a) the brand products segment engages in the manufacture and sale of ladies' brassieres, panties, thermal underwear with the Bonny brand for the domestic market; and

(b) the Original Design Manufacture ("**ODM**") products segment engages in the manufacture and sale of seamless underwear or other ODM products for overseas customers or their agents.

The Group's chief operating decision maker is the Chief Executive Officer of the Company, who reviews revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment result is evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2020	**ODM products** *RMB'000*	**Brand products** *RMB'000*	**Total** *RMB'000*
Segment revenue *(note 5)*			
Sales to external customers	232,582	55,227	287,809
Segment results	79,372	(10,190)	69,182
Other income and gains			76,099
Corporate and other unallocated expenses			(80,153)
Finance costs			(10,686)
Profit before tax			54,442

Year ended 31 December 2020	**ODM products** *RMB'000*	**Brand products** *RMB'000*	**Total** *RMB'000*
Other segment information			
Impairment losses recognised in the statement of profit or loss, net	18,193	2,528	20,721
Depreciation and amortisation	16,171	3,837	20,008
Capital expenditure*	93,973	200	94,173

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2019	ODM products *RMB'000*	Brand products *RMB'000*	Total *RMB'000*
Segment revenue *(note 5)*			
Sales to external customers	201,324	83,125	284,449
Segment results	46,508	(4,137)	42,371
Other income and gains			14,436
Corporate and other unallocated expenses			(58,640)
Finance costs			(13,886)
Loss before tax			(15,719)

Year ended 31 December 2019	ODM products *RMB'000*	Brand products *RMB'000*	Total *RMB'000*
Other segment information			
Impairment losses recognised in the statement of profit or loss, net	463	4,818	5,281
Depreciation and amortisation	10,148	6,538	16,686
Capital expenditure*	56,968	6,044	63,012

* Capital expenditure consists of additions to property, plant and equipment.

Geographic information

(a) *Revenue from external customers*

	2020 ***RMB'000***	2019 *RMB'000*
Mainland China	**190,140**	167,993
United States of America	**56,953**	39,156
Germany	**15,997**	31,524
Japan	**5,858**	17,014
Canada	**1,718**	6,258
Netherlands	**261**	3,966
Other countries	**16,882**	18,538
	287,809	284,449

The revenue information above is based on the shipment destinations.

(b) *Non-current assets*

All non-current assets of the Group are located in China.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2020 RMB'000	2019 RMB'000
Customer 1	N/A*	30,080
Customer 2	87,133	N/A*
Customer 3	N/A*	65,020
Customer 4	39,346	47,378
	126,479	142,478

* The corresponding revenue of the customers is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the reporting period.

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	287,809	284,449

5. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(a) Disaggregated of revenue information

	2020 RMB'000	2019 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	287,809	284,449

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020 RMB'000	2019 RMB'000
Sale of goods	6,092	5,366

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

The performance obligations are satisfied upon delivery, which occurs when the goods are shipped on aboard to the overseas ODM customers, or when the goods are accepted by the PRC ODM customers, franchised outlets or by the consumers in self-operated stores and counters and E-commerce platforms, the risks of obsolescence and loss have been transferred to the customers, and acceptance by the customers occurs. Acceptance refers to either of the situations that customers accept the goods in accordance with the sales contract or the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

The payments are generally due within one to nine months from delivery while some contracts with ODM customers are settled by letters of credit and some contracts require advances as deposits to transfer goods.

Some customers from branded sales are entitled to loyalty points which results in allocation of a portion of the transaction price to the loyalty points. Revenue is recognised when the points are redeemed. Some customers from branded sales are provided with a right of return usually in seven or fifteen days. The right of return assets and refund liabilities arising from rights of return as at the end of each reporting period was insignificant and no right of return assets and refund liabilities were recognised.

At 31 December 2020, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

An analysis of revenue, other income and gains is as follows:

	Note	2020 RMB'000	2019 RMB'000
Other income			
Bank interest income		188	273
Other interest income		986	1,885
Government grants (a)		6,240	6,158
Gross rental income from investment property operating leases		243	1,820
Others		975	212
		8,632	10,348
Gains			
Gain on Government Acquisition (b)		65,677	—
Foreign exchange gains, net		170	760
Fair value gains on investment property	14	1,620	3,328
		67,467	4,088
		76,099	14,436

(a) The government grants mainly represent incentives awarded by the local governments to support the Group's operation in Yiwu City, the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

(b) Zhejiang Bonny entered into the Disposal Agreement of Land and Building ("**the Disposal Agreement**") with the People' Government of Suxi, Yiwu, Zhejinag Province, the PRC ("**the Local Government**") and Yiwu Fotang Town Industrial Asset Management Co., Ltd. ("**Yiwu Fotang**") on 31 December 2020, pursuant to which Zhejiang Bonny sold a parcel of land of approximately 40,000 square metres situated at 168 Haopai Road, Suxi, the PRC ("**the Land**") with the carrying amount of RMB3,518,000 (note 15) together with the buildings to the Local Government ("**the Government Acquisition**") for an aggregate compensation of RMB163,719,000 to be settled by cash. As at 31 December 2020, the Group has received RMB150,172,000 from the Local Government, and the remaining RMB13,547,000 will be paid after the completion of relocation.

As at 31 December 2020, Zhejiang Bonny has completed the cancellation of ownership of the Land, and the ownership of the Land has been transferred to the government, the gain on the disposal of the Land with RMB65,677,000 was recognised. Since the relocation of the factory has not been completed, the buildings and other fixed assets with the carrying amount of RMB59,503,000 (note 17) were transferred to assets held for sale and the relevant receipt from the government with RMB80,977,000 was recognised as deferred revenue (note 24).

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold*		**170,093**	182,310
Depreciation of property, plant and equipment	*13*	**15,198**	12,546
Depreciation of right-of-use assets	*15*	**4,789**	4,042
Amortisation of intangible assets	*16*	**654**	731
Research and development costs**		**20,707**	18,496
Lease payments not included in the measurement of lease liabilities	*15(c)*	**761**	1,621
Government grants		**(6,240)**	(6,158)
Listing expense		**—**	11,042
Auditors' remuneration		**2,064**	1,550
Outsourced manufacturers		**37,825**	31,441
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		**42,254**	47,818
Pension scheme contributions		**2,774**	3,494
Staff welfare expenses		**425**	680
		45,453	51,992
Concession fees		**8,235**	11,290
Foreign exchange differences, net		**(170)**	(760)
Impairment of inventories, net	*18*	**2,988**	3,934
Impairment of trade receivables, net	*19*	**2,605**	1,347
Impairment of other receivables and prepayments	*20*	**15,128**	—
Impairment of property, plant and equipment	*13*	**13,505**	—
Changes in fair value of investment properties	*14*	**(1,620)**	(3,328)
Rental income		**(243)**	(1,820)
Bank interest income		**(188)**	(273)
Other interest income		**(986)**	(1,885)
Gain on Government Acquisition *(note 5)*		**(65,677)**	—
Loss on disposal of items of property, plant and equipment		**79**	36

* The cost of inventories sold includes RMB33,915,000 (2019: RMB25,587,000) relating to staff cost, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets, impairment of inventories for the year ended 31 December 2020, which are also included in the respective total amounts disclosed above for each type of expenses.

** The research and development costs include RMB9,587,000 (2019: RMB9,633,000) relating to staff cost, depreciation of property, plant and equipment, and amortisation of intangible assets for the year ended 31 December 2020, which are also included in the respective total amounts disclosed above for each type of expenses.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	**10,317**	12,901
Interest on lease liabilities	**369**	985
	10,686	13,886

8. DIRECTORS' AND EXECUTIVE's REMUNERATION

Directors' and executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	**253**	188
Other emoluments:		
Salaries, allowances and benefits in kind	**756**	377
Performance related bonuses	**—**	213
Pension scheme contributions	**10**	23
	766	613
	1,019	801

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. Li Youxing	**60**	60
Mr. Zhang Senquan*	**53**	83
Mr. Chan Yin Tsung**	**80**	—
Mr. Wang Jian	**60**	45
	253	188

* Mr. Zhang Senquan has resigned as an independent non-executive director of the Company with effect from 19 June 2020.

** Mr. Chan Yin Tsung has been appointed as an independent non-executive director of the Company with effect from 1 July 2020.

8. DIRECTORS' AND EXECUTIVE's REMUNERATION (Continued)

(b) Executive directors and non-executive directors

2020	**Salaries, allowances and benefits in kind** *RMB'000*	**Performance related bonuses** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total remuneration** *RMB'000*
Executive directors:				
Mr. Jin Guojun	**232**	**—**	**6**	**238**
Mr. Zhao Hui	**328**	**—**	**—**	**328**
	560	**—**	**6**	**566**
Non-executive directors:				
Ms. Gong Lijin	**179**	**—**	**4**	**183**
Ms. Huang Jingyi#	**17**	**—**	**—**	**17**
Mr. Luo Weixing#	**—**	**—**	**—**	**—**
	196	**—**	**4**	**200**
	756	**—**	**10**	**766**

2019	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors:				
Mr. Jin Guojun	120	—	10	130
Mr. Zhao Hui	137	213	3	353
	257	213	13	483
Non-executive directors:				
Ms. Gong Lijin	120	—	10	130
Mr. Luo Weixing	—	—	—	—
	120	—	10	130
	377	213	23	613

Mr. Luo Weixing has resigned as a non-executive director of the Company and Ms. Huang Jingyi has been appointed as a non-executive director of the Company with effect from 1 November 2020.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one executive director (2019: one executive director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,504	1,026
Performance related bonuses	—	180
Pension scheme contributions	5	32
	2,509	1,238

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK$1,000,000	3	4
HK$1,500,001 to HK$2,000,000	1	—
	4	4

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The subsidiary of the Group is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: Nil) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

10. INCOME TAX (Continued)

Zhejiang Bonny is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15% (2019: 15%) during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

The income tax expense of the Group is analysed as follows:

	2020 RMB'000	2019 RMB'000
Current — Mainland China		
Charge for the year	25	—
Overprovision in prior years	(255)	—
Deferred *(note 27)*	6,398	(3,357)
Total tax charge/(credit) for the year	6,168	(3,357)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2020 RMB'000	%	2019 RMB'000	%
Profit/(loss) before tax	54,442		(15,719)	
Tax at the statutory tax rate	13,611	25.0	(3,929)	25.0
Preferential income tax rate applicable to a subsidiary	(5,514)	(10.1)	424	(2.7)
Additional deductible allowance for research and development expenses	(2,250)	(4.1)	(1,985)	12.6
Income not subject to tax	(145)	(0.3)	—	—
Expenses not deductible for tax	58	0.1	30	(0.2)
Adjustments in respect of current tax of previous periods	(255)	(0.5)	—	—
Tax losses utilised from previous periods	(143)	(0.3)	—	—
Tax losses not recognised	806	1.5	2,103	(13.4)
Tax charge/(credit) at the Group's effective rate	6,168	11.3	(3,357)	21.3

11. DIVIDENDS

No dividend was declared and paid by the Company during the reporting period.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,200,000,000 (2019: 211,479,452 shares issued during the year and 894,000,000 shares, which were deemed to have been converted from share premium throughout the year ended 31 December 2019) in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculation of basic earnings per share is based on:

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**48,281**	(12,199)

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year	**1,200,000,000**	211,479,452
Effect of conversion of share premium	**—**	894,000,000
	1,200,000,000	1,105,479,452

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Computer and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2020							
At 1 January 2020:							
Cost	113,786	13,341	132,570	2,535	12,044	56,858	331,134
Accumulated depreciation	(32,528)	(9,611)	(106,046)	(1,328)	(9,445)	—	(158,958)
Net carrying amount	81,258	3,730	26,524	1,207	2,599	56,858	172,176
At 1 January 2020, net of accumulated depreciation	81,258	3,730	26,524	1,207	2,599	56,858	172,176
Additions	—	1,295	19,251	—	471	62,334	83,351
Transfer from investment properties *(note 14)*	48,130	—	—	—	—	—	48,130
Transfer from right-of-use assets *(note 15)*	—	—	7,839	—	—	—	7,839
Transfer to assets held for sale *(note 17)*	(58,754)	—	(79)	—	(670)	—	(59,503)
Transfers	109,471	—	337	—	—	(109,808)	—
Disposals	—	—	(440)	(71)	(99)	—	(610)
Depreciation provided during the year	(6,111)	(3,333)	(5,000)	(254)	(500)	—	(15,198)
Impairment *(note 6)*	—	—	(13,505)	—	—	—	(13,505)
Exchange realignment	—	(1)	—	—	—	—	(1)
At 31 December 2020, net of accumulated depreciation and impairment	173,994	1,691	34,927	882	1,801	9,384	222,679
At 31 December 2020:							
Cost	179,485	14,627	160,672	1,633	7,141	9,384	372,942
Accumulated depreciation	(5,491)	(12,936)	(112,240)	(751)	(5,340)	—	(136,758)
Impairment	—	—	(13,505)	—	—	—	(13,505)
Net carrying amount	173,994	1,691	34,927	882	1,801	9,384	222,679

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019 (restated):							
Cost	114,048	9,367	127,069	2,333	11,906	6,871	271,594
Accumulated depreciation	(29,349)	(5,972)	(101,176)	(1,726)	(9,428)	—	(147,651)
Net carrying amount	84,699	3,395	25,893	607	2,478	6,871	123,943
At 31 December 2018, net of accumulated depreciation	84,699	3,395	35,445	607	2,478	6,871	133,495
Effect of adoption of HKFRS 16	—	—	(9,552)	—	—	—	(9,552)
At 1 January 2019 (restated)	84,699	3,395	25,893	607	2,478	6,871	123,943
Additions	—	3,974	5,675	983	689	49,987	61,308
Disposals	—	—	(27)	(196)	(67)	—	(290)
Transfer to investment properties *(note 14)*	(239)	—	—	—	—	—	(239)
Depreciation provided during the year	(3,202)	(3,639)	(5,017)	(187)	(501)	—	(12,546)
At 31 December 2019, net of accumulated depreciation	81,258	3,730	26,524	1,207	2,599	56,858	172,176
At 31 December 2019:							
Cost	113,786	13,341	132,570	2,535	12,044	56,858	331,134
Accumulated depreciation	(32,528)	(9,611)	(106,046)	(1,328)	(9,445)	—	(158,958)
Net carrying amount	81,258	3,730	26,524	1,207	2,599	56,858	172,176

At 31 December 2020, certain of the Group's buildings and machinery and equipment with a net carrying amount of approximately RMB106,121,000 (2019: RMB49,220,000) were pledged to secure general banking facilities granted to the Group (note 25).

At 31 December 2020, certain of the Group's machinery and equipment with a net carrying amount of RMB17,586,000 (2019: Nil) were pledged to secure the property preservation applied by A Barcs & Co. Nominees Pty. Ltd. ("**BARCS**") who has a legal arbitration of contract dispute with the Group.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As the decline of face mask price and orders, the Group performed impairment test for the face mask cash-generating unit ("**CGU**"), which consists of machines and allocated part of plants. The recoverable amount of the face mask CGU was determined as the fair value less costs of disposal based on valuation performed by an external professional valuer using the market approach. Among the assets of the face mask CGU, the recoverable amount of certain machines was RMB4,101,000, which was lower than their carrying amount of RMB17,606,000 and therefore the provision for impairment of RMB13,505,000 was made for those face mask machines.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy the Group's face mask machines:

As at 31 December 2020	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Recurring fair value measurement for:				
Face mask machines	—	—	7,694	7,694

14. INVESTMENT PROPERTIES

	2020 *RMB'000*	2019 *RMB'000*
Carrying amount at 1 January	46,510	42,750
Transfer from property, plant and equipment *(note 13)*	—	239
Gains on revaluation upon reclassification to an investment property	—	193
Net gain from a fair value adjustment recognised in profit or loss	1,620	3,328
Transfer to property, plant and equipment *(note 13)*	(48,130)	—
Carrying amount at 31 December	—	46,510

The Group's investment properties consist of industrial properties in Mainland China. The Group's investment properties were transferred to property, plant and equipment as own-occupied property on 31 December 2020 and the fair value amounted to RMB48,130,000 was based on valuations performed by AVISTA Valuation Advisory Limited ("**AVISTA**"), an independent firm of professionally qualified valuers.

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2019	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Recurring fair value measurement for:				
Industrial properties	—	—	46,510	46,510

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2020:

	Valuation techniques	Significant unobservable inputs	Range or weighted average
Industrial properties	**Income method**	**Prevailing market rent**	**RMB16–RMB35 per square metre per month**
		Term yield	**8.0%**
		Reversionary yield	**8.5%**

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

As at 31 December 2019:

	Valuation techniques	Significant unobservable inputs	Range or weighted average
Industrial properties	Income method	Prevailing market rent	RMB15–RMB18 per square metre per month
		Term yield	8.5%
		Reversionary yield	8.5%

The income method measures the value of the properties by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates.

A significant increase (decrease) in the estimated rental value would result in a significant increase (decrease) in the fair value of the investment property. A significant increase (decrease) in the long-term vacancy rate and the capitalisation rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of retail shops and office properties generally have lease terms between 1 and 3 years. Other operating leases generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

15. LEASES (Continued)

The Group as a lessee (Continued)

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land *RMB'000*	Machinery and equipment *RMB'000*	Retail shop and office properties *RMB'000*	Total *RMB'000*
As at 1 January 2019	27,788	9,552	3,465	40,805
Additions	—	—	3,265	3,265
Depreciation charge	(633)	(857)	(2,552)	(4,042)
As at 31 December 2019 and 1 January 2020	27,155	8,695	4,178	40,028
Additions	—	—	2,371	2,371
Depreciation charge	(633)	(856)	(3,300)	(4,789)
Transfer to property, plant and equipment *(note 13)*	—	(7,839)	—	(7,839)
Government Acquisition *(note 5)*	(3,518)	—	—	(3,518)
Derecognition	—	—	(641)	(641)
Exchange realignment	—	—	(46)	(46)
As at 31 December 2020	23,004	—	2,562	25,566

At 31 December 2020, the Group's leasehold lands with a net carrying amount of RMB21,740,000 (2019: RMB27,155,000) were pledged to secure general banking facilities granted to the Group (note 25).

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The maturity analysis of lease liabilities is disclosed in note 25 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	369	985
Depreciation charge of right-of-use assets	4,789	4,042
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	761	1,621
Covid-19-related rent concessions from lessors	(95)	—
Gain on derecognition of right-of-use assets	(79)	—
Exchange realignment	(61)	—
Total amount recognised in profit or loss	5,684	6,648

The Group as a lessor

The Group leases its investment properties (note 14) consisting of industrial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB243,000 (2019: RMB1,820,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	—	894

16. INTANGIBLE ASSETS

	Trademarks RMB'000	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2020				
Cost at 1 January 2020, net of accumulated amortisation	44	212	918	1,174
Addition	—	—	417	417
Amortisation provided during the year	(15)	(58)	(581)	(654)
At 31 December 2020	29	154	754	937
At 31 December 2020:				
Cost	252	580	6,487	7,319
Accumulated amortisation	(223)	(426)	(5,733)	(6,382)
Net carrying amount	29	154	754	937

	Trademarks RMB'000	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	59	270	1,435	1,764
Addition	—	—	141	141
Amortisation provided during the year	(15)	(58)	(658)	(731)
At 31 December 2019	44	212	918	1,174
At 31 December 2019:				
Cost	252	580	6,070	6,902
Accumulated amortisation	(208)	(368)	(5,152)	(5,728)
Net carrying amount	44	212	918	1,174

16. INTANGIBLE ASSETS (Continued)

At 31 December 2020, certain of the Group's trademarks with a net carrying amount of RMB11,000 (2019: Nil) were pledged to secure general banking facilities granted to the Group (note 25).

17. ASSETS HELD FOR SALE

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Total RMB'000
Transferred from property, plant and equipment and as at 31 December 2020 *(note 13)*	58,754	79	670	59,503

Zhejiang Bonny entered into the Disposal Agreement with the Local Government and Yiwu Fotang on 31 December 2020, pursuant to which Zhejiang Bonny sold the Land together with the buildings to the Local Government for an aggregate compensation of RMB163,719,000 to be settled by cash. Since the relocation of the factory has not been completed, the buildings and other fixed assets with the carrying amount of RMB59,503,000 were transferred to assets held for sale. For further details, please refer to note 5.

18. INVENTORIES

	2020 ***RMB'000***	2019 *RMB'000*
Raw materials	**30,109**	14,586
Work in progress	**23,210**	14,536
Finished goods	**127,664**	116,154
	180,983	145,276
Impairment	**(12,211)**	(9,223)
	168,772	136,053

18. INVENTORIES (Continued)

The movements in provision for impairment of inventories are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**9,223**	5,289
Impairment losses recognised, net	**2,988**	3,934
At end of year	**12,211**	9,223

19. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**78,327**	93,718
Impairment	**(7,546)**	(4,942)
	70,781	88,776

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to nine months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Within 3 months	**37,769**	64,830
3 to 6 months	**4,309**	15,561
6 to 12 months	**9,648**	2,575
1 to 2 years	**18,973**	5,597
2 to 3 years	**82**	213
	70,781	88,776

The movements in loss allowance for impairment of trade receivables are as follows:

	2020 *RMB'000*	2019 *RMB'000*
At beginning of year	**4,942**	3,595
Impairment losses, net	**2,605**	1,347
Exchange realignment	**(1)**	—
At end of year	**7,546**	4,942

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The Group has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Group classifies the trade receivables into three groups according to the credit risk characteristics. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate.

19. TRADE RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	As at 31 December 2020		
	Amount *RMB'000*	Expected credit loss rate	Impairment *RMB'000*
ODM customers and E-commerce platform			
Within 1 year	36,412	0.30%	111
1 to 2 years	3,589	4.28%	154
2 to 3 years	60	56.10%	34
Over 3 years	62	100.00%	62
Self-operated stores and counters and franchised outlets			
Within 1 year	10,747	4.40%	473
1 to 2 years	1,291	62.70%	809
2 to 3 years	275	83.60%	230
Over 3 years	1,588	100.00%	1,588
Others			
Within 1 year	5,328	3.30%	177
1 to 2 years	18,519	18.70%	3,463
2 to 3 years	73	85.80%	62
Over 3 years	224	100.00%	224
	78,168		7,387
Individually identified as high expected credit loss rate while the ageing is less than three years	159	100.00%	159
	78,327		7,546

19. TRADE RECEIVABLES (Continued)

	As at 31 December 2019		
	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
ODM customers and E-commerce platform			
Within 1 year	50,510	0.05%	25
1 to 2 years	787	0.05%	—
2 to 3 years	123	0.05%	—
Over 3 years	—	100.00%	—
Self-operated stores and counters and franchised outlets			
Within 1 year	11,004	4.00%	440
1 to 2 years	1,115	55.00%	613
2 to 3 years	297	82.00%	244
Over 3 years	1,908	100.00%	1,908
Others			
Within 1 year	22,366	2.00%	448
1 to 2 years	4,952	13.00%	644
2 to 3 years	230	84.00%	194
Over 3 years	426	100.00%	426
	93,718		4,942

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments	**12,642**	25,970
Prepaid expenses	**12,438**	3,201
Deposits and other receivables	**18,494**	5,567
Tax recoverable	**—**	44
	43,574	34,782
Impairment losses recognised:		
Prepayments	**(2,504)**	—
Deposits and other receivables	**(12,624)**	—
	28,446	34,782

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The movement in the loss allowance for impairment of prepayments and other receivables is as follows:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**—**	—
Impairment losses recognised	**15,128**	—
At end of year	**15,128**	—

During the year ended 31 December 2020, due to the delay in delivery of face mask machines and decline in the purchase price, the Group requested the suppliers to refund the advance payment and credit losses allowance of RMB12,624,000 were recorded for those suppliers with poor financial position and credit history. Provisions for prepayments of raw materials of RMB2,504,000 were recorded due to the decline of face mask orders.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**—**	1,321

The above unlisted investments were financing products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

At 31 December 2020, unlisted investments with a fair value of Nil (2019: RMB1,321,000) were pledged for bills payable (note 23).

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2020 RMB'000	2019 RMB'000
Cash and bank balances		**48,259**	59,165
Time deposits		**1,542**	9,629
		49,801	68,794
Less:			
Pledged for bills payable	*23*	**(488)**	(9,629)
Frozen deposits*		**(1,054)**	—
Cash and cash equivalents		**48,259**	59,165
Denominated in RMB		**46,893**	56,645
Denominated in United States dollars ("**USD**")		**1,285**	629
Denominated in Hong Kong dollars ("**HKD**")		**81**	1,891
Cash and cash equivalents		**48,259**	59,165

* The Group's deposits with a net carrying amount of RMB1,054,000 (2019: Nil) were frozen to secure the property preservation applied by E&B Trading Company Limited who has a legal dispute with a subsidiary of the Group which has been disclosed in note 31(c).

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	**34,498**	24,357
Bills payables	**488**	19,319
	34,986	43,676

As at 31 December 2020, the bills payables were secured by the pledge of the Group's deposits of RMB488,000 (2019: RMB9,629,000) (note 22) and unlisted investments with a fair value of nil (2019: RMB1,321,000) (note 21).

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	**17,214**	28,725
3 to 6 months	**8,515**	14,397
6 to 12 months	**7,832**	364
Over 12 months	**1,425**	190
	34,986	43,676

Trade payables are non-interest-bearing and are normally settled on terms of one to six months.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Deferred revenue *(note 5)*		**80,977**	—
Contract liabilities		**11,790**	6,092
Advances from a customer		**15,947**	—
Payroll payables		**3,630**	7,448
Tax payable other than income tax		**9,923**	9,133
Accruals		**559**	602
Payable for property, plant and equipment and other intangible assets	*(a)*	**9,774**	5,657
Interest payable		**570**	364
Other payables	*(b)*	**14,155**	14,073
		147,325	43,369

24. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers			
Sale of goods	**11,790**	6,092	5,366

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The amount was included in "Other payables and accruals" in the consolidated statement of financial position. As at 31 December 2020, no contract liabilities were resulted from the loyalty points programme (2019: Nil).

The changes in the contract liabilities are mainly attributable to the short-term advances received to transfer goods to customers and satisfaction of performance obligations.

(b) Other payables are non-interest-bearing and repayable on demand.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities *(note 15(b))*	**4.75**	**2021**	**2,502**	4.75-10.67	2020	7,297
Bank loans — secured	**4.15-5.20**	**2021**	**121,650**	4.79-6.96	2020	225,100
			124,152			232,397
Non-current						
Lease liabilities *(note 15(b))*	**4.75**	**2022**	**366**	4.75	2021	1,388
			124,518			233,785

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**121,650**	225,100
Other borrowings repayable:		
Within one year	**2,502**	7,297
In the second year	**366**	1,388
	2,868	8,685
	124,518	233,785

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) the Group's buildings and equipment situated in Mainland China, which had a net carrying value of RMB106,121,000 as at 31 December 2020 (2019: RMB49,220,000) (note 13);

(ii) the Group's leasehold land situated in Mainland China, which had a net carrying value of RMB21,740,000 as at 31 December 2020 (2019: RMB27,155,000) (note 15); and

(iii) the Group's trademarks, which had a net carrying value of RMB11,000 as at 31 December 2020 (2019: Nil) (note 16).

(b) Bode Holding Group Co., Ltd. ("**Bode Holding**"), an entity controlled by the ultimate controlling shareholder's sister, has guaranteed certain of the Group's bank loans of up to RMB83,100,000 as at 31 December 2020 (2019: RMB83,100,000).

(c) Mr. Jin Guojun, the Chairman, has guaranteed certain of the Group's bank loans of up to RMB316,020,000 as at 31 December 2020 (2019: RMB203,000,000).

(d) Ms. Gong Lijin, a shareholder and the wife of the Chairman, has guaranteed certain of the Group's bank loans of up to RMB316,020,000 as at 31 December 2020 (2019: RMB203,000,000).

(e) Mr. Jin Guojun and Ms. Gong Lijin have guaranteed certain of the Group's bank loans of up to RMB117,100,000 as at 31 December 2020 (2019: RMB117,100,000).

(f) Ms. Jin Xiaohong, a shareholder of the Company, has guaranteed certain of the Group's bank loans of Nil as at 31 December 2020 (2019: RMB13,000,000).

(g) Zhejiang Yitong Textile Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of Nil as at 31 December 2020 (2019: RMB13,000,000).

(h) Mr. Ren Chengxiu and Ms. Jin Qiumei, independent third parties, have guaranteed certain of the Group's bank loans of up to RMB8,700,000 as at 31 December 2020 (2019: RMB17,040,000).

(i) Zhejiang Aolai Textile Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of up to RMB8,700,000 as at 31 December 2020 (2019: RMB17,040,000).

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(j) Yiwu Furuiduo Ecological Technology Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of up to RMB33,040,000 as at 31 December 2020 (2019: RMB33,040,000).

(k) Zhejiang Deshipu New Material Technology Co., Ltd. ("**Deshipu New Material**"), an entity controlled by the ultimate controlling shareholder's sister has guaranteed certain of the Group's bank loans of Nil as at 31 December 2020 (2019: RMB30,000,000).

26. PROVISION

	Legal arbitration *RMB'000*
At 1 January 2020	267
Additional provision	927
Amounts utilised during the year	(200)
Reversal of unutilised amounts	(67)
Non-current portion	927

A provision for legal claim of RMB927,000 was recognised at 31 December 2020 (2019: RMB267,000). The claim is subject to legal arbitration and is not expected to be finalised by the end of 2021.

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	2020					
	Impairment of financial assets *RMB'000*	**Impairment of inventories and fixed assets** *RMB'000*	**Accruals** *RMB'000*	**Lease liabilities** *RMB'000*	**Loss available for offsetting against future taxable profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2020	**738**	**1,383**	**527**	**627**	**3,237**	**6,512**
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)*	**2,646**	**2,475**	**264**	**(197)**	**(1,734)**	**3,454**
Gross deferred tax assets as at 31 December 2020	**3,384**	**3,858**	**791**	**430**	**1,503**	**9,966**

	2019					
	Impairment of trade receivables *RMB'000*	Impairment of inventories *RMB'000*	Accruals *RMB'000*	Lease liabilities *RMB'000*	Loss available for offsetting against future taxable profits *RMB'000*	Total *RMB'000*
At 31 December 2018	519	793	716	—	—	2,028
Effect of adoption of HKFRS 16	—	—	—	473	—	473
At 1 January 2019 (restated)	519	793	716	473	—	2,501
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)*	219	590	(189)	154	3,237	4,011
Gross deferred tax assets as at 31 December 2019	738	1,383	527	627	3,237	6,512

27. DEFERRED TAX (Continued)

Deferred tax liabilities

	2020			
	Right-of-use assets *RMB'000*	Government Acquisition *RMB'000*	Revaluation of investment properties *RMB'000*	Total *RMB'000*
At 1 January 2020	627	—	3,467	4,094
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)*	(243)	9,852	243	9,852
Gross deferred tax liabilities at 31 December 2020	384	9,852	3,710	13,946

	2019		
	Right-of-use assets *RMB'000*	Revaluation of investment properties *RMB'000*	Total *RMB'000*
At 31 December 2018	—	2,938	2,938
Effect of adoption of HKFRS 16	473	—	473
At 1 January 2019 (restated)	473	2,938	3,411
Deferred tax charged to the statement of profit or loss during the year *(note 10)*	154	500	654
Deferred tax charged to the statement of comprehensive income during the year	—	29	29
Gross deferred tax liabilities at 31 December 2019	627	3,467	4,094

27. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Net deferred tax (liabilities)/assets recognised in the consolidated statement of financial position	**(3,980)**	2,418

The Group had tax losses arising in Mainland China of RMB26,366,000 (2019: RMB35,513,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. And the Group has tax losses arising in Hong Kong of RMB766,000 (2019: RMB1,618,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the following item:

	2020 **RMB'000**	2019 RMB'000
Tax losses	**19,488**	19,417

The above tax losses will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

28. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Issued and fully paid:		
1,200,000,000 (2019: 1,200,000,000) ordinary shares	**80,827**	80,827

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000
At 1 January 2019	6,000,000	400	147,602
Initial public offering	300,000,000	20,257	129,481
Share premium converted into ordinary shares	894,000,000	60,170	(60,170)
	1,194,000,000	80,427	69,311
Share issue expenses	—	—	(11,671)
At 31 December 2019 and 31 December 2020	1,200,000,000	80,827	205,242

In connection with the Company's initial public offering, 300,000,000 ordinary shares of USD0.01 each were issued at a price of HK$0.58 per share for a total cash consideration, before expenses, of approximately HK$174,000,000 (equivalent to RMB149,738,000). Dealings in these shares on the Stock Exchange commenced on 26 April 2019.

On 26 April 2019, share premium amounting to HK$70,125,000 (equivalent to RMB60,170,000) was converted into 894,000,000 ordinary shares at USD0.01 each.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 12 to 13 of the financial statements.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising pursuant to the business combination. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

Asset revaluation reserve

The asset revaluation reserve arises from a change in use from an owner-occupied property to an investment property measured at fair value.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to right-of-use assets of RMB2,371,000 (2019: RMB3,265,000) and non-cash additions to lease liabilities of RMB2,371,000 (2019: RMB3,265,000) for the year ended 31 December 2020, in respect of lease arrangements.

During the year, the Group endorsed bills receivable of RMB2,200,000 from Deshipu New Material to the independent third-party suppliers (2019: RMB7,252,000).

(b) Changes in liabilities arising from financing activities

2020

	Bank and other loans *RMB'000*	**Lease liabilities** *RMB'000*	**Interest payable** *RMB'000*
At 1 January 2020	**225,100**	**8,685**	**364**
Changes from financing cash flows	**(103,450)**	**(7,681)**	**(10,111)**
New leases	**—**	**2,371**	**—**
Interest expense	**—**	**369**	**10,317**
Derecognition of right-of-use assets	**—**	**(719)**	**—**
Lease payment concession from lessors	**—**	**(95)**	**—**
Exchange realignment	**—**	**(62)**	**—**
At 31 December 2020	**121,650**	**2,868**	**570**

2019

	Bank and other loans *RMB'000*	Lease liabilities *RMB'000*	Interest payable *RMB'000*
At 31 December 2018	244,613	8,480	392
Effect of adoption of HKFRS 16	—	3,155	—
At 1 January 2019 (restated)	244,613	11,635	392
Changes from financing cash flows	(19,513)	(7,200)	(12,929)
New leases	—	3,265	—
Interest expense	—	985	12,901
At 31 December 2019	225,100	8,685	364

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within operating activities	**761**	1,507
Within financing activities	**7,681**	7,200
	8,442	8,707

31. CONTINGENT LIABILITIES

As at 31 December 2020, the Group has contingent liabilities due to the following lawsuits:

(a) A subsidiary of the Group is currently a defendant in a lawsuit brought by BARCS that the subsidiary breached a contract to deliver face masks and BARCS asked the subsidiary to pay the interest of advance payments and the losses generated from transportation, warehousing and delayed delivery amounting to AUD3,100,000 and USD48,000, respectively. The directors, based on the advice from the Group's legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs. Besides, the Group also sued BARCS and asked to continue to carry out the contract.

(b) A subsidiary of the Group is currently a defendant in a lawsuit brought by Shanghai Yuli Import & Export Co., Ltd. ("**Yuli**") that the subsidiary breached a contract to outsource Yuli to produce face masks. Yuli claimed for the return of prepayment in the amount of RMB240,000 plus interest thereon, as well as for the termination of the contract and legal costs. The directors, based on the advice from the Group's legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

(c) A subsidiary of the Group is in a lawsuit brought by E&B Trading Co., Ltd ("**E&B**") that the subsidiary breached a procurement contract pursuant to which E&B procured face masks from the subsidiary. E&B claimed for RMB1,360,000, which is two times of the deposit paid by E&B, as well as the termination of the contract and legal costs. Based on the advice from the external legal counsel in the PRC, the directors believe that E&B defaulted the contract at the beginning, thus, the subsidiary has not provided for any claim arising from the litigation, other than the related legal and other costs.

At 31 December 2019, the Group had no significant contingent liabilities.

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group’s bank loans, for legal arbitration of contract dispute, and for bills payables granted to major suppliers are included in notes 13, 15, 16, 23 and 25, respectively, to the financial statements.

33. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020	2019
	RMB’000	*RMB’000*
Contracted, but not provided for:		
Buildings	**93,831**	16,949
Plant and machinery	**—**	5,121
	93,831	22,070

34. RELATED PARTY TRANSACTIONS

The Group’s principal related parties are as follows:

Name	Relationship with the Company
Bode Holding*	An entity controlled by the ultimate controlling shareholder’s sister
Deshipu New Material**	An entity controlled by the ultimate controlling shareholder’s sister
Zhejiang Deshipu Polyamide Technology Co., Ltd. (“**Deshipu Polyamide**”)	An entity controlled by the ultimate controlling shareholder’s sister
Ms. Jin Xiaohong	A shareholder of the Company
Mr. Jin Guojun	Chairman, and a director
Ms. Gong Lijin	Shareholder and wife of the Chairman, and a director

* Renamed from Bonny Holding Co., Ltd.

** Renamed from Zhejiang Bonny Nylon Technology Co., Ltd.

34. RELATED PARTY TRANSACTIONS (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2020 RMB'000	2019 RMB'000
Loans granted to:			
Bode Holding	(iii)	**433**	—
Prepayments to:			
Deshipu New Material	(ii)	**80,875**	169,873
Interest income from:			
Deshipu New Material	(i)	**374**	1,885
Purchase of materials from:			
Deshipu New Material	(iv)	**17,773**	6,343
Sales of products to:			
Deshipu New Material	(iv)	**418**	57
Bode Holding	(iv)	**179**	—
Deshipu Polyamide	(iv)	**—**	332
		597	389

Notes:

(i) The loans granted to Deshipu New Material in prior years were unsecured, repayable on demand and have interest at the corresponding bank borrowing rate.

(ii) The Group entered into procurement agreements with Deshipu New Material with an amount of RMB81,030,000 (2019: RMB177,609,000). Pursuant to the terms and conditions of the procurement agreements, the Group prepaid RMB80,875,000 (2019: RMB169,873,000) upon the signing of the procurement agreements. Part of the procurement agreements were subsequently cancelled, and Deshipu New Material refunded the amount of RMB60,000,000 (2019: RMB164,640,000) accordingly and the remaining amounts were treated as payments for the goods purchased. The number of days from the date of a procurement agreement to the receipt of the refund ranged from 0 to 110 days with a weighted average of 53 days. Deshipu New Material agreed to pay interest of RMB374,000 (2019: RMB1,885,000) during the period between the payment date of the prepayment and the date of refund at the corresponding bank borrowing rate.

(iii) The loans granted to Bode Holding are unsecured, non-interest-bearing and repayable on demand.

(iv) The purchases of materials from the related parties and sales of products to the related parties were made according to the published prices and conditions offered by the related parties to their major customers, respectively.

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

(i) Bode Holding, an entity controlled by the ultimate controlling shareholder's sister, has guaranteed certain of the Group's bank loans of up to RMB83,100,000 as at 31 December 2020 (2019: RMB83,100,000).

(ii) Mr. Jin Guojun, the Chairman, has guaranteed certain of the Group's bank loans of up to RMB316,020,000 as at 31 December 2020 (2019: RMB203,000,000).

(iii) Ms. Gong Lijin, a shareholder and the wife of the Chairman, has guaranteed certain of the Group's bank loans of up to RMB316,020,000 as at 31 December 2020 (2019: RMB203,000,000).

(iv) Mr. Jin Guojun and Ms. Gong Lijin have guaranteed certain of the Group's bank loans of up to RMB117,100,000 as at 31 December 2020 (2019: RMB117,100,000).

(v) Ms. Jin Xiaohong, a shareholder of the Company, has guaranteed certain of the Group's bank loans of Nil as at 31 December 2020 (2019: RMB13,000,000).

(vi) Deshipu New Material, an entity controlled by the ultimate controlling shareholder's sister, has guaranteed certain of the Group's bank loans of Nil as at 31 December 2020 (2019: RMB30,000,000).

(c) Outstanding balances with related parties:

	2020 **RMB'000**	2019 RMB'000
Due from related parties		
Deshipu New Material	**8,437**	—
Trade (i)	**6,178**	—
Non-trade (ii)	**2,259**	—
Deshipu Polyamide *(i)*	**—**	375
Bode Holding *(ii)*	**273**	—
	8,710	375
Due to related parties		
Deshipu New Material *(i)*	**—**	141
Trade (i)	**—**	2,026
Non-trade (ii)	**—**	(1,885)
Bode Holding *(ii)*	**—**	91
	—	232

34. RELATED PARTY TRANSACTIONS (Continued)

(c) (Continued)

The balances with related parties are unsecured, interest-free and repayable on demand.

(i) The balances with related parties above are trade in nature.

(ii) The balances with related parties above are non-trade in nature and represented interest receivables.

(d) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,113	1,403
Performance related bonuses	—	393
Pension scheme contributions	13	55
Total compensation paid to key management personnel	2,126	1,851

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	70,781
Financial assets included in prepayments, other receivables and other assets	5,870
Due from related parties	8,710
Pledged deposits	1,542
Cash and cash equivalents	48,259
	135,162

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020 (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**34,986**
Financial liabilities included in other payables and accruals	**25,058**
Interest-bearing bank and other borrowings	**124,518**
	184,562

2019

Financial assets

	Financial assets at fair value through profit or loss Mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade receivables	—	88,776	88,776
Financial assets included in prepayments, other receivables and other assets	—	5,567	5,567
Due from related parties	—	375	375
Financial assets at fair value through profit or loss	1,321	—	1,321
Pledged deposits	—	9,629	9,629
Cash and cash equivalents	—	59,165	59,165
	1,321	163,512	164,833

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2019 (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	43,676
Financial liabilities included in other payables and accruals	20,696
Interest-bearing bank and other borrowings	233,785
Due to related parties	232
	298,389

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals and amounts due from/to related parties, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2020 were assessed to be insignificant.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measuring using			
	Quoted price in active markets (level 1) *RMB'000*	Significant observable inputs (level 2) *RMB'000*	Significant unobservable inputs (level 3) *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss	—	1,321	—	1,321

The Group did not have any financial assets measured at fair value as at 31 December 2020.

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measuring using			
	Quoted price in active markets (level 1) *RMB'000*	Significant observable inputs (level 2) *RMB'000*	Significant unobservable inputs (level 3) *RMB'000*	Total *RMB'000*
Other borrowings (other than lease liabilities)	—	4,067	—	4,067

The Group did not have any financial liabilities disclosed at fair value as at 31 December 2020.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, finance leases, amounts due from the related parties, amounts due to the related parties, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no exposure to the risk of changes in market interest rates relates since all the Group's interest-bearing bank borrowings are with fixed interest rates as at 31 December 2020.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2020			
Renminbi	**100**	**—**	**—**
Renminbi	**(100)**	**—**	**—**
2019			
Renminbi	100	(305)	(259)
Renminbi	(100)	305	259

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 25% (2019: 46%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 1% (2019: 1%) of costs was denominated in the units' functional currencies. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in USD/HKD rate %	Increase/ (decrease) in profit/(loss) before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2020			
If RMB weakens against USD	**5**	**976**	**830**
If RMB strengthens against USD	**(5)**	**(976)**	**(830)**
If RMB weakens against HKD	**5**	**3**	**3**
If RMB strengthens against HKD	**(5)**	**(3)**	**(3)**
2019			
If RMB weakens against USD	5	643	547
If RMB strengthens against USD	(5)	(643)	(547)
If RMB weakens against HKD	5	95	81
If RMB strengthens against HKD	(5)	(95)	(81)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade receivables*	—	—	—	78,327	78,327
Financial assets included in prepayments, other receivables and other assets					
— Normal**	5,870	—	—	—	5,870
— Doubtful**	—	—	12,624	—	12,624
Due from related parties	8,710	—	—	—	8,710
Pledged deposits					
— Not yet past due	1,542	—	—	—	1,542
Cash and cash equivalents					
— Not yet past due	48,259	—	—	—	48,259
	64,381	—	12,624	78,327	155,332

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	—	—	—	93,718	93,718
Financial assets included in prepayments, other receivables and other assets					
— Normal**	5,567	—	—	—	5,567
Due from related parties	375	—	—	—	375
Pledged deposits					
— Not yet past due	9,629	—	—	—	9,629
Cash and cash equivalents					
— Not yet past due	59,165	—	—	—	59,165
	74,736	—	—	93,718	168,454

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, and lease liabilities.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2020					
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	—	688	1,853	372	—	2,913
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	2,059	121,925	—	—	123,984
Trade and bills payables	17,772	17,214	—	—	—	34,986
Other payables	10,022	15,036	—	—	—	25,058
	27,794	34,997	123,778	372	—	186,941

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group (Continued)

	2019					
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	—	2,065	5,507	1,423	—	8,995
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	73,109	156,357	—	—	229,466
Trade and bills payables	1,982	35,344	6,350	—	—	43,676
Other payables	8,939	11,757	—	—	—	20,696
Due to related parties	—	232	—	—	—	232
	10,921	122,507	168,214	1,423	—	303,065

Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, and certain other payables and accruals, amounts due to related parties, less cash and cash equivalents, and pledged time deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2020 ***RMB'000***	31 December 2019 *RMB'000*
Interest-bearing bank and other borrowings	**124,518**	233,785
Due to related parties	**—**	232
Trade and bills payables	**34,986**	43,676
Other payables and accruals excluding deferred revenue	**66,348**	43,369
Less: Cash and cash equivalents	**(48,259)**	(59,165)
Pledged time deposits	**(1,542)**	(9,629)
Net debt	**176,051**	252,268
Equity attributable to owners of the parent	**344,647**	297,066
Total capital and net debt	**520,698**	549,334
Gearing ratio	**34%**	46%

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS		
Right-of-use assets	588	1,627
Investment in a subsidiary	8	8
Total non-current assets	596	1,635
CURRENT ASSETS		
Cash and cash equivalents	19	1,658
Prepayments, other receivables and other assets	491	573
Due from a subsidiary	290,583	296,659
Total current assets	291,093	298,890
CURRENT LIABILITIES		
Lease liabilities	871	1,110
Other payables and accruals	795	19
Due to a subsidiary	12,366	7,896
Due to a related party	385	410
Total current liabilities	14,417	9,435
NET CURRENT ASSETS	276,676	289,455
TOTAL ASSETS LESS CURRENT LIABILITIES	277,272	291,090
NON-CURRENT LIABILITIES		
Lease liabilities	—	613
Net assets	277,272	290,477
EQUITY		
Share capital	80,827	80,827
Share premium	205,242	205,242
Other reserves *(note)*	(8,797)	4,408
Total equity	277,272	290,477

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Exchange fluctuation reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2019	472	(419)	53
Loss for the year	—	(1,404)	(1,404)
Exchange differences on translation from functional currency to presentation currency	5,759	—	5,759
At 31 December 2019 and 1 January 2020	6,231	(1,823)	4,408
Loss for the year	—	(550)	(550)
Exchange differences on translation from functional currency to presentation currency	(12,655)	—	(12,655)
At 31 December 2020	(6,424)	(2,373)	(8,797)

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

A summary of the results of the assets and liabilities of the Group for the last five financial years is set out below:

	2016 *RMB'000*	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*	**2020** ***RMB'000***
NON-CURRENT ASSETS					
Property, plant and equipment	162,344	141,158	133,495	172,176	**222,679**
Advance payments for property, plant and equipment	1,207	1,127	19,675	22,617	**18,178**
Investment properties	—	18,262	42,750	46,510	**—**
Right-of-use assets	—	—	—	40,028	**25,566**
Prepaid land lease payments	28,421	27,788	27,155	—	**—**
Intangible assets	3,095	2,277	1,764	1,174	**937**
Deferred tax assets	2,532	1,791	—	2,418	**—**
Other non-current assets	5,170	5,170	5,170	5,170	**5,170**
Total non-current assets	202,769	197,573	230,009	290,093	**272,530**
CURRENT ASSETS					
Inventories	136,634	113,119	132,819	136,053	**168,772**
Trade receivables	67,424	96,325	93,694	88,776	**70,781**
Prepayments, other receivables and other assets	8,600	23,163	26,319	34,782	**28,446**
Financial assets at fair value through profit or loss	—	—	—	1,321	**59,503**
Due from a director	—	300	—	—	**—**
Due from related parties	—	15,328	11,844	375	**8,710**
Time deposits with original maturity of over three months	1,000	—	—	—	**—**
Pledged deposits	16,615	13,598	16,876	9,629	**1,542**
Cash and cash equivalents	58,386	28,770	25,438	59,165	**48,259**
Total current assets	288,659	290,603	306,990	330,101	**386,013**
CURRENT LIABILITIES					
Trade and bills payables	51,634	57,666	63,747	43,676	**34,986**
Advances from customers, other payables and accruals	41,811	98,277	44,703	43,369	**147,325**
Interest-bearing bank and other borrowings	224,113	248,662	248,680	232,397	**124,152**
Due to related parties	10,261	100,895	46	232	**—**
Due to a director	—	2,311	—	—	**—**
Tax payable	3,850	2,462	3,293	1,035	**1,080**
Provision	—	—	—	267	**—**
Total current liabilities	331,669	510,273	360,469	320,976	**307,543**

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
NET CURRENT ASSETS/ (LIABILITIES)	(43,010)	(219,670)	(53,479)	9,125	**78,470**
TOTAL ASSETS LESS CURRENT LIABILITIES	159,759	(22,097)	176,530	299,218	**351,000**
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	—	—	4,413	1,388	**366**
Provision	—	—	—	—	**927**
Deferred tax liabilities	—	—	910	—	**3,980**
Total non-current liabilities	—	—	5,323	1,388	**5,273**
Net assets/(liabilities)	159,759	(22,097)	171,207	297,830	**345,727**
EQUITY					
Equit y attributable to owners of the parent					
Share capital	—	337	400	80,827	**80,827**
Share premium	—	—	147,602	205,242	**205,242**
Other reserves	158,531	(23,668)	22,278	10,997	**58,578**
	158,531	(23,331)	170,280	297,066	**344,647**
Non-controlling interests	1,228	1,234	927	764	**1,080**
Total equity/(deficit)	159,759	(22,097)	171,207	297,830	**345,727**