

LILANZ

LESS IS MORE



ANNUAL REPORT
2021

CHINA LILANG LIMITED
中國利郎有限公司

Stock Code: 1234



ABOUT **CHINA LILANG**

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources and manufactures high-quality business and casual apparel for men and sells under the LILANZ brand across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Dong Xing (*Chairman*)
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

BOARD COMMITTEES

Audit Committee

Mr. Nie Xing (*Chairman*)
Dr. Lu Hong Te
Mr. Lai Shixian

Remuneration Committee

Mr. Lai Shixian (*Chairman*)
Mr. Wang Cong Xing
Mr. Nie Xing

Nomination Committee

Mr. Wang Dong Xing (*Chairman*)
Dr. Lu Hong Te
Mr. Nie Xing

Risk Management Committee

Mr. Wang Dong Xing (*Chairman*)
Mr. Wang Cong Xing
Mr. Pan Rong Bin

COMPANY SECRETARY

Mr. Shum Chi Chung

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Mr. Shum Chi Chung

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3402
34th Floor, Lippo Centre
Tower One
No. 89 Queensway
Hong Kong

HEAD OFFICE IN THE PRC

Lilang Industrial Park
200 Chang Xing Road
Jinjiang City
Fujian Province
The PRC

SHARE REGISTRARS AND TRANSFER OFFICES

Suntera (Cayman) Limited

Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

KPMG, Certified Public Accountants
(*Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance*)

PRINCIPAL BANKERS

Industrial Bank Co. Ltd.
China Minsheng Bank Corp., Ltd.
Bank of China (Hong Kong) Limited

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2021 (RMB million)	2020 (RMB million)	Changes (%)
Revenue	3,379.5	2,680.8	+26.1
Gross profit	1,415.0	1,203.8	+17.5
Profit from operations	532.8	651.4	-18.2
Profit for the year	468.1	557.2	-16.0
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	39.09	46.53	-16.0
— Diluted	39.04	46.51	-16.1
Shareholders' equity per share	306.8	305.1	+0.6
Interim dividend per share	HK13 cents	HK12 cents	+8.3
Special interim dividend per share	HK5 cents	HK5 cents	0
Final dividend per share	HK11 cents	HK19 cents	-42.1
Special final dividend per share	HK5 cents	HK8 cents	-37.5
	(%)	(%)	(% points)
Gross profit margin	41.9	44.9	-3.0
Operating profit margin	15.8	24.3	-8.5
Net profit margin	13.9	20.8	-6.9
Return on average shareholders' equity ⁽¹⁾	12.8	15.4	-2.6
Effective tax rate	16.6	19.8	-3.2
Advertising and promotional expenses and renovation subsidies (as a percentage of revenue)	8.9	10.3	-1.4
	Year ended 31 December		Six months ended
	2021	2020	30 June 2021
Average inventory turnover days ⁽²⁾	145	168	208
Average trade receivables turnover days ⁽³⁾	57	101	69
Average trade payables turnover days ⁽⁴⁾	79	115	93

Notes:

- (1) Return on average shareholders' equity is equal to the profit for the year divided by the average of the beginning and closing balance of total shareholders' equity.
- (2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the year.
- (3) Average trade receivables turnover days is equal to the average of the beginning and closing trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by the number of days in the year.
- (4) Average trade payables turnover days is equal to the average of the beginning and closing trade and bills payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

Amid the challenging business environment, China Lilang actively adopted flexible marketing strategies and leveraged its strong sales management and inventory control capabilities to minimise the impact of the extreme weather conditions during the year. The Group achieved a satisfactory sales performance thanks to the reform of the sales model and the successful implementation of the channel optimisation, product rejuvenation and internet-plus strategies.





To all shareholders,

In 2021, the outbreak of the novel coronavirus ("COVID-19" or the "Pandemic") continued to rage around the world, with the emergence of new variants in the second half of the year affecting several provinces in the Mainland to varying degrees and slowing China's economic growth. At the same time, the slump in retail sales growth during the second half of the year, driven by the warm winter and resurgence of the Pandemic in certain regions of the country, also had an impact on the Mainland's apparel consumption market.

Amid this challenging business environment, China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries, the "Group") actively adopted flexible marketing strategies and leveraged its strong sales and inventory management capabilities to minimise the impact of the extreme weather conditions during the year. The Group achieved a satisfactory sales performance thanks to the reform of the sales model and the successful implementation of the channel optimisation, product rejuvenation and internet-plus strategies, coupled with the sale of inventory that

CHAIRMAN'S STATEMENT

had been repurchased in the previous year. During the year, the Group's total retail sales value exceeded expectations and recorded low double-digit growth. The implementation of strategic reforms enabled the Group to outperform its industry peers, with a healthier channel inventory and a stronger foundation for brand development.

For the year ended 31 December 2021, the Group's revenue increased by 26.1% year-on-year to RMB3,379.5 million. Net profit decreased by 16.0% year-on-year to RMB468.1 million, mainly attributable to the decision to cease development of professional sports footwear products and implement the plan to clear off-season inventory during the year, resulting in a provision of RMB122.2 million for product inventory. Earnings per share were RMB39.09 cents, a year-on-year decrease of 16.0%.

During the year, the Group maintained a healthy financial position with sufficient cash flows. The Board of Directors has resolved to pay a final dividend of HK11 cents (2020: HK19 cents) per share and a special final dividend of HK5 cents (2020: HK8 cents), thus maintaining a stable payout ratio throughout the year.

With retail consumption gradually recovering from the Pandemic and our successful inventory clearance efforts in the second half of the year, coupled with the improved financial liquidity of distributors compared with the interim period, and the faster turnover of trade receivables following the conversion of the smart casual collection and 40% of the core collection to the direct-to-retail model and consignment model respectively, the average trade receivables turnover days for the year and year-end trade receivables turnover days fell to 57 days and 46 days respectively.

During the year, the Group actively reformed its sales model by introducing a consignment model for the core collection. By the end of 2021, a total of 966 stores had been converted to franchise stores, representing approximately 40% of the total number of stores. Following the conversion, franchisees have real-time access to online warehouses and quick replenishment functions, which allows for more flexible product deployment and can reduce the pressure on franchisees to stock large quantities in stores. Thus, a healthy inventory level can be maintained in the long run to achieve higher store efficiency.

On the other hand, the smart casual collection stores and online stores were switched to a direct-to-retail model in 2020 and 2021, respectively. By the end of December 2021, the Group operated a total of 2,733 stores, including 290 smart casual collection direct-to-retail stores, a net increase of three stores.

The Group has also adopted a prudent store opening approach by strategically increasing the number of direct-to-retail stores, stores in shopping malls and outlet, as well as continuing to consolidate and develop its nationwide sales network through long-term partnerships with distributors to reach more customers across China.

The conversion of online stores to direct-to-retail stores has further enhanced the Group's control over its online business, strengthened the complementary advantages of online and offline services and created more room for business development. To alleviate the impact of reduced foot traffic at physical stores on retail stores and distributors amid the outbreak of the Pandemic, the Group stepped up efforts to develop the e-commerce business, with a particular focus on the development of stores in the WeChat Mall, which not only allows the stores to increase their virtual product display, but also avoid the pressure of physical storage space, thereby improving the sales efficiency of each store.

During the year, the Group's retail sales through online channels increased by about 20% to approximately RMB500 million, which was largely attributable to the off-season inventory clearance.

In order to pave the way for the reform, the Group reorganised its business priorities during the year. As the Group's previous strategic attempt to include professional sports footwear products did not provide satisfactory results and the turnover of certain products was slow, and considering that the Group's core competitiveness lies in leather footwear and leisure sports footwear products, the Group decided to cease development of professional sports footwear products and devise a plan to clear the existing inventory at reduced prices. Consequently, a one-off provision of RMB59.2 million was made during the year. The existing inventory will be cleared through various channels as soon as possible.

CHAIRMAN'S STATEMENT

On the brand promotion front, the Group adhered to the strategy of providing products that represent excellent value for money during the year, and increased the mark-up rates of certain products based on product design and market competitiveness. At the same time, the Group launched a series of brand promotion activities featuring its brand ambassador, Han Han. In addition, the Group introduced the slogan "Every fashionista is wearing Lilang (有顏有型有氣場 哥哥都在穿利郎)", which epitomises the concepts of "less is more" and "simple but not simple" as well as Lilang's brand style — young, confident and stylish, on Mango TV's variety show Call Me By Fire (《披荊斬棘的哥哥》).

The Group received several awards in recognition of its achievements during the year. For example, the "I Look Great with the World" commercial campaign launched in the fourth quarter of 2020 garnered the "Creative Communication Gold Case" prize at the 10th ADMEN International Awards (第十屆ADMEN國際大獎) and won the Gold Award at the 2021 IAI Awards (IAI傳鑒國際廣告獎). The Group also won the "2020-2021 Innovative and Advanced Retail Enterprise" honour at the "Golden Coordinates" Award Presentation Ceremony of Zhujiang Investment China Commercial Property.

Looking ahead to 2022, the Group is cautious about the economic environment in the first half of 2022 as the Pandemic remains volatile and the economic transformation of China continues. The rapid changes in both the Pandemic and the economic environment have given rise to additional challenges for apparel businesses, but also facilitated industry consolidation and presented a competitive environment in favour of competent enterprises. Nevertheless, once the uncertainty of the Pandemic situation and economic environment fades away, the sustainable and healthy development of China's economy will benefit from restored consumer confidence and a better release of retail consumption demand.

Through the implementation of its channel transformation, brand rejuvenation and internet-plus development, China Lilang has consolidated the Group's internal management and control over its channels; enhanced its ability to adapt to market changes and drive faster growth; and prepared itself for healthy development and differentiation among its industry peers in the coming years. The reforms implemented over the past two years have laid a more solid foundation for future long-term development, and the Group believes that the positive impact of these changes will be better reflected in the next few years.

China Lilang will continue to strengthen its sales network through the adoption of a prudent store

opening strategy. In terms of store openings, the Group is aiming for a net increase of approximately 50 to 150 stores for the next year, and plans to continue to open stores in quality shopping malls in provincial capitals and prefecture level cities, and will also increase store openings in suitable outlet malls as the usual channel for inventory clearance. The Group aims to grow its total retail sales for the year 2022 by no less than 10%.

China Lilang plans to continue to promote e-commerce development, with online development set to be an essential element of retail consumption in the long run. In order to balance the consumption characteristics of the menswear industry and satisfy the increasing demand for online shopping, the Group has further consolidated the integration of online and offline services, developed a unique model of "online shopping and offline delivery", which successfully drove sales among menswear brands, and continued to uphold the strategy of "providing products that represent excellent value for money". Following efforts to optimise supply chain management over the past few years, the Group's products now show cost advantages over those of its peers.

In addition to the aforementioned, to better prepare for logistics arrangements during the e-commerce peak seasons, Phase I of the new logistics centre is expected to commence operation before May 2022. The new logistics centre will be powered by an intelligent system, which is expected to facilitate the effective delivery of goods to stores and further enhance inventory management.

Although the Pandemic continued to create a stormy business environment in 2021, the Group's business remained resilient and was able to thrive thanks to the unwavering trust and support of its shareholders and customers, as well as the concerted efforts of our dedicated and conscientious colleagues, and for this I would like to express my sincere gratitude. In the long run, China Lilang will continue to focus on bringing stylish and cost-effective menswear to its customers. We believe that the unique design, originality and diversity of our products will enhance the competitiveness of our brand, further differentiate it from competitors and consolidate the Group's leading position in the menswear industry, thereby enabling the sustainable and long-term growth of the business and returns for the support of our shareholders, colleagues and customers.

Wang Dong Xing
Chairman

18 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

The global outbreak of new COVID-19 variants in 2021 and the spread of the viruses in various domestic regions during the second half of the year added further uncertainty to the economic recovery, although the impact was significantly less severe than that in 2020. According to the National Bureau of Statistics of China, the gross domestic product (GDP) in 2021 was RMB114.37 trillion, representing a year-on-year increase of 8.1%. Economic growth slowed in the second half of the year, with a moderate growth of 4.9% and 4.0% recorded in the third and fourth quarters, respectively. The annual total retail sales of consumer goods increased by 12.5% year-on-year, but the momentum has weakened starting from August with the growth rate dropped to an all-time low of 1.7% in December; among which a slight negative growth was seen in the retail sales of apparel, footwear, headwear

and knitwear in the month, reflecting the impact of the pandemic on overall consumption at the end of the year was limited.

In the face of a complex and volatile market environment, China Lilang strived to promote internal reform, realise channel transformation and rejuvenate product image. The Group also utilised “Internet Plus” – applying internet and information technology – in data analysis to better grasp sales opportunities in the front line and strengthen the Group’s product distribution capabilities in the back end.

The Group completed the conversion of its online stores into self-operated stores at the beginning of 2021, and 966 of the core collection stores were converted to the consignment model in the spring and summer seasons, enabling the parallel development of the three channels: direct-selling, consignment and distributor channels. In order to realise the complementary advantages of these sales channels, the Group successfully established an online warehouse to expand product display virtually, thus reducing the pressure of overstocking physically at the stores and enhancing store efficiency; at the same time to improve the logistics capabilities, thus promoting the complementary advantages of online and offline services to achieve sales growth.



MANAGEMENT DISCUSSION AND ANALYSIS

In response to the pandemic in the second half of the year, the Group prudently deferred its store opening programme. As a result, the total store count for the year fell short of the target set at the beginning of the year. As at the end of 2021, the Group had a total of 2,733 stores, representing a net year-on-year decrease of 28 stores, including a total of 290 self-operated stores for its smart casual collection.

The Group continued to adhere to its strategy of providing products that offer excellent value for money and increased the mark-up rates of certain products based on their design and market competitiveness in order to drive growth.

For the year ended 31 December 2021, the Group's revenue for the year increased by 26.1% year-on-year to RMB3,379.5 million. Net profit was RMB468.1 million, down by 16.0% year-on-year. Earnings per share were RMB39.09 cents, down by 16.0% year-on-year.

During the year, the Group maintained a healthy financial position with sufficient cash flow. The Board of Directors recommends the payment of a final dividend of HK11 cents per share and a special final dividend of HK5 cents per share, maintaining a stable payout ratio.

FINANCIAL REVIEW

Revenue

The Group's revenue for 2021 increased by 26.1% to RMB3,379.5 million, mainly reflecting the following factors:

The majority of the smart casual collection stores switched to a direct-to-sales model from consignment model since 1 July 2020, and sales were recognised at retail value. Hence sales were recognised at retail value for only about half of the year in 2020. The recognised sales value rose as retail value was higher than wholesale value.

The Group repurchased inventory from distributors due to the conversion of around 40% of core collection stores to the consignment model from the 2021 spring and summer seasons, the Group bought-back from these stores past-season inventories as at 28 February 2021, and an amount of RMB390.0 million was deducted from sales during 2020. During 2021, approximately 68% of the repurchased inventory was resold and a sales revenue of approximately RMB260.0 million was recognised.

Although sales in certain regions were affected by factors such as the pandemic and a warm winter in the second half of the year, the Group greatly mitigated sales pressure by utilising big data to proactively allocate inventory and promoting sales in response to market conditions.

Moreover, the conversion of certain retail stores of the core collection from the distributor model to the consignment model has delayed the timing of sales recognition, which also had an impact on revenue.

By product category, tops remained the major contributor to revenue, accounting for 62.4% (2020: 63.5%) of revenue for the year, with an 8.3% increase in sales before deducting repurchased inventory relative to 2020. Affected by the large-scale inventory clearance of large sports brands, the sales of footwear products decreased, resulting in a year-on-year decrease of 6.5% in the sales of accessories.

Revenue by Region

The total retail sales of LILANZ products increased by 15%-20% year-on-year during the year. Retail sales growth in the second half of the year was slower than the first half of the year in various regions, mainly due to the pandemic control measures implemented in various provinces and cities in the second half of the year in response to the sporadic outbreaks of COVID-19 variants. This coupled with the extreme weather conditions in some regions, including the devastating rainstorm, and a decline in GDP in the second half of the year, has led to varied impact on the sales performance of each region during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales growth was maintained in Eastern, South-Western and Northern China, with the most notable increase in Eastern China, which recorded an increase of 29.4% in sales during the year, primarily because more than half of the Group's smart casual collection stores being located in Eastern China and the corresponding sales were recognised at retail value in 2021, which added to the fact that direct selling online store sales were included in the region's accounts starting from 2021, which had a greater impact on the sales revenue in the region.

Sales in the South-Western China region increased by 10.1%, mainly reflecting the growth in the core collection business under distribution model. With the exception of Guizhou, the core collection business in that region continued to be operated under distributor model, and was therefore less affected by the delayed recognition of sales.

Sales in the Northern China region increased by 8.0%, mainly reflecting the impact of the recognition of sales revenue at retail value by the smart casual collection stores after switching to a direct selling model.

Sales in North-Western China slightly decreased by 2.2% for the year, which was mainly attributable to the sluggish sales performance in the second half of the year amid the epidemic in Xi'an. In 2021, sales in Xi'an, which accounted for 76.3% of North-Western sales, decreased by 6.4% year-on-year. Apart from Xi'an, sales in several areas was also affected by factors such

as the pandemic and a warm winter. In response to the market situation, the Group stepped up efforts in sales promotion by active re-allocation of inventories between regions with the use of big data, thus substantially alleviate the pressure on the sales performance. Besides, the delayed sales recognition by certain core collection stores after converting to the consignment model also had an impact on revenue.

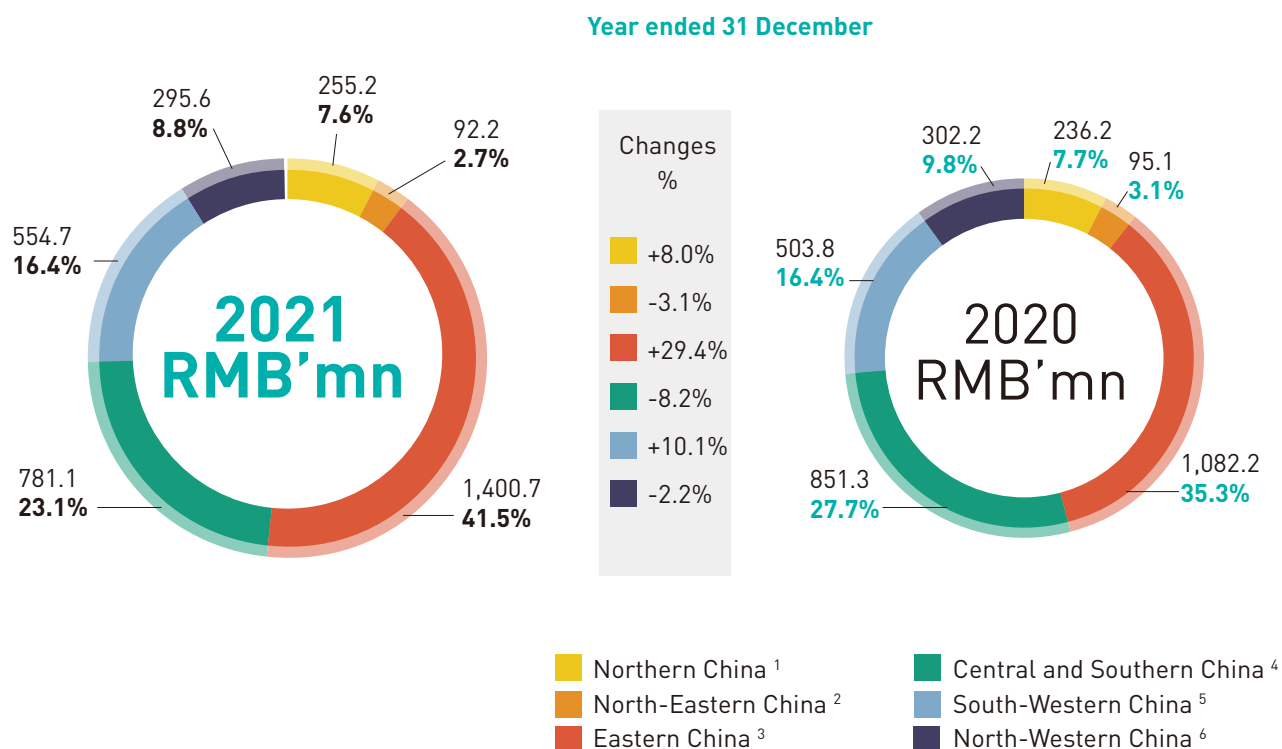
The sales revenue of the Central and Southern China region decreased by 8.2% during the year, mainly reflecting the impact of the devastating rainstorm in Henan and the resurgence of the pandemic in the second half of the year.

Sales performance in North-Eastern China improved slightly from the first half of the year, reflecting a relatively slight impact of the pandemic in the second half of the year in the region. Nevertheless, sales performance remained weak due to the continued impact of the population outflow, in particular the young population, and the region had the highest proportion of store closures.

The Eastern region and Central and Southern China region were the top geographical revenue contributors, together accounting for 64.6% (2020: 63.0%) of the total revenue. The retail stores in these two regions accounted for 55.6% (2020: 54.9%) of the total number of stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the year is set out below:



Region	2021		2020		Changes [%]
	RMB million	% of revenue	RMB million	% of revenue	
Northern China ¹	255.2	7.6%	236.2	7.7%	+8.0%
North-Eastern China ²	92.2	2.7%	95.1	3.1%	-3.1%
Eastern China ³	1,400.7	41.5%	1,082.2	35.3%	+29.4%
Central and Southern China ⁴	781.1	23.1%	851.3	27.7%	-8.2%
South-Western China ⁵	554.7	16.4%	503.8	16.4%	+10.1%
North-Western China ⁶	295.6	8.8%	302.2	9.8%	-2.2%
Sub-total	3,379.5	100.0%	3,070.8	100.0%	+10.1%
Less: Inventory buy-back provision	-		(390.0)		
Total	3,379.5		2,680.8		+26.1%

1 Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.

2 North-Eastern China includes Heilongjiang, Jilin and Liaoning.

3 Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.

4 Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.

5 South-Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.

6 North-Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cost of Sales and Gross Profit Margin

Cost of sales increased by 33.0% to RMB1,964.5 million year-on-year, or 24.7% year-on-year when excluding the impact of inventory provision. As sales increased, outsourcing charges increased by 9.4% year-on-year to RMB358.0 million.

The gross profit margin was 41.9%, a decrease of 3.0 percentage points year-on-year. The decrease was primarily due to the inventory provision of RMB122.2 million recorded in 2021, which reflected an adjustment to the development strategy of footwear products and the clearance of off-season inventory, resulting in a lower than normal gross profit margin. Excluding the impact of inventory provision, the gross profit margin was approximately 45.5%, up by 0.6 percentage points year-on-year. This was primarily due to the fact that the smart casual collection retail gross profit was higher than the gross profit under consignment model and the smart casual collection was operated under consignment model in the first half of 2020.

Other Net Income

Other net income amounted to RMB89.2 million (2020: RMB105.5 million), including mainly local government grants of RMB75.0 million (2020: RMB89.5 million). These local government grants are granted unconditionally and at the discretion of the relevant authorities.

Selling and Distribution Expenses

Selling and distribution expenses increased by 61.7% to RMB795.3 million, accounting for 23.5% of the total revenue, up by 7.5 percentage points year-on-year (based on 2020 revenue before the provision for inventory buy-back). This sharp increase was primarily attributable to the smart casual collection and online store's conversion to the direct-selling model in the second half of 2020 and in 2021, respectively, which have higher operating expenses.

Advertising expenses and renovation subsidies increased by RMB25.9 million to RMB301.3 million, accounting for 8.9% of the total revenue (2020: 9.0%), excluding inventory provision.

Administrative Expenses

Administrative expenses amounted to RMB171.3 million, up by RMB62.9 million year-on-year, and increased to 5.1% of sales (2020: 3.5%, excluding inventory provision). The increase in administrative expenses during the year was mainly attributable to the additional depreciation and renovation expenses incurred for the operation of the headquarters and the creative centre, as well as the impairment losses for the relevant right-of-use assets for certain underperforming smart casual collection stores not yet generating profit.

Other Operating Expenses

Other operating expenses amounted to RMB4.8 million, which mainly comprised charitable donations of RMB4.0 million (2020: RMB57.7 million, including compensation of RMB50.1 million paid to distributors for the conversion of the smart casual collection to the direct-selling model).

Profit from Operations

Profit from operations decreased by RMB118.6 million to RMB532.8 million, which was mainly due to inventory provision. Excluding inventory provision, profit from operations increased by RMB3.6 million from 2020. The smart casual collection was converted to direct-selling model during the year, and the retail gross profit margin and selling expenses were higher. Operating profit margin decreased by 8.5 percentage points to 15.8%. Excluding inventory provision, the operating profit margin was 19.4%, down by 4.9 percentage points year-on-year.

Net Finance Income

Net finance income was RMB28.5 million, which was lower than last year. Of which, interest income decreased by RMB10.4 million to RMB34.4 million year-on-year as both the average cash balance and bank deposit interest rate decreased during the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Income Tax

The effective income tax rate for the year was 16.6%, down 3.2 percentage points year-on-year. One of the Group's subsidiaries in China obtained the "Advanced and New Technology Enterprise" status and was eligible for a preferential tax rate of 15% between 2019 and 2021, while another two subsidiaries established by the Group in Tibet were eligible for a local preferential tax rate of 15%.

Net Profit

Net profit for the year was RMB468.1 million, down by 16.0%. Net profit margin declined by 6.9 percentage points to 13.9%.

Earnings per Share

Earnings per share were RMB39.09 cents, down by 16.0%.

Final Dividend

The Board has resolved to pay a final dividend of HK11 cents (2020: HK19 cents) per ordinary share and a special final dividend of HK5 cents (2020: HK8 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK\$191.6 million (equivalent to approximately RMB156.7 million). The final dividend and special final dividend will be paid in cash on or around 24 May 2022 to shareholders whose names appear on the Company's register of members on 6 May 2022.

BUSINESS REVIEW

Sales Channel Management

The Group operates its LILANZ retail and online stores under three main channels, namely direct-selling, consignment and distributor channels, to establish distinctive brand image and provide professional retail services and an outstanding shopping experience. During the year, the Group proactively optimised the store network by prudently opening stores in quality shopping malls and other premium locations while closing underperforming stores. Meanwhile, the Group continued to enhance online-to-offline integration – on one hand expanding SKUs virtually to enhance store operating efficiency, and on the other hand, optimising logistics capabilities in order to strengthen the delivery arrangements needed as online traffic was drawn to stores, and enhance the operating efficiency of stores.

The Group introduced a consignment model for its core collection stores in spring and summer of 2021. As of the end of 2021, a total of 966 stores were operated as franchise stores, accounting for approximately 40% of the total store count. After converting to franchised stores, franchisees are provided real-time access to online warehouses enabling rapid replenishment of stock. The other core collection stores also continued to be properly operated by the distributors. The smart casual collection was converted to a direct-selling model in the second half of 2020. Online stores were also converted to the direct-selling model in early 2021. Following this conversion, the Group has seen the management of its sales channel strengthened. In the meanwhile, the Group continued to optimise its store locations and enhance the use of retail space at its stores in various regions in stages, and leverage on the complementary advantages of the WeChat Mall stores and the physical stores to drive sales growth and improve operating efficiency.

As at the end of December 2021, LILANZ had a total of 2,733 retail stores nationwide, representing a net decrease of 28 stores during the year. The Group fell short of its original target of adding 50 to 100 stores during the year as it took a more cautious approach towards opening new stores in view of the outbreak of the pandemic in various provinces and cities in the second half of the year. The Group continued to close underperforming stores. The Group's new store openings during the year were predominantly self-operated stores, stores in shopping malls and outlet stores. As at the end of December 2021, the aggregate retail floor area of retail stores was approximately 404,020 square metres (31 December 2020: 398,900 square metres), representing an increase of 1.3% as compared with the end of the previous year. As at the end of December 2021, the number of stores in shopping malls increased to 852 (31 December 2020: 807), accounting for approximately 31.2% of the total store count and approximately 33.1% of total retail floor area. In addition, there were a total of 49 outlet stores (31 December 2020: 36).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Changes to the number of LILANZ stores by region are as follows:

Region	Number of Stores			As at 31 December 2021
	As at 1 January 2021	Opened during the year	Closed during the year	
Northern China	294	27	49	272
North-Eastern China	185	7	34	158
Eastern China	790	101	107	784
Central and Southern China	724	106	94	736
South-Western China	497	53	42	508
North-Western China	271	40	36	275
Total	2,761	334	362	2,733

As at 31 December 2021, 290 out of 2,733 the LILANZ stores were self-operated stores for the smart casual collection, representing a net increase of 3 stores. 966 consignment stores of core collection and other stores were operated by distributors or sub-distributors

respectively. As most of the smart casual collection stores converted to a direct-selling model in mid-2020, distributorships were eventually ended after completing inventory clearance, such that the number of distributors decreased from 90 to 69 and the number of sub-distributors decreased from 747 to 733 during the year.

The breakdown of store numbers is as follows:

	31 December 2021		31 December 2020	
	Number of distributors	Number of stores	Number of distributors	Number of stores
Direct-to-retail stores	-	290	-	287
Distributors	69	1,303	90	1,348
Sub-distributors	733	1,140	747	1,126
Total number of stores		2,733		2,761
Street stores		1,528		1,609
Stores in shopping malls and outlet stores		901		843
Shop-in-shops in department stores		304		309
Total number of stores		2,733		2,761

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To further enhance the LILANZ brand image and the consumer shopping, the Group continued to promote the seventh-generation store image of the core collection. A total of 711 existing stores were renovated during the year.

By optimising its inventory management system, the Group is able to monitor the inventory situation more efficiently, make flexible allocations according to sales differences in various regions, improve sales efficiency and effectively manage inventory levels. The benefits of better inventory management were better realised after the conversion of the smart casual collection to a direct-to-retail model and part of the core collection to a consignment model. In addition, the Group continued to clear inventories by offering discounts and promotions and sales in outlet stores. Currently, the Group's product inventory remains at a healthy level.

New Retail Development

The Group continued to promote new retail development by integrating online services with offline in-store experiences and comprehensive logistics services to drive the LILANZ core collection and smart casual collection business.

After converting its online stores into self-operated stores during the year, the Group has been more proactive in launching promotional activities such as online sales and live streaming of promotion events. To meet the production needs of the new special-edition pant products launched in online stores during the 618 shopping festival, the Group reorganised its in-house production plant in a prompt manner and added seven production lines for the products. This utilised the Group's ability to produce small batch orders swiftly, marking the start of the new model of selling new products online. In addition, the Group actively utilised its WeChat business platform to provide customer relationship management services and to set up stores in the WeChat Mall, both to take advantage of the interactive features of the social platform to facilitate brand promotion and also promote sales.

Online sales during the year were approximately RMB500 million, which was 20% higher than 2020, reflecting the Group's effective use of e-commerce to clear inventory, while continuing to expand online sales.

Product Design, Development and Supply Chain Management

The Group continued to enhance the personalisation and original design of its products to provide greater value for money and differentiate itself from its peers. The proportion of products for sale during the year with original designs increased to approximately 77%, and the proportion of these products utilising proprietary fabrics developed by the Group was around 50%. To facilitate the launch of fast-moving products online in its ecommerce channel, the Group began to actively develop new supply relationships to source the related materials last year. This, together with the rapid replenishment capability of the Group's in-house production plant, is expected to enable the launch of more fast-moving products online.

As a result of product design and supply chain management improvements over the past few years, the Group's products show cost advantages over those of its peers. In addition, the project to upgrade the fashion and design elements of the smart casual collection products was completed in the spring and summer of 2021. While continuing to adhere to the strategy of providing products that represent excellent value for money, the Group has increased the markup rate of products based on product design and market competitiveness. The gross profit margin of the smart casual collection was, therefore, increased.

The Group's international and local research and development teams have always kept abreast of popular international trends. With the objective of meeting the fashion needs of mainland China's consumers, the teams design value-for-money menswear products that are simple yet fashionable. There are around 440 staff members in the Group's research and development department, engaging in areas such as product design, material development and sample creation. After the new headquarters opened in Fujian in early 2021, designers were provided with a better creative communication platform, which was instrumental in comprehensively enhancing the competitiveness of the Group's products.

Brand Management and Promotion

China Lilang owns and operates the LILANZ brand and sells menswear products in two collections – the core collection and the smart casual collection. The core collection, which primarily targets consumers aged 25 to 45, has been well received in traditional third- and fourth-tier markets and is gradually expanding into first- and second-tier markets. The smart casual collection, which targets consumers aged 20 to 30 in first- and second-tier markets, comprises more classic designs than the core collection.

During the year, the Group launched a number of crossover promotional events, using diversified approaches and combining different creative elements to satisfy the diverse demands of the new generation of consumers, lead the fashion apparel trend and increase customers' recognition of the LILANZ brand. In addition to launching IP crossover products with China Daily and the science fiction IP developer "The Three-Body Universe", the Group partnered with artist Su Xiping to develop several collaborative collections which were simultaneously launched at the Museum of Contemporary Art & Planning Exhibition. The smart casual collection collaborated with Lu Dianlin and Fang Fang, two up-and-coming designers, to integrate the distinctive charm of the ancient city of Quanzhou into the design of fashionable menswear. The resultant "City of Light" collections was showcased at the closing ceremony of the 2022 spring and summer Shanghai Fashion Week. Lilang also turned the children's paintings collected into charity T-shirts, and donated all of the sales proceeds to the Adream Foundation (上海真愛夢想公益基金會) to help children improve their skills and realise their dreams. In doing so, the Group was able to fulfil its corporate social responsibility and further enhance Lilang's brand reputation.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



In addition, the Group introduced the slogan “Every fashionista is wearing Lilang (有顏有型有氣場 哥哥都在穿利郎)”, which epitomises the brand concepts of “less is more” and “simple but not simple”, on Mango TV’s variety show “Call Me By Fire(《披荆斩棘的哥哥》)”. The Group also sponsored Youku Video’s original survival show “I Decide Who I Am (《這!就是潮流》)”, during which audiences were shown versatile outfits mixed and matched by the Generation Z participants to convey Lilang’s brand style – young, confident and fashionable. To echo the call of national fitness, the Group cooperated with Baidu Marketing to organise an AI-based fun sports meet in Xiamen, demonstrating the application of business menswear in sports and leisure events led by Lilang’s high-tech fabrics and innovative craftsmanship.

During the year, the Group continued to launch a series of brand promotion activities featuring its brand ambassador Han Han, who was recruited in the fourth quarter of 2020. Activities included sponsoring the New Year’s Eve talk show “2021, Speaking the Truth” in which Han Han participated, including sponsoring some of the guests’ costumes and inserting image advertisements. In addition, a short film with a positive post-epidemic sentiment was produced and broadcasted on various online media channels. The Group also continued to set its sights on new generation creativity and participated in the Academy Award of Advertising Festival of Chinese College Students once again to solicit promotion proposals and ideas from students for its brand and products and empower enterprises to rejuvenate their brands.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Awards

A number of promotional campaigns launched by the Group won awards from the advertising industry in 2021. At the beginning of the year, Lilang was awarded the “2021 Country with Strong Brand Power National Craftsmanship Brand Industry Leader” (2021品牌強國民族匠心品牌行業領航者) by Asiabrand. The “I Look Great with the World” commercial campaign by Han Han and Li Dan won the “Creative Communication Gold Case” prize at the 10th ADMEN International Awards (第十屆ADMEN國際大獎) and the Gold Award at the 2021 IAI Awards (IAI傳鑒國際廣告獎).

The Group also won numerous commercial business awards, including the “2020-2021 Innovative and Advanced Retail Enterprise” honour at the “Golden Coordinates” Award Presentation Ceremony of Zhujiang Investment China Commercial Property, and was listed among the “2021 Top 100 Leading Brands in China” in the Top 100 List organised by Winshang (贏商網).

PROSPECTS

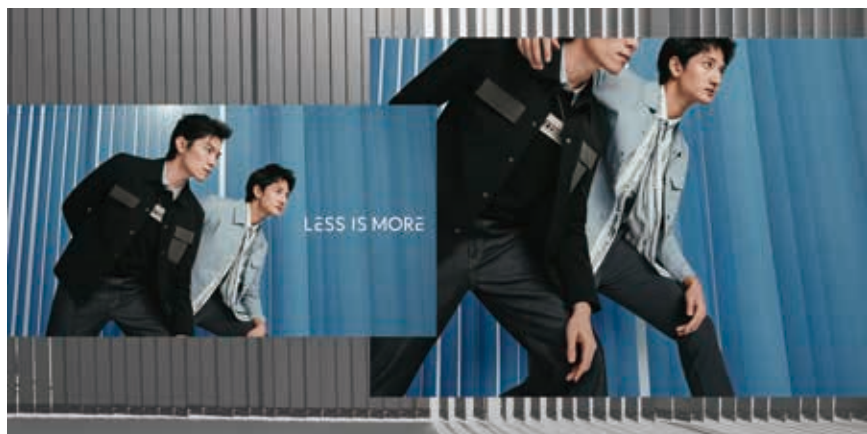
As we enter 2022, the external environment is complex and volatile, with the pandemic showing no signs of abating and geopolitical uncertainties remain in sight. The central government’s increased support for the real economy will be conducive to the continuous escalation of consumer demand. The Group is cautiously optimistic about China’s retail market in 2022.

With the reform of sales channels largely completed, the Group has more effective control over its sales channels. In addition to ensuring a healthy channel inventory and improving store efficiency, it can feasibly promote the complementary advantages of the WeChat Mall and physical stores, thus promoting product sales.

This year, the Group is committed to leveraging the advantages of its existing sales channels, further optimising its sales network, and improving its retail management to achieve better store efficiency and higher product sell-through rates, with the aim of further promoting healthy growth from the existing foundation. In 2022, the Group aims to grow its total retail sales by no less than 10%.

The Group will cautiously plan its store network across the country. The total number of stores is expected to increase by 50 to 150 in 2022. The Group will continue to open stores in selected shopping malls in provincial capitals and prefecture-level cities, and will continue to open stores in outlet malls as the usual channel for inventory clearance.

The reform of sales channels is beneficial to the development of the new retail business. In 2022, the Group will further develop the business model of selling at online stores and delivery to offline stores, and introduce better service, to provide more convenient and considered shopping experiences to customers, and strengthen customers’ loyalty to the LILANZ brand. In view of the positive response to the launch of specially designed products for its online stores in 2021, the Group will be more proactive in launching new e-commerce products this year to attract attentions from a broader group of consumers, thereby boosting growth from online sales. The Group will also continue to make good use of online platforms for promotional clearance. The Group aims to achieve e-commerce sales growth of not less than 10% in 2022.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To enhance its store image, the Group plans to roll-out the seventh-generation store image upgrade of the core collection to over 500 stores. The Group will also strengthen brand promotion on platforms such as Xiaohongshu, Weibo, TikTok and others.

In terms of product positioning, the Group will continue to implement the strategy of “providing excellent value-for-money products” and streamline its product portfolio, with a focus on developing competitive business and casual apparel for men. The smart casual collection will further enhance the fashion and design elements of its products. As for the regions for expansion, the Group plans to strengthen the expansion of new stores for smart casual collection in four cities of three provinces, including Zhengzhou (Henan), Xi’an (Shaanxi), Suzhou and Wuxi (Jiangsu), where these are higher spending power cities and our brands are widely recognized by customers, as key target markets, improve operational efficiency, and strive to set a benchmark for other smart casual collection stores.

The first phase of the new logistics centre, slightly delayed due to geological factors in the locality, is expected to commence operation in mid-2022, which will see its logistics arrangements ready for the e-commerce peak seasons. Empowered by an intelligent system, the new logistic centre will further



optimise the Group’s nationwide logistics network, to ensure a sufficient and healthy inventory level at each store, while further enhancing inventory management and logistics efficiency.

In the long run, China Lilang will continue to adhere to its multi-brand strategy and strive to enhance product competitiveness and value for money. This will allow China Lilang to further consolidate its leading position in China’s menswear industry and realise sustainable long-term growth, which in turn will enable it to reward shareholders, staff members and customers for their support.



LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balances and Cash Flows

	Year ended 31 December	
	2021 RMB million	2020 RMB million
Amounts pledged as security for bills payable	12.1	1.7
Cash and cash equivalents	1,571.6	1,738.9
Total cash and bank balance	1,583.7	1,740.6
Less: bank loans	(72.6)	—
Net cash	1,511.1	1,740.6

As at 31 December 2021, the Group's total cash and bank balance was mainly denominated in Renminbi 98.4% and Hong Kong Dollars 0.9%. There were bank loans of RMB72.6 million outstanding as at 31 December 2021 and no bank loans for 2020.

Cash and cash equivalents balance decreased by RMB167.3 million. Major cash flow movements during the year were as follows:

- Net cash generated from operating activities amounting to RMB698.9 million.

The major reconciling items between the net amount of operating cash inflow and the net profit for the year of RMB561.2 million were the decrease in trade receivables and other receivables of RMB415.1 million, the increase in inventories of RMB226.7 million, which reflected the conversion of 40% of core collection stores to consignment model. Besides, depreciation of RMB220.8 million, which increased as a result of the new head quarter and creative park.

- Net cash used in investing activities amounting to RMB280.0 million, comprising mainly capital expenditure totalling RMB314.5 million, less interest income of RMB34.4 million.
- Net cash outflows from financing activities amounting to RMB482.9 million, comprising mainly the payments of final dividends in respect of 2020 and the interim dividends for the year totalling RMB446.5 million, and the capital and interest elements of lease rentals paid totalling RMB107.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trade Working Capital Turnover Days

	Year ended 31 December	
	2021	2020
Average inventory turnover days	145	168
Average trade receivables turnover days	57	101
Average trade payables turnover days	79	115

Inventory turnover days

The Group's average inventory turnover days was 145 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted average turnover days was 139 days for year 2020.

Total inventory balance increased by RMB226.7 million year-on-year. The increase was mainly attributable to the core collection after converting about 40% of its stores to consignment model commencing from 2021 spring and summer seasons.

As for the smart casual collection, inventory balance continued to improve after the conversion to direct-retailing in the middle of 2020.

As at 31 December 2021, total provision of RMB137.7 million was made in accordance with the Group's inventory provision policy.

Trade receivables turnover days

The Group's average trade receivables turnover days was 57 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted average turnover days was 88 days for year 2020. The trade receivables balance reduced by RMB227.6 million year-on-year to RMB484.1 million. Turnover days reduced as about 40% of the core collection stores have been converted to consignment model.

As at 31 December 2021, a loss allowance provision of RMB10.6 million was made in accordance with the Group's trade receivables provision policy.

Trade payables turnover days

The Group's average trade and bills payables turnover days was 79 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted turnover days was 95 days for the year 2020. There was no material change in the payment terms with suppliers.

Trade and bills payables balance increased by RMB25.1 million during the year to RMB435.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DIVIDEND POLICY

The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of about 45% to 55% of the Group's profit for the year. The Board may also recommend the payment of additional special dividends depending on the following conditions: (i) the overall profitability of the Group; (ii) the cash flows of the Group; and (iii) the capital requirement for expansions.

PLEDGE OF ASSETS

As at 31 December 2021, deposits with certain banks totalling RMB12.1 million (2020: RMB1.7 million) were pledged as securities for bills payable and bank loans. The pledged bank deposits will be released upon the settlement of relevant bills payable and bank loans.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company conducted an exercise based on the ERM Framework, as set out in the paragraph headed "Risk Management and Internal Controls" in the Corporate Governance Report on pages 49 to 59 of this Annual Report, to review, assess and control the identified risks facing the Group. The Group's key risk exposures are summarized as follows:

Strategic Risks	(i)	Slow-down of the economy and consumer spending
	(ii)	Deterioration of market competition
Operational Risks	(i)	Ineffective management of the retail operations of distributors
	(ii)	Misjudgement of fashion trends or changes in consumers' demand or failure to respond to such changes in a timely manner
	(iii)	Ineffective brand promotion activities or failure to maintain and promote the brand, particularly in the first-and second-tier cities where the Group targets to expand
Financial Risks	(i)	Distributors' credit risks
	(ii)	Inventory risks
Hazard Risks	(i)	Business susceptible to extreme or unseasonable weather conditions and also the outbreak of the COVID-19 epidemic

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2021, the Group had total capital commitments of RMB171.9 million, primarily related to the renovation work of the new headquarters, and the construction of the second phase of logistics centre, and the creative centre.

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

As at 31 December 2021, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability and incorporating it in daily operations. Details of the Group's environmental policies and performance are summarized in the Environmental, Social and Governance Report on pages 25 to 48 of the Annual Report.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner. The functional currency of the Company is the Hong Kong Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognized in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant.

HUMAN RESOURCES

As at 31 December 2021, the Group had 3,942 staff. Total staff costs for the year amounted to approximately RMB370.5 million (2020: RMB281.5 million). Details of the Group's policies on human resources are summarised in the Environmental, Social and Governance Report on pages 25 to 48 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 26 April 2022 to Friday, 29 April 2022 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2022 annual general meeting ("2022 AGM"). In order to qualify for attending and voting at the 2022 AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 25 April 2022.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2022 AGM, the register of members will be closed from Friday, 6 May 2022 to Tuesday, 10 May 2022 (both days inclusive) for the purpose of determining shareholders who qualify for the proposed final dividend and special final dividend. In order to qualify for the proposed final dividend and special final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 5 May 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 ABOUT THIS REPORT

1.1 Basis of Preparation

This report is the 2021 Environmental, Social and Governance (“ESG”) report of China Lilang Limited (“Lilang” or the “Group”) prepared based on the requirements of the Environmental, Social and Governance Reporting Guide. The reporting period is from 1 January 2021 to 31 December 2021 (the “Year” or “Reporting Period”). This report is prepared in Chinese, and the English version is the translation. In case there is any discrepancy between the Chinese and English, the Chinese version shall prevail. For the content of corporate governance, please refer to the “Corporate Governance Report” in the 2021 Annual Report of the Group.

1.2 Reporting Standards

This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) in Appendix 27 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. Adhering to the principles of materiality, quantitative, balance and consistency, this report discloses China Lilang’s ESG philosophy, practice and performance in detail.

1.3 Reporting Scope

This report focuses on reporting the environmental and social policies and performance related to the Group’s core business during the Reporting Period. This report covers the Group’s headquarters in Jinjiang City, Fujian Province, including canteens, staff dormitories, flagship stores, a workshop for samples and small production orders, fabric research and development and testing centres, office premises and Wuli Plant.

1.4 Information and Feedback

We value your suggestions or comments for further improvements. If you have any comments on this report, please contact us by:

Address: Suite 3402, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong
Telephone: (852) 2526 6968
Email: ir@lilanz.com.hk

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2 SUSTAINABILITY MANAGEMENT

2.1 Our Approach to Sustainability

The implementation of robust ESG governance is essential to enhance the Group's performance in sustainable development and to ensure the effective assessment and management of ESG related risks and opportunities. In order to assist the Board in overseeing ESG related issues and incorporating ESG considerations into our daily operations, the Group established an elaborate and rigid ESG governance structure during the reporting period.

The Board is ultimately responsible for the overall direction, strategies, objectives, performance and report of the Group's sustainable development. During the Reporting Period, the Board has discussed and set up the issues of an ESG working group led by senior management and designated to work with different departments in order to promote the effective implementation of the Group's sustainable development efforts. The ESG working group will be headed by the vice chairman of the Board. The members of the working group are comprised of the various department heads of the Group involved in ESG governance, including the manufacturing and production department, fabric research and development department, supplier management department, human resources, finance, property management departments and etc. The ESG working group will hold regular meetings to review their work, report the work implementation progress to the Board, take into consideration of the opinions and suggestions of the Board, and implement the Group's strategies and specific measures in the environmental, social and governance aspects.

Being aware of the impact of greenhouse effect on climate, the Board of the Company incorporates environmental sustainability in daily operations as much as possible, and discharges the corporate social responsibility in strict compliance with the Environmental Protection Law of the People's Republic of China and other relevant regulations. Although the Company's operating products do not severely pollute the environment, the Company still invested additional funds for environmental optimisation, reduced emissions and adopted various measures to save resources. In the meantime, the Company attaches great importance to various rights and interests of employees, protects employees' health and safety, focuses on talent training, and improves product quality, reduces costs, and enhances product competitiveness and brand reputation through product innovation, with an aim to become the leader of menswear industry in China.

2.2 Communication with Stakeholders

The Company fully respects and protects the legitimate interests of stakeholders, actively identifies all stakeholders, and constantly improves various communication mechanisms, and strives to achieve the coordination and balance of the interests of shareholders, employees, society and other parties through active and effective communication methods, to jointly promote the sustainable, healthy and stable development of the Company. On the basis of in-depth understanding of the expectations and demands of stakeholders, the Company incorporates the concerns and demands of stakeholders into the Company's sustainability issues, and actively responds with practical actions to facilitate the mutual advancement of governance and stakeholders. During the Year, we continued to engage with primary stakeholders on a regular basis by various means to ensure effective communication with our stakeholders on issues concerned.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Stakeholder category	Major communication method
Staff	<ul style="list-style-type: none"> Company intranet Training and staff activities Labour union Various seminars
Government and regulatory authorities	<ul style="list-style-type: none"> Regular reporting Supervision and inspection
Investment institutions/ shareholders	<ul style="list-style-type: none"> Company's announcements Shareholders' meetings Roadshows and reverse roadshows Strategy conference Email, telephone, WeChat and corporate website
Suppliers/OEM suppliers	<ul style="list-style-type: none"> Tenders Review and appraisal meeting Regular communication Email, telephone, WeChat and corporate website
Customers	<ul style="list-style-type: none"> Customer survey Call centre and hotline Customer visits Exhibitions
Peers	<ul style="list-style-type: none"> Industry forums and exchanges On-site visits Research and investigation
Media	<ul style="list-style-type: none"> Performance conference Media day Special report
Local community	<ul style="list-style-type: none"> Community activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.3 Materiality Assessment

During the Year, we conducted an online questionnaire survey on material ESG issues with the support of an independent third organisation, whereby we identified material issues that have a greater impact on both the corporate and stakeholders based on the latest industry trends, peer practices, industry issues of the Sustainable Accounting Standards Board (SASB) and key concerns of ESG related rating standards. The materiality assessment covers the following steps:

Issue Identification	Research and Assessment	Screening and Confirmation
<p>After carefully studying the hot issues, national policies, industry developments, etc. for the year, clarifying the business characteristics and operating status of the Group, and in view of the industry issues of the Sustainable Accounting Standards Board (SASB) and key concerns of ESG related rating standards, we had identified 20 material issues in connection with Lilang.</p>	<p>Through online questionnaires, different types of stakeholders including shareholders and investors, suppliers and business partners, employees and consumers were invited to rate the importance of different issues.</p>	<p>According to the statistical results of the questionnaire, we had identified 10 issues of high materiality. After reviewing and confirming the materiality assessment results, the management will prepare the action plans accordingly.</p>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The materiality of various issues identified from the Group's materiality assessment during the Year is as follows:

Material issues	Overview of issues
Employee benefits	Employees' remuneration, welfare, working hours and other benefits, as well as the recruitment and employment process.
Staff development and training	The vocational training received by the employees and the support provided by the enterprise for the career development of the employees.
Human rights and labour interests	Basic human rights protection, such as child and forced labour prevention, as well as labour interests such as labour union and living wages (which are sufficient to meet the basic expenses necessary for living).
Health and safety	Securing the occupational safety of employees, providing appropriate working environment and promoting their physical and mental health.
Product and innovation	Developing and adopting innovative materials and product designs, as well as improving product production technology to enhance functionality and product sustainability.
Intellectual property management	Respecting and protecting the intellectual property rights of self and others (such as patents, designs, logos, etc).
Product quality and safety	Environmental considerations of the enterprise over the whole product life cycle (covering from design, raw material acquisition to production, consumption, handling at the end of life cycle, recycling and final disposal).
Supply chain management	Evaluating the social and environmental risks along the supply chain and seeking to enhance the social and environmental performance of the supply chain through cooperation.
Sustainable raw material procurement	Ensuring the traceability, sustainability and quality of raw materials and products purchased.
Corporate governance	Maintaining an efficient and sound governance structure (including environmental and social issues) as well as integrity governance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3 ENVIRONMENT

The Group is committed to achieving environmental sustainability and incorporating it in daily operations, in strict compliance with the Environmental Protection Law of the People's Republic of China (the "PRC"), the Energy Conservation Law of the PRC and other related regulations.

Always adhering to the green production concept, the Group applies advanced energy saving techniques in product. Through the establishment and implementation of an environmental management system that complies with the ISO14001, we enhanced the environmental protection and management to ensure that the emission targets of sewage, air, solid wastes and noise were met. Currently, our environmental management system that complies with the ISO14001 covers Lilang Creative Park, Lilang Industrial Park and all its employees.

3.1 Emissions

The Group has formulated a production-plant management manual, setting out measures such as lawful discharge of sewage, reduction of air emissions by using clean energy for the boiler and reduction of non-hazardous wastes generated during the production process.

Air and greenhouse gas emissions generated by the Group's operating activities are limited. The Group does not own logistics fleets, the transportation of raw materials and products are all outsourced to third-party transportation service providers. In addition, a majority of the electricity consumed by both the Headquarters and the Wuli Plant is supplied by a hydropower plant. Hydropower transforms the potential energy of water without consuming any fossil fuels, it is therefore widely considered as a clean energy that does not emit any greenhouse gases such as carbon dioxide (CO₂) and methane (CH₄). Starting from September 2017, natural gas is used instead of coal for the boiler in the Wuli Plant to boil water to steam-iron apparels. This has significantly reduced air emissions. Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. Lilang Industrial Park regularly reviews its natural gas emissions every year to ensure compliance with the requirements of relevant laws and regulations.

In respect of waste management, the Group strictly complies with the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste, Administrative Measures for Hazardous Waste Transfer Manifests and other relevant laws and regulations, and set out the detailed management requirements for hazardous waste in the environmental policies. Our production does not involve the processes of weaving, printing and dyeing, and therefore basically no hazardous waste will be generated. For the waste management of fabric testing laboratory, the Group has formulated internal rules and regulations such as Technical Service Contract - Hazardous Waste Management and Disposal and Operation Instruction for Chemical Waste Liquid Handling and Recycling to ensure our laboratory's environmental performance complies with the relevant policy requirements. A very limited number of chemicals in the fabric testing laboratory are used for inspection, where relevant hazardous wastes are collected and handled by qualified third parties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Non-hazardous wastes which generally come from daily activities of employees and garden pruning are collected by the property management company on a daily basis. In order to reduce the daily use of paper, the Group promotes a paperless office and reduces the use of paper by using ERP system, OA system and mobile phone applications. In addition, the non-hazardous wastes generated during the production process generally come from scraps. In this regard, the Wuli Plant has adopted the following measures to maximise the utilisation rate of fabrics, thereby controlling costs and reducing scraps generated during the production process:

- 1) Strictly adhere to the minimal usage of fabrics and optimise cutting layouts with a computer program, based on product designs and respective fabric-waste allowances;
- 2) Reduce fabric wastes by providing training to workers to enhance their skills and by introducing templates to improve sewing accuracy;
- 3) Optimise production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added in the past few years, replacing manual labour to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out; and
- 4) Scraps are regularly collected by recyclers to be converted into or reused in other products (such as gloves).

In respect of sewage discharge management, the operating activities of the Group generate limited amount of industrial sewage which is discharged through the municipal sewage system equipped with filters, ensuring no significant impact on the surrounding environment.

The Group's performance in sustainable development in terms of air emissions and waste generation is summarised as follows:

	Unit	2021	2020	2019
Total air emissions of the boiler¹	tonnes	0.84	0.65	0.34
Non-hazardous wastes²				
Scraps	tonnes	196.33	244.86	359.48
Scrap metal	tonnes	1.38	Undisclosed	Undisclosed
Cardboards	tonnes	56.78	Undisclosed	Undisclosed

¹ Total air emissions of the boiler include particulates, NO_x and SO₂. This assumes an average annual total working hours of the boiler is 2,200 hours. The intensity (based on the total annual production cost of the Wuli Plant) is negligible.

² Including the non-hazardous wastes generated in the Wuli Plant.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3.2 Use of Resources

The Group adheres to the “5S management system” and requires all employees to conserve water and electricity. Posters are put up in the office area and across the plant to enhance employees’ awareness of energy saving and emission reduction. In respect of the use of electricity, both the Headquarters and the Wuli Plant have switched to LED lighting since late 2015. Security guards in the Wuli Plant check and make sure all production equipment and the lights in production workshops are powered off during lunch hour and after work. In respect of the use of natural gas for the boiler, the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. In respect of water usage in production, water used in the boiler in the Wuli Plant is recycled through reflux line to improve water efficiency.

In respect of raw materials of products, the Group strictly controls the usage of raw materials based on the requirements of individual orders and reduces wastes through production equipment upgrades, training workers and using a computer program to optimise cutting layouts. As for the use of packaging materials, the Group avoids excessive packaging and maintains an appropriate balance between cost control, product protection and consumer expectation. More environmental-friendly paper bags are used as shopping bags. Certain products are also individually packaged in plastic bags, non-woven bags or paper boxes for the protection against dirt, dust or damp. We engage packaging material suppliers that are in compliance with relevant national laws and regulations. The Group has formulated a procurement management plan, under which we engage packaging material suppliers through tender and establish long-term partnership with them.

The consumption of electricity, natural gas, and water in the Wuli Plant varies, depending on the types of products, nature of fabrics, production processes as well as weather and temperature. The Headquarters comprises office premises, fabric research and development and testing centres, a workshop for samples and small production orders, flagship stores, staff dormitories (including canteens, a coffee shop and a gym). The water, natural gas and electricity consumption varies depending on the weather, testing applications of different fabrics and the frequency of utilisation of different production machinery in the sample workshop.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The Group's performance in sustainable development in terms of use of resources is summarised as follows:

		Unit	2021 ³
Electricity			
Wuli Plant	Consumption quantity	kWh	5,851,230
	Intensity	kWh/RMB'000	36.78
Headquarters	Consumption quantity	kWh	11,454,107
	Intensity	kWh/RMB'000	5.97
Natural gas			
Wuli Plant	Consumption quantity	m ³	350,829
	Intensity	m ³ /RMB'000	2.21
Headquarters	Consumption quantity	m ³	147,564
	Intensity	m ³ /RMB'000	0.08
Water			
Wuli Plant	Consumption quantity	m ³	84,934
	Intensity	m ³ /RMB'000	0.53
Headquarters	Consumption quantity	m ³	178,089
	Intensity	m ³ /RMB'000	0.09
Packaging materials⁴			
Wuli Plant	Consumption quantity	tonnes	1,473
	Intensity	Kg/RMB'000	0.77

3.3 Environment-friendly Products

The Group has started using biodegradable fabrics made from bamboo fibre for some of its products since 2015. As another initiative to promote sustainable fashion, starting from the 2020 spring and summer collections, the Group has launched a new eco-friendly jeans collection. The first batch of products under this collection is made with blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles, which is an effective way to dispose and recycle a quantity of plastics. In addition, we made strides in the development of materials, including decorative signs made with recycled fibre and others.

To reduce the use of other resources in the production of jeans, the Group has adopted the latest washing technology in the washing process of some of its jeans products, which reduces water consumption by about 20% on average and also saves labour and energy consumption.

³ The Group moved into the new Headquarters in February 2021. The consumption of environmental resources in all aspects increased from last year due to bigger size of the Headquarters. The calculation of intensity related to the Wuli Plant has been adjusted.

⁴ Packaging materials include garment packaging bags, paper boxes, shopping bags and cartons used for the individual packaging of certain products produced in the Wuli Plant. Packaging materials of individual products purchased from OEM suppliers are excluded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The Group launches various eco-friendly products for the 2021 fall and winter collections as special edition products for its online shops. These products will be made with eco-friendly fabrics from recycled plastics and/or fast-growing non-edible plants, which will be sourced from suppliers with sustainable practice certification.

3.4 Climate Change

Extreme or unusual weather conditions have certain impact on product design and timing to market. In the face of global warming characterised by shortened spring, earlier fall and delayed winter, corresponding adjustments on product design are required, such as fabric thickness, trending styles, etc. Also, global warming may upset the sales of thick coats and down jackets, thus increasing the risk of obsolete inventory.

The Group has implemented various measures against climate change, including:

- 1) To reduce the consumption and production of raw materials processed by spinning, weaving, dyeing and finishing as well as the carbon emissions generated by wastewater and solid waste, choose and use fibre materials, slurry, dye and auxiliary which are eco-friendly, and adopt clean energy;
- 2) To choose and apply production processes and technologies which are eco-friendly, including the use of refining and other environmentally friendly pre-treatment processes, the use of one-step high-efficient and short steaming process of desizing, scouring and bleaching, cold pad-batch and other "less alkali and less oxygen" or "no alkali and no oxygen" pre-treatment process; To choose mechanical finishing, low temperature ion treatment and foam finishing to minimise the consumption of water, steam and energy in the largest extent, reduce wastewater discharge and sewage treatment, reduce the impact of pollution on mankind and the environment, and reduce carbon emissions.

To reduce the impact of climate change on the business, the Group has adjusted its product mix over the past few years to increase the proportion of season-neutral products such as footwears and reduce the proportion of outerwears for cold weather. In addition, starting from the 2020 fall season, the Group has adopted a flexible order strategy, lowered the order levels in trade fairs, and replenished orders quickly based on items with satisfactory sales in the market, to better control inventory risk.

4 SOCIAL

4.1 Employment

The Group is dedicated to providing our employees with a diversified working environment with equal opportunity. Meanwhile, we aim to create comfortable and safe working conditions to ensure social and cultural diversity as well as the dynamic development of the Company.

We are in strict compliance with national and local labour regulations such as the Labour Law, the Labour Contract Law, the Law on the Protection of Minors, the Provisions on the Prohibition of Child Labour of the People’s Republic of China to protect the legitimate rights and interests of employees. In compliance with the equal employment principle of “fairness, openness and impartiality”, we focus on candidates’ business ability, personal quality and development potential during the recruitment process without any form of discrimination on grounds of age, gender, race, nationality, marital and family status, health condition and religion.

The Group listens to the demands and opinions of employees actively, and has established an independent labour union organisation, which is responsible for providing feedbacks of employees in all aspects to the Group. Meanwhile, we have set up different feedback channels, including complaint hotline, general manager’s mailbox, various notices, internal communication system, opinion questionnaire, etc.

During the Reporting Period, the Group has complied with relevant employment and labour laws and regulations in all material aspects, including laws and regulations related to equal opportunity, diversity, anti-discrimination and welfare.

As of 31 December 2021, the Group had 3,942 staff in total, which were all full-time employees. The gender, age group and employment type of the Group’s employees are summarised as follows (KPI B1.1):

	Number of individuals in 2021	Turnover rate in 2021
Total number of employees in the Group	3,942	6.8%
By gender		
Male	1,293	8.9%
Female	2,649	5.8%
By age		
Age 16 to 24	523	19.3%
Age 25 to 40	2,619	5.5%
Age 41 to 59	785	2.8%
Age 60 or above	15	6.7%
By geographical region		
Mainland China	3,936	6.8%
Hong Kong	6	50%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.2 Benefits and Welfares

The Group provides competitive remuneration and benefits in the industry to our employees, and ensures that outstanding employees will receive corresponding rewards. Our corporate management system sets forth the policies on employee compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

We conduct regular inspection on the salary levels of employees at all levels internally and collect salary status of the industry in the labour market externally, and adjust the salary and welfare levels according to factors such as employees' positions, work ability, work performance, technical level and the Group's efficiency. Performance appraisals for employees will be implemented in accordance with the performance appraisal measures of the departments to which various positions belong.

Meanwhile, the Group is committed to paying all employees in full on a timely manner, while the contributions to social security funds for its employees are made according to local regulations. The Group has also adopted a share option scheme to recognise and reward the contribution of its employees to the growth and development of the Group. Employees are entitled to maternity leave, marriage leave and other leaves, as well as the rights to apply for other casual leaves in accordance with the Labour Law of the PRC. In order to enhance employees' sense of belonging and enthusiasm for work, we have enriched their spare time by carrying out outstanding staff activities, staff birthday parties, festival activities and various cultural and recreational activities. In addition, we have provided a series of benefits, such as local security in Jinjiang for the education of our employees' children, hotel-style apartment accommodation, housing subsidies and wedding subsidies for our employees. The Lilang Creative Park in our Headquarters provides employees with a superior leisure environment, including a self-built swimming pool, gym, table tennis club, coffee bar, etc., and various free fitness courses (such as yoga, swimming coaching and table tennis) are regularly held.

4.3 Labour Standards

The Group is in strict compliance with the minimum age of employment stipulated by the country and the location where it operates, and expressly prohibits the employment of child labour in its corporate social responsibility policy. We set out forced labour prevention policies in our corporate management system and implement an order-driven production model. As approved by the local labour department, we implemented a work system with integrated computation of working hours to ensure staffs' right to rest and leave are protected and production and work tasks can be completed through collective working, collective rest, on shift and adjustment leave and flexible working hours, etc. In addition, the Group strictly implements the guarantee to female employees during the "three periods (periods of pregnancy, delivery and lactation)" in accordance with national regulations, and advocates and protects the legitimate rights of female employees.

In addition to prohibiting employment discrimination and forced labour exploitation while ensuring the elimination of child labour, we have zero tolerance for any form of discrimination or harassment. During the Reporting Period, the Group did not have any violation of child labour or forced labour regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.4 Health and Safety

The Company is committed to creating a safe, healthy and people-oriented working environment for its employees. We have established an occupational health and safety management system according to ISO45001, obtained a system certificate, and implemented an occupational health and safety management system. The Company has authorised the Vice President to be the representative of the Company's environmental management and occupational health and safety management, who is fully responsible for the establishment and operation of the safety and environmental system, and regular meetings with the persons in charge of the relevant departments to review the operation.

Except for sewing machines, protective features are installed for all other electric or heat-generating manufacturing equipment in the Wuli Plant as well as those in the fabric research and development and testing centres and sample workshop at the Headquarters. Workshop staff are required to wear wire gloves, safety goggles, masks and other protective gears to ensure their safety when operating equipments. There are safety supervisors in each production workshop who are responsible for regular safety inspections, training, and safety incident reporting. As for employee communication, we communicate with front-line employees actively, collect employees' opinions and explore potentials efficiently by entering into safety responsibility agreements and soliciting rationalised suggestions, and fully mobilise employees' enthusiasm for safety participation.

For the safety management of laboratory, the Group has formulated internal rules and regulations such as Laboratory Safety Assurance and On-site Management Procedures and Chemical Safety Protection and Rescue Operation Instructions to ensure our laboratories comply with the relevant policy requirements in respect of safety. In addition, we organise annual fire safety drills, fire safety knowledge training for employees, and deploy fire fighting equipment in factories and office buildings. We require both front-line staff of production lines and staff in office buildings to be acquainted with fire safety knowledge and proper way to use fire protection equipment to enhance their emergency response capabilities.

As for accident investigation and management, the Group conducts accident cause analysis, rectification and closed-loop management in a timely manner. Meanwhile, the risk and level of accidents are controlled to the lowest possible level by encouraging the reporting and improvement of near-misses to prevent serious accidents. In addition, the Group provides free medical examinations for workshop staff to safeguard their health.

	2021
Number of work-related fatalities	0
Total number of work injuries	0
Lost days due to work injury	0
Number of penalties or prosecutions for non-compliance with health and safety related laws and regulations	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.5 Staff Development and Training

The Group places great emphasis on staff training and provides its employees with pre-employment and on-the-job training and career development opportunities. As for on-job employee training, our training programs cover areas such as production craftsmanship, research and development, customer services, quality control, trade fair planning, workplace ethics and other areas relevant to the industry. The Group organises external training for outstanding employees from time to time every year, which covers finance, marketing, development and other aspects. To further enhance the design capability and technology, the Group has carried out in-depth cooperation with domestic textile and garment colleges, and conducted campus recruitment and publicity activities in colleges on a regular basis. The Group provides paid internship opportunities by conducting summer and spring internships for domestic textile and garment college students. The Group recruits talents from universities and technical schools to become management trainees every year, and ensures that all of its employees are assigned to appropriate roles, are treated fairly and are provided with development opportunities. The Group has formulated an integrated incubation and training program for management trainees. Under the program, a management trainee incubation team is established to provide training for fresh graduates with the support of designated counsellors. Upon joining the Company, new employees will participate in on-board training, which includes company introduction, organisation structure, rules and regulations and corporate culture, thus helping new employees to adapt to the Company.

The Group provides annual training to the management team of its distributors, covering areas relevant to retail management, such as retail services, retail data management, industry development and trade fair order-placing skills.

	2021
Total training hours of employees	7,824
The percentage of employees trained by employment type	
Top management	12.5%
Senior management	0%
Middle Management	38.3%
General staff	23.9%
Average training hours by employment type	
Top management	2.1
Senior management	0
Middle Management	4.5
General staff	1.8

4.6 Supply Chain Management

Besides development, we also cooperate with our upstream and downstream partners in the industry chain to promote responsible supply chains, continuously improve service quality, and promote the healthy and sustainable development of the industry. In selecting suppliers, the Group puts much emphasis on the legal compliance of their operations in addition to cost consideration. We will organise a dedicated group to review the information of production suppliers when selecting suppliers, and all licenses will be imported into our system. All dyeing factories, hardware electroplating, hardware painting, and washing suppliers are required to have local pollutant discharge permits. For fabric suppliers, the requirements for complying Chemical Environmental Protection Technical Requirements and Implementation Specifications for Apparels will be added in the contract. Before official cooperation, a joint task force comprising of members from various departments will be established to conduct one to two on-site inspection(s) on the suppliers to ensure stable workforce of suppliers and no employment of child labour. In the course of cooperation, suppliers will be required to provide updated licenses before relevant licenses are about to expire, and on-site inspections will be conducted from time to time.

All major raw material suppliers are required to comply with the Environmental Protection Law of the PRC and those with ISO14000 environmental management accreditation will be given the priority in the selection process. The Group collects relevant ISO system certifications from suppliers every year. During the Reporting Period, suppliers which account for approximately 50% of the Group's total raw material purchases have obtained ISO14000 certification.

As for communication with suppliers, the Group holds supplier meetings twice every year, and invites 40-50 supplier representatives to participate in the technical improvement and innovation conference to share production experience, and provide incentives to technicians who propose efficient solutions⁵.

During the Reporting Period, the Group had approximately 309 OEM product suppliers, raw material suppliers and sub-contracted processing suppliers, approximately two of them were overseas suppliers.

4.7 Product Responsibility

Over the past few years, the Group adhered to the strategy of "improving product quality without raising the price" and spared no effort in improving product design, craftsmanship and materials, with the aim of raising the proportion of original designs, enhancing the value-for-money of its products and increasing the competitiveness of its products and brand.

⁵ It was not convened in 2021 due to the pandemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

For product materials, the Group operates a state-approved fabric testing centre equipped with advanced machines to run various tests on fabrics, including their chemical composition (such as methanal and azo), colour fastness to light and perspiration, pilling and abrasion resistance, degree of shrinkage, etc., in order to ensure the fabrics are in compliance with the Group's and also the national standards. All fabrics used in products, whether self-manufactured or OEM purchased or outsourced for processing, are required to pass those tests. In addition, the Group imposes stringent requirements on product quality control. All products must pass the quality control inspection of the Group before packaging for delivery, whether they are produced by the Wuli Plant, OEM suppliers or process sub-contractors. The materials used in the products can be traced back to the place of origin. Each apparel has a unique code, which can be traced back to the fabric, the production factory (outsourced or in-house) and even the production team.

In accordance with the requirements of the Trademark Law of the PRC, all products bear labels specifying details such as fibre content of the fabrics and its washing method, as well as the national and enterprise product execution standards being adopted. Advertising campaigns in relation to the brand and products are conducted in accordance with the requirements of the new Advertising Law of the PRC.

Occasionally, the Group may find counterfeit products with LILANZ trademark available in the wholesale market or online. In the event that any such products are found, the Group will report it to relevant authorities. During the Reporting Period, the Group had not received any complaints from the regulatory body or consumers regarding product safety, nor had it recalled any product due to product safety or health issues.

4.8 Customer Privacy and Information Security

The Group pays great attention to customer privacy. The vice chairman of the Board of the Group is the highest person in charge of information security, and the information management centre is the executive department. To secure customer privacy, the information of its VIP customers in the database of retail distributors will only be used towards sales and promotion of the Group's products, and only relevant personnel of the Group and the relevant stores can access such information. Store managers can only see the membership data of their own stores. Meanwhile, we restrict the export of member information in batches, and the Group will regularly review the restriction technology of information security.

During the Reporting Period, the Group had no major computer system or network security incidents.

4.9 Customer Services

The Group always values the interests and satisfaction of customers. Apart from meeting customers' demands for high-quality products, the Group also focuses on solving customers' problems by providing timely and effective services to customers. The Group's nationwide sales network is dedicated to building a customer service management mechanism through various customer service channels, including customer opinion surveys, customer service centres and hotlines. When receiving customer feedback related to products, the store manager will conduct on-site verification, send the product back to relevant department for judgement and analysis as necessary, and assist in returning the product to customer after repairing.

4.10 Anti-corruption

The Company attaches great importance to integrity and self-discipline of the team. Managers at all levels are required to be a role model by maintaining high-handed posture of “zero tolerance” for fraud. A policy has been set up to deal with anti-corruption complaints in a view to prevent corruption, reduce operational risks and protect the legitimate interests of the Group. Under the Party Committee of the Company, we have a disciplinary committee and a legal committee in place to prevent corruption among employees and party members. All complaints regarding alleged corruption cases can be reported through specific channels (including email, telephone or mail) either on a named basis or anonymously, which will then be investigated and handled by the legal department and internal audit department under the guidance of the vice chairman of the Group. We have carried out corporate culture learning and system examinations to deepen our understanding and emphasis on the requirements of integrity and self-discipline. By strengthening warning and education learning, emphasising the significance of advocating integrity and self-discipline education to individuals and the Company, we assist in strengthening the integrity of our employees.

In addition to strengthening the Group’s own anti-corruption management work continuously, suppliers are required to be honest and self-disciplined to ensure that our procurement process is free from any hidden concerns of illegal acts such as bribery, extortion, fraud or money-laundering in a largest extent. In relevant business contracts, we have specifically added an integrity clause, stipulating that the counterparty shall not bribe our business personnel in any form, and a phone number and email address for complaints are provided.

During the Reporting Period, the Group did not have any lawsuits involving corruption and fraud, nor did it receive any complaints from employees about suspected corruption or fraud.

4.11 Community Investment

The Group cares about the need of the community and makes donations to educational associations or charitable organisations to the best of its ability every year. During the Reporting Period, the charitable donations of the Group amounted to RMB12.07 million in total, of which:

- 1) RMB10 million (including cash of RMB2 million and goods and supplies of RMB8 million⁶) was donated to Zhengzhou Charity Federation in August for the flood disaster rescue in Zhengzhou
- 2) RMB971,762.5 was sponsored to Jinjiang ISF Gymnasiade Sports Union in May
- 3) RMB0.40 million was donated to Adream Foundation
- 4) RMB0.10 million was donated to Jinjiang Lilang Charitable Foundation for the flood disaster rescue in Henan
- 5) RMB0.60 million was donated to Jinjiang Lilang Charitable Foundation for purchasing equipment for neighbouring schools and showing kindness to the elderly of neighbouring communities

In 2021, Lilang and Adream Foundation continued to cooperate in the “Lilang Dream Empowerment Program”, with the charitable vision of “love will always be there”. Under the program, June has been defined as the Lilang Charity Month, during which important campus issues in child development and school governance such as “home and school co-education” and guarding children’s dreams of travelling are focused.

⁶ Calculated at the retail price.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

5 APPENDIX I: INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE HONG KONG STOCK EXCHANGE

Subject Areas		Chapter	Note
A Environmental			
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.1	
KPI A1.1	The types of emissions and respective emissions data.	3.1	
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	-	Greenhouse gas emissions generated by the Group's operating activities are limited.
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	-	A very limited number of chemicals in the Group's fabric testing laboratory are used for inspection, where relevant hazardous wastes are collected and handled by qualified third parties. We will continue to observe regulatory changes to update any disclosures needed in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas		Chapter	Note
A Environmental			
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	-	The performance index of emission channels is not identified as a material issue of the Group. We will continue to observe regulatory changes to update any disclosures needed in the future.
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	3.1	
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	3.2	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	3.2	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2	
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	3.2	The Group sets an energy consumption target according to the production volume each year. We will continue to observe regulatory changes to update any disclosures needed in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas		Chapter	Note
A Environmental			
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	3.2	The Group sets a water consumption target according to the production volume each year. We will continue to observe regulatory changes to update any disclosures needed in the future.
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	3.2	
Aspect A3: The Environment and Natural Resources	General Disclosure	3.2	
	Policies on minimising the issuer's significant impacts on the environment and natural resources.	3.3	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.2 3.3	
Aspect A4: Climate Change	General Disclosure	3.4	
	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.		
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	3.4	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas		Chapter	Note
B Social			
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1	
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	4.1	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	4.1	
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.4	
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	4.4	The Group had zero incidents of work-related fatalities in the past three years.
KPI B2.2	Lost days due to work injury.	4.4	
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	4.4	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas	Chapter	Note	
B Social			
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.5	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.5	The percentage of employees trained by gender will be disclosed next year.
KPI B3.2	The average training hours completed per employee by gender and employee category.	4.5	The average training hours completed per employee by gender will be disclosed next year.
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	4.3	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.3	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	4.3	
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	4.6	
KPI B5.1	Number of suppliers by geographical region.	4.6	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	4.6	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas		Chapter	Note
B Social			
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	4.6	
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	4.6	
Aspect B6: Product Responsibility	<p>General Disclosure</p> <p>Information on:</p> <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. 	4.7	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.7	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	4.7	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.7	
KPI B6.4	Description of quality assurance process and recall procedures.	4.9	
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.8	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas	Chapter	Note
B Social		
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	4.10
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	4.10
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	4.10
KPI B7.3	Description of anti-corruption training provided to directors and staff.	4.10
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	4.11
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	4.11
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	4.11

CORPORATE GOVERNANCE REPORT

The Board is firmly committed to compliance of statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing transparency, accountability and integrity. Policies and practices on corporate governance are reviewed on a regular basis and as required to ensure that they remain appropriate and compliance with legal and regulatory requirements.

The Company complied with all code provisions of the Corporate Governance Code (the “Code Provisions”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the year ended 31 December 2021.

(A) BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The Directors recognize their collective and individual responsibility to the shareholders and perform their duties diligently to achieve positive results for the Company and to maximize returns for shareholders.

The Board currently comprises six Executive Directors and three Independent Non-executive Directors:

Executive Directors

Mr. Wang Dong Xing (*Chairman*)
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

Their biographical details and (where applicable) their family relationships are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 60 to 64 of the Annual Report. A list of the Directors identifying their role and function and whether they are Independent Non-executive Directors are available on the Company’s website.

The principal responsibilities of the Board include the formulation of the Group’s business strategies and management objectives, supervision of the management and evaluation of the effectiveness of management strategies. Day-to-day management of the Group’s businesses is delegated to the Executive Directors or senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

Matters reserved for the Board include those affecting the Group’s overall strategies, budget and plans, publication of financial statements, dividend policy, appointment of members to the various Board Committees and major investments. The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group’s senior management to fulfill their duties.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request. No such advice was sought during 2021.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. In 2021, no claims under the insurance policy were made.

Directors' Continuous Training and Professional Development

All Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2021 is as follows:

Directors	Types of continuous professional development programmes
Executive Directors	
Mr. Wang Dong Xing	B
Mr. Wang Liang Xing	B
Mr. Wang Cong Xing	B
Mr. Cai Rong Hua	B
Mr. Hu Cheng Chu	B
Mr. Pan Rong Bin	B
Independent Non-executive Directors	
Dr. Lu Hong Te	A
Mr. Nie Xing	B
Mr. Lai Shixian	A

Notes:

- A: Attending courses/seminars on business management, and/or corporate governance.
 B: Viewing director training webcasts on connected transactions, discloseable transactions, ESG governance and reporting.

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of and leadership for the Board and ensuring that good corporate governance practices and procedures are established. He is also responsible to ensure all Directors receive adequate information in a timely manner and are properly briefed on issues arising on board meetings.

The Chief Executive Officer, Mr. Wang Liang Xing, is responsible for managing the day-to-day operations of the Group's business.

The Company has kept these roles separated and distinctive as this ensures better checks and balances and hence better corporate governance.

Independence of Independent Non-executive Directors

The three Independent Non-executive Directors bring with them expertise in different areas. The role of the Independent Non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. The Independent Non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors.

Each Independent Non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the Independent Non-executive Directors are independent.

When nominating an Independent Non-executive Director who has served the Company for more than nine years, the Board will propose shareholders' vote by way of a separate resolution on any decision to re-elect such Independent Non-executive Director and include in the circular and/or explanatory statement accompanying the notice of the relevant general meeting to shareholders the reasons why the Board still considers such Director as independent and shall be re-elected. Mr. Lai Shixian who has served as an Independent Non-executive Director of the Company for over nine years, will retire from office and being eligible for re-election at the forthcoming annual general meeting of the Company to be held on 29 April 2022. Mr. Lai has thorough understanding of the Company's operations and business. As an Independent Non-executive Director, Mr. Lai has always contributed objectively in advising the Board and the senior management, expressing objective views, and giving valuable independent guidance to the Company in his capacity as Independent Non-executive Director over the years. He is currently the Chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Lai has been continuously demonstrating firm commitments to his role. Mr. Lai always places great importance on high standards of corporate governance. Due to his over 20 years of experience in the consumer market, Mr. Lai is able to provide valuable and useful advices and guidance to the Company in the relevant industry. Mr. Lai has never been engaged in any executive management of the Group. Mr. Lai has provided confirmation of his independence according to Rule 3.13 of the Listing Rules. The Board, with the recommendation of the Nomination Committee of the Company, considers that Mr. Lai remains independent for the purpose of the Listing Rules despite the fact that he has served the Board for over nine years. In accordance with Code Provision A.4.3 of the CG Code, the Company will include in the notice and the circular of the forthcoming annual general meeting of the Company the reasons why the Board still considers Mr. Lai as independent and shall be re-elected.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Committees

To cover particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. Each of the Committees is delegated by the Board with specific roles and responsibilities and reports to the Board on matters discussed and their findings. Their terms of reference are available on the Company's website.

All Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Lai Shixian. The Chairman of the Audit Committee is Mr. Nie Xing, whose expertise in financial planning and analysis, management, investment and corporate financing enables him to provide leadership for the Committee.

The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. These include reviewing the Group's interim and annual reports.

The Audit Committee had two meetings during the year ended 31 December 2021. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2020 and the interim report of the Group for the six months ended 30 June 2021, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

(ii) Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Executive Director, namely Mr. Lai Shixian, Mr. Nie Xing and Mr. Wang Cong Xing. Mr. Lai Shixian is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy as well as the specific remuneration packages for the Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director will take part in any discussion on his own remuneration.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board of Directors, market rates and factors such as each director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2021, the Remuneration Committee held one meeting to discuss and approve for recommendation to the Board the bonus (if any) for the year ended 31 December 2020 and salary adjustments (if any) for the year ended 31 December 2021 of Executive Directors and senior management.

Details of Directors' and senior management's remuneration are set out in notes 8 to 10 to the financial statements.

(iii) Nomination Committee

The Nomination Committee currently comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Dong Xing, Dr. Lu Hong Te and Mr. Nie Xing. Mr. Wang Dong Xing is the Chairman of the Nomination Committee.

The Company recognizes the benefits of having a Board that has a balance of experience, skills and diversity of perspectives appropriate to the requirements of the Company's businesses. The Board has adopted a Board Diversity Policy that appointment to the Board should be based on merit that compliments and expands the skills and experience of the Board as a whole, and after due regard to factors which include but not limited to gender, age, educational background, professional experience, skills and knowledge, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board. The Board shall review the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board.

The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and will at the appropriate time set measurable objectives for achieving diversity of the Board. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year ended 31 December 2021, the Nomination Committee held one meeting. In the meeting, the Nomination Committee had assessed the independence of Independent Non-executive Directors, considered and recommended to the Board on the retirement by rotation and re-election of Directors at the 2021 annual general meeting. The Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs and that the Directors bring with them complimenting skills and experience appropriate to the requirements of the Company's business. No candidate had been nominated for appointment as additional Director during the year.

(iv) Risk Management Committee

The Risk Management Committee currently comprises three Executive Directors, namely Mr. Wang Dong Xing, Mr. Wang Cong Xing and Mr. Pan Rong Bin. Mr. Wang Dong Xing is the Chairman of the Risk Management Committee.

The principal responsibilities of the Risk Management Committee are to review the risks facing the Group and to oversee management in the design, implementation and monitoring of the risk management system.

During the year ended 31 December 2021, the Risk Management Committee held one meeting to discuss and assess the principal risks facing the Group and the related control measures being taken. Key risk exposures of the Group identified are set out in the Management Discussion and Analysis on pages 8 to 24 of the Annual Report.

Board Proceedings

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Meetings

The attendance of individual Directors at Board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting, Risk Management Committee meeting and Annual General Meeting held during the year ended 31 December 2021 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Risk Management Committee Meeting	2021 Annual General Meeting
No. of meetings held during the year ended 31 December 2021	10	2	1	1	1	1
Executive Directors						
Mr. Wang Dong Xing	10	N/A	N/A	1	1	1
Mr. Wang Liang Xing	7	N/A	N/A	N/A	N/A	1
Mr. Wang Cong Xing	10	N/A	1	N/A	1	—
Mr. Cai Rong Hua	7	N/A	N/A	N/A	N/A	—
Mr. Hu Cheng Chu	7	N/A	N/A	N/A	N/A	1
Mr. Pan Rong Bin	7	N/A	N/A	N/A	1	—
Independent Non-executive Directors						
Dr. Lu Hong Te	4	2	N/A	1	N/A	1
Mr. Nie Xing	4	2	1	1	N/A	—
Mr. Lai Shixian	4	2	1	N/A	N/A	1

To supplement the formal Board meetings, the Chairman held regular gatherings with Directors to consider issues in an informal setting.

During the year, the Chairman had one meeting with the Independent Non-executive Directors without other Executive Directors present.

Appointment and Re-election of Directors

Each of the Executive Directors and Independent Non-executive Directors of the Company has entered into a service contract with the Company for a specific term subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Securities Dealing Code.

Company Secretary

Mr. Shum Chi Chung, was appointed and Ms. Ko Yuk Lan has resigned as the Company Secretary with effect from 30 September 2021 with approval from the Board. Mr. Shum and Ms. Ko are full time employees of the Group and have day- to-day knowledge of the Company's affairs. During the financial year, Mr. Shum and Ms. Ko has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Mr. Shum is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 60 to 64 of the Annual Report.

(B) FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Companies Ordinance and applicable disclosure provisions of the Listing Rules. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Risk Management and Internal Controls

The Board recognizes its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and to ensure that the Group establishes and maintains effective risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

(i) Enterprise Risk Management ("ERM") Framework

The Company's ERM processes are summarized as follows:



The risk management systems are reviewed annually to ensure appropriateness and effectiveness.

Key risks exposures of the Group are summarized in the paragraph headed "Principal Risks and Uncertainties" in the Management Discussion and Analysis set out on pages 8 to 24 of this Annual Report.

(ii) Internal Controls

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage risks. A designated staff has been appointed to carry out internal control review on a day to day basis. The Group also continues to engage KPMG Advisory (China) Limited as internal control review advisor to assist in the review of the effectiveness of the internal control system. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic rotational basis based on the risk assessments of the operations and controls. The scope of review for the year had been determined and approved by the Audit Committee. No major issues but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited and has adopted an Inside Information Policy to ensure compliance of the Listing Rules. Prior to the announcement of any inside information, all Directors and senior management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Stock Exchange for a trading suspension of its shares.

External Auditor

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year, the fees payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB3,300,000. Fees payable to KPMG for non-audit services in respect of internal control review, tax and ESG report advisory services for the year amounted to RMB727,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

(C) NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International Limited and Ming Lang Investments Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than the Group) to compete directly or indirectly with the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in the Group's favour on 4 September 2009.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, the Company has adopted the following corporate governance measures:

- (i) the Independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;
- (ii) the Company will disclose any decisions on matters reviewed by the Independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through the annual report or by way of announcement;
- (iii) the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and
- (iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company's articles of association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders.

Each of the Controlling Shareholders has confirmed to the Company that he/it has complied with the non-compete undertaking during the year. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

(D) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

Investors Relations

The Company believes that effective communication with its shareholders and the investment community in a fair and timely basis is essential. Continuous dialogue is held with research analysts and institutional investors by means of one on one meetings, conference calls and investors conferences to keep them abreast of the Group's business and development.

Shareholders' Rights

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong or via email to ir@lilanz.com.hk.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, 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 Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors 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 twenty-one (21) days of such deposit the Directors fail 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 Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

The attendance record of the Directors at the annual general meeting held during the year is set out under the paragraph headed "Meetings" above.

The dividend policy of the Company is set out under the paragraph headed "Dividend Policy" in the Management Discussion and Analysis set out on pages 8 to 24 of the Annual Report.

During the financial year, there were no changes in any of the Company's constitutional documents.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 61, is the chairman and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for formulating operation direction, devising annual plan and financial budget and making recommendations on significant investments of the Group to the Board for approval. He completed a diploma programme for chief executive officers of enterprises (企業總裁高級研修班) from the Economics College of Peking University (北京大學經濟學院), an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a CEO to Lead the Future Programme (引領未來 CEO 課程) organized by the Shanghai Advanced Institute of Finance at Shanghai Jiao Tong University (上海交通大學上海高級金融學院). Mr. Wang has over 30 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is a member of the Fujian Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會), a representative of the Quanzhou Municipal People's Congress (泉州市人民代表大會) and standing vice chairman of the Jinjiang City Sewing and Apparel Association (晉江市紡織服裝協會). He is also vice chairman of the Jinjiang Committee of China Democratic National Construction Association (民主建國會晉江委員會), standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯(總商會)) and chairman of the Quanzhou APEC Business Travel Card Association (泉州市APEC(亞太經合組織)商務旅行卡協會).

Mr. Wang is the elder brother of Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are also executive Directors of the Company. He is the brother-in-law of Mr. Chen Wei Jin, a member of the senior management of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company.

Mr. Wang Liang Xing (王良星先生), aged 59, is the vice chairman, the chief executive officer and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. He has been with the Group since its establishment in April 1995 and is one of the founders of the Group. Mr. Wang is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for the corporate development of the Group and recommending the appointment of senior management to the Board. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), an EMBA programme organised by Xiamen University (廈門大學), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a Global CEO Programme (全球CEO課程) organized by China Europe International Business School (中歐國際工商學院). Mr. Wang has over 30 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is the vice-chairman and standing supervisor of the Enterprises Credit Management Association of Quanzhou City (泉州市企業合同信用管理協會第一屆理事會) and a supervisor of the Garment Association of the PRC (中國服裝協會). He was one of 50 persons honoured with a 2005 PRC Enterprises trademark Award (2005中國企業商標50人) and was accredited as the "Brand China People of the Year 2010" (2010品牌中國年度人物).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Cong Xing, and the brother-in-law of Mr. Cai Rong Hua, who are also executive Directors of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Cong Xing (王聰星先生), aged 53, is the vice chairman and an executive Director of the Company. He was appointed as an executive Director on 2 January 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for finance and information technology management for the Group. He is also responsible for the internal management system of the Group and supervising the implementation of the annual, quarterly and monthly financial plans of the Group. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. Mr. Wang has over 30 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Liang Xing, who are also executive Directors of the Company. He is also a director and one of the shareholders of Ming Lang Investments Limited and Xiao Sheng International Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Cai Rong Hua (蔡榮華先生), aged 53, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for product research and development for the Group. He is also responsible for negotiating with the major suppliers of the Group. Mr. Cai completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) and an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院). He has over 20 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Cai is the brother-in-law of Mr. Wang Liang Xing, who is also an executive Director of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Hu Cheng Chu (胡誠初先生), aged 77, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for brand management and public relation for the Group. Mr. Hu completed part-time professional political engineering course and professional administrative management course from Fudan University in 1988 and 1989, respectively, and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院). He is currently the vice chairman of the Quanzhou Association of Professional Managers (泉州職業經理人協會), a supervisor of the Association of China Brand Managers of the Brand China Industry Union (品牌中國產業聯盟之中國品牌經理人協會) and the honorary chairman of Fujian Micro Electronic Commerce Industry Association (福建省微電商行業協會). He was honoured as Jinjiang City Honorable Citizen (晉江市榮譽市民) in 2012 and also accredited as:

- one of the top 10 planners for corporate sales and marketing in the PRC for the year 2007 to 2008, and for the year 2009 to 2010 (2007-2008 年及2009-2010 年中國 10 大企業營銷策劃人);
- one of the top 10 brand managers in China for the year 2010 (2010 中國十大品牌經理人);
- the China Great Wall outstanding advertising personage award for the year 2011 (2011 年中國廣告主長城獎人物獎之功德獎);

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

- the excellent chief brand officer in China for the year 2013 (2013中國卓越首席品牌官);
- one of the top 10 planners for brand marketing of China's enterprises for the year 2015 (2015中國企業十大品牌營銷策劃人);
- the excellent brand officer in China for the year 2016 (2016中國卓越品牌官); and
- one of the top 10 planners for brand marketing in China for the year 2016 (2016中國十大品牌營銷策劃人)

Mr. Hu is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Pan Rong Bin (潘榮彬先生), aged 48, is an executive Director of the Company. He joined the Group in February 2003 and was appointed as an executive Director on 13 June 2008. Prior to acting as the general manager of the Group's LILANZ brand since March 2011, Mr. Pan was responsible for the marketing and distribution operations of LILANZ.

Mr. Pan completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (福建省南平市人民代表大會). From 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (中國人民政治協商會議福建省建陽市委員會). He was honoured with the award for the Model of Labour in Quanzhou City, Fujian Province (福建省泉州市勞動模範) in May 2006. He was also accredited as the outstanding personage in the development of retail industry (零售業卓越推動人物) in the "Golden Coordinate" (金座標) award organised by winshang.com 《贏商網》 together with mainstream commercial real estate media in China in April 2018. He has over 20 years of management experience in the menswear industry in the PRC.

Mr. Pan is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Independent Non-executive Directors

Dr. Lu Hong Te (呂鴻德博士), aged 61, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Dr. Lu obtained a bachelor's degree in management from National Cheng Kung University in 1983 and a master's degree and a doctoral degree in business from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Dr. Lu is a professor at the department of business administration at Chung Yuan Christian University in Taiwan, specialising in marketing and sales management and corporate competitive strategies. He also serves as a visiting professor at several institutions, including SGP International Management Academy, Nanyang Technological University's EMBA Centre and Xiamen University's EMBA Centre.

Dr. Lu is an independent non-executive director of three companies in Taiwan, namely Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076), Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245) and Uni-President Enterprises Corporation (統一企業股份有限公司) (stock code: 1216), the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of two other companies, namely, China SCE Property Holdings Limited (中駿置業控股有限公司) (stock code: 1966) and Cosmo Lady (China) Holdings Company Limited (都市麗人(中國)控股有限公司) (stock code: 2298), the shares of which are listed on the Stock Exchange. During the last three years, Dr. Lu was also an independent non-executive director of two other companies, namely ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), and Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), the shares of which are listed on the Stock Exchange. He resigned as independent non-executive director of these two companies on 1 March 2019 and 23 October 2020.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Nie Xing (聶星先生), aged 57, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Mr. Nie is a graduate from Jiangxi University of Finance and Economics (江西財經學院) with a bachelor's degree in economics in 1986 and further obtained a master's degree in business administration from the Open University of Hong Kong (香港公開大學) in December 2000. Mr. Nie has substantial experience in financial planning and analysis, management, investment and corporate financing. He is currently the chairman of the Audit Committee.

Mr. Lai Shixian (賴世賢先生), aged 47, is an independent non-executive Director of the Company. He joined the Board on 13 December 2012. Mr. Lai is an executive director and chief financial officer of ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), the shares of which are listed on the Stock Exchange, and is primarily responsible for the administrative and financial management of that group of companies. Mr. Lai holds an EMBA degree from China Europe International Business School.

SENIOR MANAGEMENT

Mr. Shum Chi Chung (岑嗣宗先生), aged 47, is the chief financial officer and company secretary of the Company. He joined the Group in August 2021. Mr. Shum graduated from the Hong Kong University of Science and Technology with a bachelor's degree in Business and Administration (Accountancy). He has over 20 years of extensive experience in audit, financial management, corporate finance and compliance. Prior to joining the Group, he had worked in an international accounting firm and other companies listed on the Main Board of the Stock Exchange. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Shi Mei Ya (施美芽女士), aged 45, is the head of the production management department of the Group. She completed a programme in fine chemical engineering at Fujian Radio and TV University (福建省廣播電視大學) in 1998 and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. She also completed a programme in project management and a master programme in business administration for senior managers (高級經理工商管理碩士課程) at Xiamen University (廈門大學). Ms. Shi joined the Group on 1 August 1998 and has been the head of production management department of the Group since November 2008.

Mr. Zhang Yu Feng (章宇峰先生), aged 51, is the head of group strategy development department of the Group. He graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in professional trade and economics in 1992 and completed an EMBA core course from Cheung Kong Graduate School of Business (長江商學院) in 2006. From 1992 to 2007, he had worked in S. C. Johnson & Son, Inc. (美國莊臣父子公司) as sales representative and branch office manager, worked in Coty Inc. (法國科蒂化妝品集團) as regional manager and sales manager in China region, worked in Henkel AG (德國漢高公司) as national trade marketing manager and national sales director, worked in Li Ning Company Limited (李寧有限公司) as department head targeting key clients and worked in Puma China (彪馬中國) as regional sales and marketing manager for the eastern, central and western China regions. He joined the Group on 27 August 2007 and was the head of marketing in the sales and marketing department of the Group's LILANZ brand prior to acting as the head of group strategy development department since January 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Zhuang Zhi Han (莊志函先生), aged 52, is the financial controller of the Group. He graduated from Faculty of Accountancy from East China Technology University (華東工業大學) with a bachelor's degree in economics major in accounting in 1994. He obtained an EMBA degree from Xiamen University (廈門大學) in December 2012. Prior to joining the Group, he worked in Xiixin Electronic Stock Company Limited (夏新電子股份有限公司), responsible for the overall financial affairs. He joined the Group on 1 September 2008.

Mr. Chen Wei Jin (陳維進先生), aged 52, is the head of the group ordering department of the Group. He graduated from Zhangzhou Normal University (漳州師範學院) with a professional diploma in administration in July 2000 and completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 1989 to 2004, he served as the general manager of Jinjiang Weixin Knitters Factory (晉江維信針織廠). From 1996 to 2004, he also worked in the Jinjiang branch office of the China Life Insurance Company Limited (中國人壽保險有限公司晉江支公司) as the general manager of the sales department, where he was recognised as pioneer of sales and marketing (營銷標兵) from 1998 to 2000 and outstanding supervisor (優秀理事) for the year 2002. He joined the Group on 1 March 2004 as the manager of the group ordering department of the Group. Mr. Chen is the brother-in-law of Mr. Wang Dong Xing, an executive Director of the Company.

Mr. Huang Ming Hai (黃明海先生), aged 46, is the financial controller of the Group's brand LILANZ. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), a programme in financial management at the Adult Education College of Huaqiao University (華僑大學成人教育學院), an advanced programme for head of finance (財務領袖高級研修班課程) at Commerce College of Huaqiao University (華僑大學商學院), and a distance-learning professional programme in accounting for higher education of adults (成人高等教育會計學專業函授課程) at the Fujian Agriculture and Forestry University Continuing Education School (福建農林大學成人教育學院). He joined the Group on 24 April 1995.

REPORT OF THE DIRECTORS

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and has its registered office at Suite 3402, 34/F., Lippo Centre, Tower One, 89 Queensway, Hong Kong. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 34 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 24 of this Annual Report. This discussion forms part of this directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2021		2020	
	Percentage of the Group's Total Sales	Percentage of the Group's Total Purchases	Percentage of the Group's Total Sales	Percentage of the Group's Total Purchases
The largest customer	3.7%		3.4%	
Five largest customers in aggregate	13.9%		16.2%	
The largest supplier		5.7%		5.9%
Five largest suppliers in aggregate		19.3%		19.0%

At no time during the year have the Directors, their associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 136 of the Annual Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2021 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 81 to 135 of the Annual Report.

REPORT OF THE DIRECTORS (CONTINUED)

TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB468,127,000 (2020: RMB557,242,000) has been transferred to reserves. Other movements in reserves of the Group are set out in the consolidated statement of changes in equity.

An interim dividend of HK13 cents (2020: HK12 cents) per ordinary share and a special interim dividend of HK5 cents (2020: HK5 cents) per ordinary share were paid on 24 September 2021. The Directors now recommend the payment of a final dividend of HK11 cents (2020: HK19 cents) per ordinary share and a special final dividend of HK5 cents (2020: HK8 cents) per ordinary share in respect of the year ended 31 December 2021.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB3,970,000 (2020: RMB4,553,000).

NON-CURRENT ASSETS

Details of acquisitions and other movements of non-current assets (including property, plant and equipment, investment properties, right-of-use assets and intangible assets) are set out in notes 12 to 15 to the consolidated financial statements.

BANK FACILITIES

Particulars of bank facilities of the Group as at 31 December 2021 are set out in note 20 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26(a) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2021 and at any time up to the date of this Annual Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2021.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Wang Dong Xing (*Chairman*)

Mr. Wang Liang Xing

Mr. Wang Cong Xing

Mr. Cai Rong Hua

Mr. Hu Cheng Chu

Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te

Mr. Nie Xing

Mr. Lai Shixian

Details of the Directors' biographies are set out on pages 60 to 64 of the Annual Report.

In accordance with article 105(a) of the Company's articles of association, Mr. Wang Cong Xing, Mr. Hu Cheng Chu and Mr. Lai Shixian will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2021, 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 ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules:

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number of shares (Note 1)	Number of underlying shares (Notes 1 & 2)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	—	1.917%
	Xiao Sheng International (Note 3)	Beneficial owner	2,550 shares of US\$1.00 each (L)	—	26.289%
Mr. Cai Rong Hua	The Company	Beneficial owner	1,810,000 shares (L)	—	0.151%
	The Company	Settlor of a discretionary trust (Note 4)	7,200,000 shares (L)	—	0.601%
	Xiao Sheng International (Note 3)	Settlor of a discretionary trust (Note 4)	800 shares of US\$1.00 each (L)	—	8.247%

REPORT OF THE DIRECTORS (CONTINUED)

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number of shares (Note 1)	Number of underlying shares (Notes 1 & 2)	Approximate percentage of shareholding
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	—	0.376%
	Xiao Sheng International (Note 3)	Beneficial owner	500 shares of US\$1.00 each (L)	—	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,171,000 shares (L)	—	0.264%
	The Company	Interest of spouse	—	150,000 shares (L)	0.013%
	Xiao Sheng International (Note 3)	Beneficial owner	300 shares of US\$1.00 each (L)	—	3.093%

Notes:

- The letter "L" denotes the Directors' long position in the shares and underlying shares of the Company or the relevant associated corporation.
- The interests in underlying shares represent the interests in share options granted pursuant to the Company's share option scheme, details of which are set out in the paragraph headed "Equity-Settled Share-Based Payments" in this report.
- Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- The interests of Mr. Cai Rong Hua in 7,200,000 shares of the Company and 800 shares of Xiao Sheng International are held through Jia Fa International Limited ("JFIL"). The entire issued share capital of JFIL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Save in connection with any share options to subscribe for the shares of the Company which may be granted to any of the Directors or chief executives under the Company's share option scheme as detailed in the paragraph headed "Equity-settled Share-Based Payments" in this report, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.24%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.26%

Notes:

- (1) the letter "L" denotes the person's long position in the shares of the Company.
- (2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Luxuriant Treasure Global Limited, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.
- (4) The entire issued share capital of Jia Fa International Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai Rong Hua as the settlor. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 31 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE

During the year, save as disclosed in note 31 to the consolidated financial statements, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

COMPETING BUSINESS

Each of Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International and Ming Lang Investments (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 4 September 2009. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2021.

EQUITY-SETTLED SHARE-BASED PAYMENTS

The Company has adopted a share option scheme (the "2019 Share Option Scheme") pursuant to an ordinary resolution passed by the Shareholders in the extraordinary general meeting on 23 April 2019 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

REPORT OF THE DIRECTORS (CONTINUED)

Eligible participants of the 2019 Share Option Scheme include (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides design, research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly-owned by one or more eligible participants as referred to in (i) to (vii) above.

Subject to the earlier termination of the 2019 Share Option Scheme in accordance with the rules thereof, the 2019 Share Option Scheme shall remain in force for a period of ten years commencing on 23 April 2019.

The maximum number of shares issuable upon the exercise of options granted under the 2019 Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The total number of shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which have been or may be granted under the 2019 Share Option Scheme and any share option scheme of the Group must not in aggregate exceed 119,748,491 shares, representing 10% of the shares of the Company in issue as at 23 April 2019 (the date of approval of the 2019 Share Option Scheme) and as at the end of reporting period and the date of approval of this report. The maximum number of shares which may fall to be issued upon exercise of the options to be granted under the 2019 Share Option Scheme and the options granted under any other share option scheme of the Group (including both exercised and outstanding options) to be granted by the Company or any other member of the Group in any given financial year of the Company shall not exceed 5% of the Shares in issue as at the beginning of such financial year. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2019 Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

REPORT OF THE DIRECTORS (CONTINUED)

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

On 3 July 2020, the Company granted options to subscribe for an aggregate 11,500,000 shares of the Company to its senior management and employees under the 2019 Share Option Scheme. The closing prices of the Company's shares immediately before the date of grant and on the date of grant were HK\$4.23 and HK\$4.31 respectively. Details of the options granted are set out below:

Name or category of participants	Number of options					As at 31 December 2021	Exercise price	Exercise period
	As at 1 January 2021	Granted	Exercised	Cancelled	Lapsed			
Mr. Chen Wei Jin (note 1(a))	433,000	—	—	—	—	433,000	HK\$4.31	Note 2(a)
Mr. Wang Jun Hong (note 1(b))	350,000	—	—	—	—	350,000	HK\$4.31	Note 2(b)
Mr. Wang Zhi Yong (note 1(c))	350,000	—	—	—	—	350,000	HK\$4.31	Note 2(b)
Ms. Chen Zhi Mei (note 1(d))	150,000	—	—	—	—	150,000	HK\$4.31	Note 2(b)
Employees	10,217,000	—	—	—	—	10,217,000	HK\$4.31	Note 2(c)
	11,500,000					11,500,000		

Notes:

- 1 Options granted to associates (as defined in the Listing Rules):
 - a. Mr. Chen Wei Jin, the head of the group ordering department of the Group, is the brother-in-law of Mr. Wang Dong Xing, an executive Director and a controlling shareholder of the Company.
 - b. Mr. Wang Jun Hong, a president of the product planning department of the Group, is the son of Mr. Wang Dong Xing.
 - c. Mr. Wang Zhi Yong, a vice president of the sales and marketing department of the Group, is the son of Mr. Wang Liang Xing, an executive Director and a controlling shareholder of the Company.
 - d. Ms. Chen Zhi Mei, the assistant to the head of the sales and marketing department of the Group, is the wife of Mr. Pan Rong Bin, an executive Director of the Company.
- 2 Exercisable periods of options granted:
 - a. The options are exercisable by the grantee during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 129,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 259,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

REPORT OF THE DIRECTORS (CONTINUED)

- b. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 30% of the options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.
- c. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 3,033,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 6,113,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

Information on the accounting policy for share options granted is provided in note 1(o)(ii). As at 31 December 2021, the total grant date fair value of the outstanding share options, all being unvested, measured in accordance with the accounting policy set out in note 1(o)(ii) to the financial statements, amounted to RMB9,241,000. Assuming that all the options outstanding as at 31 December 2021 are exercised, the Company will receive proceeds of HK\$49,565,000.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 27 to the consolidated financial statements.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Wang Dong Xing
Chairman

Hong Kong, 18 March 2022

INDEPENDENT AUDITOR'S REPORT



to the shareholders of China Lilang Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Lilang Limited ("the Company") and its subsidiaries ("the Group") set out on pages 81 to 135, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Revenue recognition	
<i>Refer to note 3 to the consolidated financial statements and the accounting policy note 1(r) .</i>	
The key audit matter	How the matter was addressed in our audit
<p>Revenue of sales to distributors and consignees principally comprises sales of menswear goods, including tops, pants and accessories.</p> <p>Every year, the Group enters into a framework distribution agreement with each distributor and a consignment agreement with each consignee and manufactures or sources its products in accordance with the terms of separate purchase orders.</p> <p>For sales to distributors, once the products are delivered to the location designated by the distributor which is the point at which the control of the menswear goods is considered to have been transferred to the distributor and the point at which revenue is recognised.</p> <p>For sales through consignees, once the products are sold to end users by the consignee, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point. The Group receives confirmations of the transaction amounts from the consignees on a monthly basis.</p> <p>We identified the recognition of revenue of sales to distributors and consignees as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of management's key internal controls over revenue recognition; • inspecting agreements with distributors and consignees, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, rebate and sales return to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period by comparing the transactions selected with relevant supporting documents, including goods delivery notes or monthly confirmations from consignees and the terms of sale as set out in the distribution or consignment agreements; • identifying significant credit notes issued and sales returns from the sales ledger after the year end and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate financial period in accordance with the requirements of the prevailing accounting standards; • obtaining external confirmations of the value of sales transactions for the year ended 31 December 2021 and outstanding trade receivable balances as at that date directly from distributors and consignees, on a sample basis; • selecting a sample of sales journals during the financial year that met certain risk-based criteria and comparing details of these journals with the relevant supporting documents; and • inspecting a sample of manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Valuation of inventories	
<i>Refer to note 16 to the consolidated financial statements and the accounting policy note 1(i).</i>	
The key audit matter	How the matter was addressed in our audit
<p>Inventories are carried at the lower of cost and net realisable value in the consolidated financial statements of the Group. In the event that net realisable value falls below cost, the difference is taken as write-down of inventories.</p> <p>Sales of menswear goods to end customers can be volatile due to changing fashion trends, consumer demand and economic conditions. The Group organises various promotional activities to accelerate the selling of past-season inventories. Accordingly, the actual future selling prices of certain items of inventory may fall below their costs.</p> <p>Management considers several factors in determining the appropriate level of inventory provisions, including ageing patterns of inventory, sales history at normal prices and discounted prices, and the channels available for selling past-season inventories.</p> <p>We identified the valuation of inventories as a key audit matter as significant judgement is required to be exercised by management in determining the net realisable value of inventories, which involves predicting the amounts of inventory which will be sold in different channels and the discounts to offer in order to sell these inventories. These factors can be inherently uncertain.</p>	<p>Our audit procedures to assess the valuation of inventories included the following:</p> <ul style="list-style-type: none"> • assessing whether the calculation of the provision for inventories at the reporting date was consistent with the Group's inventory provision policy by recalculating the provision based on the relevant parameters in the Group's inventory provision policy and evaluating the Group's inventory provision policy with reference to the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by comparing the individual inventory items with the underlying documents, including the relevant purchase records; • performing a retrospective review by comparing the carrying value of inventories at the end of the previous reporting period with the actual price for their sales transactions during the reporting period, on a sample basis, to assess the historical accuracy of management's assessment of inventory write-downs and whether there is any indication of management bias; • evaluating the Group's inventory provision policy by comparing management's prediction of the amounts of inventory which will be sold in different channels and the discounts to offer in order to sell these inventories with historical sales of inventories and discount offered for the current and prior years; and • enquiring of management about any expected changes in plans for promotional activities to accelerate the selling of past-season inventories and comparing, on a sample basis, the carrying value of inventories at the reporting date with the actual price for their sales transactions subsequent to the reporting date.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As part of an audit in accordance with HKSAAs, 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 Guen Kin Shing.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021
(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Revenue	3	3,379,480	2,680,835
Cost of sales		(1,964,475)	(1,477,031)
Gross profit		1,415,005	1,203,804
Other net income	4	89,210	105,508
Selling and distribution expenses		(795,311)	(491,874)
Administrative expenses		(171,335)	(108,371)
Other operating expenses		(4,816)	(57,682)
Profit from operations		532,753	651,385
Net finance income	5	28,464	43,401
Profit before taxation	6	561,217	694,786
Income tax	7(a)	(93,090)	(137,544)
Profit for the year		468,127	557,242
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		(5,092)	9,461
Total comprehensive income for the year		463,035	566,703
Earnings per share			
	11		
Basic (cents)		39.09	46.53
Diluted (cents)		39.04	46.51

The notes on pages 85 to 135 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021
[Expressed in Renminbi]

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	12	1,200,183	923,727
Investment properties	13	118,772	122,198
Right-of-use assets	14	289,437	279,407
Intangible assets	15	6,919	7,914
Deposits for purchases of plant and equipment		20,558	3,100
Lease rental deposits	14	44,296	32,869
Deferred tax assets	24(b)	55,053	24,310
		1,735,218	1,393,525
Current assets			
Inventories	16	893,737	667,054
Trade and other receivables	17	795,076	1,210,168
Pledged bank deposits	18	12,104	1,710
Cash and cash equivalents	19(a)	1,571,619	1,738,934
		3,272,536	3,617,866
Current liabilities			
Bank loans	20	72,620	—
Trade and other payables	21	870,083	1,036,022
Lease liabilities	22	97,568	62,003
Contract liabilities	23	46,429	37,463
Current tax payable	24(a)	174,766	152,489
		1,261,466	1,287,977
Net current assets		2,011,070	2,329,889
Total assets less current liabilities		3,746,288	3,723,414
Non-current liabilities			
Deferred tax liabilities	24(b)	9,217	7,963
Lease liabilities	22	63,683	61,926
		72,900	69,889
Net assets		3,673,388	3,653,525
Capital and reserves			
Share capital	26(a)	105,517	105,517
Reserves		3,567,871	3,548,008
Total equity		3,673,388	3,653,525

Approved and authorised for issue by the board of directors on 18 March 2022.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 85 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021
(Expressed in Renminbi)

	Note	Share capital (note 26(a)) RMB'000	Share premium (note 26(d)(i)) RMB'000	Statutory reserve (note 26(d)(iii)) RMB'000	Capital reserve (note 26(d)(iii)) RMB'000	Exchange reserve (note 26(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020		105,517	31,411	263,467	23,176	(37,369)	3,220,077	3,606,279
Changes in equity for 2020:								
Profit for the year		—	—	—	—	—	557,242	557,242
Other comprehensive income for the year		—	—	—	—	9,461	—	9,461
Total comprehensive income for the year		—	—	—	—	9,461	557,242	566,703
Equity-settled share-based payment	26(d)(iii)	—	—	—	1,765	—	—	1,765
Dividends approved in respect of the previous year	26(c)	—	—	—	—	—	(341,671)	(341,671)
Dividends declared in respect of the current year	26(c)	—	—	—	—	—	(179,551)	(179,551)
Appropriation to statutory reserve		—	—	2,570	—	—	(2,570)	—
At 31 December 2020 and 1 January 2021		105,517	31,411	266,037	24,941	(27,908)	3,253,527	3,653,525
Changes in equity for 2021:								
Profit for the year		—	—	—	—	—	468,127	468,127
Other comprehensive income for the year		—	—	—	—	(5,092)	—	(5,092)
Total comprehensive income for the year		—	—	—	—	(5,092)	468,127	463,035
Equity-settled share-based payment	26(d)(iii)	—	—	—	3,302	—	—	3,302
Dividends approved in respect of the previous year	26(c)	—	—	—	—	—	(267,936)	(267,936)
Dividends declared in respect of the current year	26(c)	—	—	—	—	—	(178,538)	(178,538)
Appropriation to statutory reserve		—	—	4,957	—	—	(4,957)	—
At 31 December 2021		105,517	31,411	270,994	28,243	(33,000)	3,270,223	3,673,388

The notes on pages 85 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021
 (Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Cash generated from operations	19(b)	698,851	927,833
Tax paid	24(a)	(100,302)	(154,538)
Net cash generated from operating activities		598,549	773,295
Investing activities			
Payments for purchases of property, plant and equipment		(302,138)	(225,000)
Payments for lease rental deposits		(11,427)	(32,869)
Payments for purchases of intangible assets		(2,514)	(3,486)
Proceeds from disposal of property, plant and equipment		1,623	23
Disposal of subsidiary, net of cash disposed of		—	25,763
Interest income received		34,411	44,784
Net cash used in investing activities		(280,045)	(190,785)
Financing activities			
Capital element of lease rentals paid	19(c)	(99,319)	(63,768)
Proceeds from bank loans	19(c)	72,620	335,000
Repayment of bank loans	19(c)	—	(335,000)
Interest element of lease rentals paid	19(c)	(8,146)	(3,587)
Interest expense paid on bank loans		(1,597)	(1,753)
Dividends paid	26(c)	(446,474)	(521,222)
Net cash used in financing activities		(482,916)	(590,330)
Net decrease in cash and cash equivalents		(164,412)	(7,820)
Cash and cash equivalents at 1 January		1,738,934	1,750,609
Effect of foreign exchange rate changes		(2,903)	(3,855)
Cash and cash equivalents at 31 December	19(a)	1,571,619	1,738,934

The notes on pages 85 to 135 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and interpretations issued by the International Accounting Standards Board (the “IASB”) and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of significant accounting policies adopted by the Group is set out below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the “Group”).

The consolidated financial statements are presented in Renminbi (“RMB”) rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of these financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(ii)).

(d) Property, plant and equipment

Property, plant and equipment (including construction in progress) are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

No depreciation is provided in respect of construction in progress.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.
- Leasehold improvements shorter of 5 years or remaining term of the lease
- Plant and machinery 10 years
- Motor vehicles 5 years
- Office equipment 5 years
- Furniture and fixtures 5 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Investment properties

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the shorter of the unexpired term of the lease and its estimated useful life, being no more than 40 years after the date of completion.

(f) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leased assets (Continued)

(i) As a lessee (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

Depreciation is calculated to write off the cost of items of right-of-use assets, using the straight-line method over the unexpired term of leases as follows:

— Land use rights	50 years
— Properties leased for own use	1-5 years

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see note 1(r)(ii) and 1(h)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position. The current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leased assets (Continued)

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

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. The rental income from operating leases is recognised in accordance with note 1(r)(iv).

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- Computer software 5 years

Both the useful life and method of amortisation are reviewed annually.

(h) Credit losses and impairment of assets

(i) Credit losses from financial assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for fixed-rate financial assets and trade and other receivables where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

Measurement of ECLs (Continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

Significant increases in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial asset's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial assets' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- investment properties;
- right-of-use assets;
- intangible assets; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.
- Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).
- Reversals of impairment losses
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(k)).

(k) Trade and other receivables

Trade and other receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including less allowance for credit losses (see note 1(h)(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(t)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(h)(i).

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, or the lessee has the right to use the asset at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax and is after deduction of any trade discounts, rebates and goods returns.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

For sales to distributors, once the products are delivered to the location designated by the distributor which is the point at which the control of the goods is considered to have been transferred to the distributor and the point at which revenue is recognised.

For sales through consignees, once the products are sold to end users by the consignee, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point.

For sales through retailing, once the products are sold to end users, the control of the goods is considered to have been transferred and the point at which revenue is recognised.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(h)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised in profit or loss upon on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. 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 earned.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“functional currency”). The functional currency of the Company and its subsidiaries outside mainland China is Hong Kong dollars and the functional currency of the subsidiaries in mainland China is Renminbi.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

The results of operations outside mainland China are translated into Renminbi at the average exchange rates for the year which approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates ruling at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the year in which they are incurred.

(u) Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group’s research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).
 - (g) A person identified in (i)(a) 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).
 - (h) 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 Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Segment reporting (Continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, manufacturing and sale of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. Revenue represents the sales value of goods sold less returns, discounts, rebates and value added taxes ("VAT").

During the years ended 31 December 2021 and 2020, there was no customer with whom transactions exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from customers are set out in note 29(a).

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts that had an original expected duration of one year or less and does not disclose information about remaining performance obligations as at 31 December 2020 and 2021.

4 OTHER NET INCOME

	2021 RMB'000	2020 RMB'000
Government grants (note)	75,034	89,814
Rental income from investment properties	3,300	4,248
Compensation income in respect of suppliers' default	3,213	6,803
Others	7,663	4,643
	89,210	105,508

Note: Government grants included a total amount of RMB75,034,000 (2020: RMB89,478,000) received from several local government authorities in the PRC for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

5 NET FINANCE INCOME

	2021 RMB'000	2020 RMB'000
Interest income on financial assets measured at amortised cost	34,411	44,784
Net foreign exchange gain	3,796	3,957
Interest on lease liabilities	(8,146)	(3,587)
Interest on bank loans	(1,597)	(1,753)
	28,464	43,401

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2021 RMB'000	2020 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	358,593	275,588
Contributions to defined contribution retirement plans (Note 27)	8,605	4,148
Equity-settled share-based payment expense (Note 28)	3,302	1,765
	370,500	281,501
(b) Other items:		
Amortisation of intangible assets	3,509	3,348
Depreciation		
— owned property, plant and equipment	96,814	27,393
— investment properties	3,426	3,819
— right-of-use assets	120,557	52,573
Short term lease rental expenses (Note 19(d))	3,180	2,882
Variable lease payments not included in the measurement of lease liabilities (Note 19(d))	8,732	2,177
Auditor's remuneration	3,300	2,850
Cost of inventories (note (i))	1,964,475	1,477,031
(Gain)/loss on disposal of property, plant and equipment and right-of-use assets	(1,941)	318
Research and development costs	129,140	120,173
Subcontracting charges (note (ii))	357,984	327,356
(Reversal of impairment losses)/impairment losses on trade receivables (Note 17)	(5,958)	7,443
Gain on disposal of a subsidiary	—	5,063
Compensation to distributors	—	50,802
Impairment losses on right-of-use assets	8,042	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION (CONTINUED)

Notes:

- (i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and lease expenses totalling RMB589,951,000 (2020: RMB549,954,000) included in items disclosed above, and after the deduction of inventories subject to returns totalling RMB Nil (2020: RMB309,089,000) which is measured with reference to the former carrying amount of the products.
- (ii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2021 RMB'000	2020 RMB'000
Current tax — PRC Corporate Income Tax (Note 24(a))	122,579	154,871
Deferred tax	(29,489)	(17,327)
	93,090	137,544

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2021 and 2020.
- (iii) Taxation for the Group's PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC Corporate Income Tax Law, regulations and implementation guidance notes, one of the subsidiaries has been granted Advanced and New Technology Enterprise status which entitles the subsidiary to a reduced income tax rate at 15% for 2020 and 2021. In addition, two of the Group's subsidiaries incorporated in the Tibet Autonomous Region of the PRC are entitled to a reduced income tax rate at 15% for 2020 and 2021.
- (iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

Deferred tax included PRC dividend withholding tax of RMB15,995,000 provided for the year (2020: RMB21,840,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2021 RMB'000	2020 RMB'000
Profit before taxation	561,217	694,786
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	131,030	171,572
Tax effect of non-deductible expenses	6,061	14,085
Tax effect of non-taxable income	(17)	(28)
Tax effect of tax concessions (Note 7(a)(iii))	(57,251)	(68,233)
Over-provision in prior year	(2,728)	(1,692)
Withholding tax effect of undistributed profits retained by PRC subsidiaries (Note 24(b))	15,995	21,840
Actual tax expense	93,090	137,544

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2021 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	1,040	13	158	1,211
Independent Non-executive Directors					
Lu Hong Te	201	—	—	—	201
Nie Xing	201	—	—	—	201
Lai Shixian	201	—	—	—	201
Total	603	5,330	65	158	6,156

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2020 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	1,040	13	180	1,233
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	600	5,330	65	180	6,175

During the year, no amount was paid or payable by the Group to the Directors or any of the five highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2020: four) are Directors whose emoluments are disclosed in Note 8. The emoluments in respect of the remaining one (2020: one) individual are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	1,034	1,440
Discretionary bonuses	—	487
Contributions to retirement benefit schemes	15	16
Share-based compensation	43	23
	1,092	1,966

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

10 REMUNERATION OF SENIOR MANAGEMENT

Remuneration of senior management of the Group, including amounts paid to the highest paid employee other than Directors as disclosed in Note 9 is as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	2,763	2,913
Discretionary bonuses	658	977
Contributions to retirement benefit schemes	40	41
Share-based compensation	308	165
	3,769	4,096

Remunerations of the senior management of the Group are within the following bands:

	2021 Number of individuals	2020 Number of individuals
Nil to HK\$1,000,000 (Nil to RMB818,000)	6	5
HK\$1,000,001 to HK\$1,500,000 (RMB818,000 to RMB1,226,000)	1	—
HK\$2,000,001 to HK\$2,500,000 (RMB1,635,000 to RMB2,043,000)	—	1

11 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit for the year of RMB468,127,000 (2020: RMB557,242,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2020: 1,197,485,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of RMB468,127,000 (2020: RMB557,242,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted):

	2021 '000	2020 '000
Weighted average number of ordinary shares	1,197,485	1,197,485
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	1,471	554
Weighted average number of ordinary shares (diluted)	1,198,956	1,198,039

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2020	211,555	63,541	95,035	11,691	40,569	8,387	474,410	905,188
Additions	—	36,476	5,033	1,029	8,219	388	178,789	229,934
Transfer from construction in progress	—	—	3,699	—	57	—	(3,756)	—
Reclassify from investment properties (Note 13)	17,087	—	—	—	—	—	—	17,087
Disposal of subsidiary	—	—	—	—	—	—	(8,748)	(8,748)
Disposals	—	—	(2,385)	(7)	(391)	(51)	—	(2,834)
Exchange adjustment	—	(50)	—	—	(24)	(6)	—	(80)
At 31 December 2020 and 1 January 2021	228,642	99,967	101,382	12,713	48,430	8,718	640,695	1,140,547
Additions	16,426	42,328	7,861	671	10,599	4,367	292,689	374,941
Transfer from construction in progress	574,552	—	50,884	29	566	4,361	(630,392)	—
Disposals	(20)	(3,260)	(13,998)	—	(8,793)	(8,299)	—	(34,370)
Exchange adjustment	—	(19)	—	—	(9)	(2)	—	(30)
At 31 December 2021	819,600	139,016	146,129	13,413	50,793	9,145	302,992	1,481,088

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Properties and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:								
At 1 January 2020	37,339	55,609	49,332	6,261	34,606	8,149	—	191,296
Reclassify from investment properties (Note 13)	701	—	—	—	—	—	—	701
Charge for the year	5,146	5,670	9,890	1,067	5,408	212	—	27,393
Written back on disposals	—	—	(2,076)	(6)	(362)	(49)	—	(2,493)
Exchange adjustment	—	(50)	—	—	(21)	(6)	—	(77)
At 31 December 2020 and 1 January 2021	43,186	61,229	57,146	7,322	39,631	8,306	—	216,820
Charge for the year	28,453	33,758	12,489	1,030	14,097	6,987	—	96,814
Written back on disposals	(19)	(3,207)	(13,072)	—	(8,406)	(7,996)	—	(32,700)
Exchange adjustment	—	(19)	—	—	(8)	(2)	—	(29)
At 31 December 2021	71,620	91,761	56,563	8,352	45,314	7,295	—	280,905
Net book value:								
At 31 December 2021	747,980	47,255	89,566	5,061	5,479	1,850	302,992	1,200,183
At 31 December 2020	185,456	38,738	44,236	5,391	8,799	412	640,695	923,727

Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the end of the respective reporting periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

13 INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Cost:		
At 1 January	147,993	165,080
Reclassify to property, plant and equipment (Note 12)	—	(17,087)
At 31 December	147,993	147,993
Accumulated depreciation:		
At 1 January	25,795	22,677
Reclassify to property, plant and equipment (Note 12)	—	(701)
Charge for the year	3,426	3,819
At 31 December	29,221	25,795
Net book value:		
At 31 December	118,772	122,198

Investment properties represent retail outlets and office premises that are leased to distributors. As at 31 December 2021, the fair value of the investment properties as determined by the Directors of the Company by reference to the market price of similar properties in the respective area amounted to RMB201,249,000 (2020: RMB196,683,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

14 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Properties leased for own use RMB'000	Total RMB'000
Cost:			
At 1 January 2020	156,417	2,083	158,500
Additions	—	202,504	202,504
Disposal of a subsidiary	(12,758)	—	(12,758)
Exchange adjustment	—	(108)	(108)
At 31 December 2020 and 1 January 2021	143,659	204,479	348,138
Additions	—	156,683	156,683
Disposals	—	(70,115)	(70,115)
Exchange adjustment	—	(100)	(100)
At 31 December 2021	143,659	290,947	434,606
Accumulated depreciation:			
At 1 January 2020	17,407	1,587	18,994
Charge for the year	2,710	49,863	52,573
Disposal of a subsidiary	(2,680)	—	(2,680)
Exchange adjustment	—	(156)	(156)
At 31 December 2020 and 1 January 2021	17,437	51,294	68,731
Charge for the year	2,721	117,836	120,557
Impairment loss	—	8,042	8,042
Disposals	—	(52,081)	(52,081)
Exchange adjustment	—	(80)	(80)
At 31 December 2021	20,158	125,011	145,169
Net book value:			
At 31 December 2021	123,501	165,936	289,437
At 31 December 2020	126,222	153,185	279,407

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

14 RIGHT-OF-USE ASSETS (CONTINUED)

The Group's right-of-use assets contain land use rights and properties leased for own use. The interest of land use rights in the PRC are prepaid upon acquisition. The leases related to properties are typically run for an initial period of one to five years. Some leases include an option to renew the lease upon expiry when all terms are renegotiated. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and restrictions. As at 31 December 2021, rental deposits of RMB44,296,000 (2020: RMB32,869,000) were paid for the leases, which will be held by the lessors throughout the respective lease terms.

15 INTANGIBLE ASSETS

	2021 RMB'000	2020 RMB'000
Cost:		
At 1 January	35,173	31,687
Additions	2,514	3,486
At 31 December	37,687	35,173
Accumulated amortisation:		
At 1 January	27,259	23,911
Charge for the year	3,509	3,348
At 31 December	30,768	27,259
Net book value:		
At 31 December	6,919	7,914

Intangible assets represent the enterprise resource planning and information technology system software.

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

16 INVENTORIES**(a) Inventories in the consolidated statement of financial position comprise:**

	2021 RMB'000	2020 RMB'000
Raw materials	147,510	97,927
Work-in-progress	93,213	66,502
Finished goods	653,014	502,625
	893,737	667,054

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold	1,842,319	1,461,469
Write-down of inventories	122,156	15,562
	1,964,475	1,477,031

17 TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	494,712	728,291
Less: Loss allowance	(10,639)	(16,597)
Trade receivables, net of loss allowance	484,073	711,694
Other assets in relation to refund liabilities	—	309,089
Prepayments to suppliers	2,927	1,103
Prepaid advertising expenses	1,144	5,658
VAT deductible	226,569	130,752
Other deposits, prepayments and receivables	80,363	51,872
	795,076	1,210,168

All of the trade and other receivables (net of loss allowance) are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Within 3 months	389,034	554,283
Over 3 months but within 6 months	86,724	135,979
Over 6 months but within 1 year	8,315	21,432
	484,073	711,694

Trade receivables are due within 30-240 days (2020: 90-240 days) from the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 29(a).

The movement in the loss allowance account for trade receivables during the year is as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	16,597	9,154
(Reversal of impairment losses)/impairment losses for the year	(5,958)	7,443
At 31 December	10,639	16,597

18 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bank loans (see Note 20) and bills payable (see Note 21). The pledged bank deposits will be released upon the settlement of the relevant bank loans and bills payable.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows		
— cash at bank and on hand	1,571,619	1,738,934

At 31 December 2021, cash and cash equivalents held in the mainland China amounted to RMB1,545,485,000 (2020: RMB1,671,337,000). Remittance of funds out of the mainland China is subject to exchange restrictions imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)**(b) Reconciliation of profit before taxation to cash generated from operations:**

	Note	2021 RMB'000	2020 RMB'000
Profit before taxation		561,217	694,786
Adjustments for:			
— Depreciation	6(b)	220,797	83,785
— Amortisation of intangible assets	6(b)	3,509	3,348
— Equity-settled share-based payment expense	6(a)	3,302	1,765
— Impairment loss on right-of-use assets		8,042	—
— (Gain)/loss on disposal of property, plant and equipment and right-of-use assets	6(b)	(1,941)	318
— Interest on bank loans	5	1,597	1,753
— Interest on lease liabilities	5	8,146	3,587
— Interest income	5	(34,411)	(44,784)
— Gain on disposal of a subsidiary	6(b)	—	(5,063)
— Unrealised foreign exchange (gain)/loss		(2,188)	13,317
Changes in working capital:			
— (Increase)/decrease in inventories		(226,683)	22,189
— Decrease/(increase) in trade and other receivables		415,092	(130,194)
— (Increase)/decrease in pledged bank deposits		(10,394)	7,236
— (Decrease)/increase in trade and other payables		(256,200)	265,051
— Increase in contract liabilities		8,966	10,739
Cash generated from operations		698,851	927,833

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	2021			2020		
	Bank loans RMB'000 (Note 20)	Lease liabilities RMB'000 (Note 22)	Total RMB'000	Bank loans RMB'000 (Note 20)	Lease liabilities RMB'000 (Note 22)	Total RMB'000
At 1 January	—	123,929	123,929	—	537	537
Changes from financing cash flows:						
Proceeds from new bank loans	72,620	—	72,620	335,000	—	335,000
Repayment of bank loans	—	—	—	(335,000)	—	(335,000)
Capital element of lease rentals paid	—	(99,319)	(99,319)	—	(63,768)	(63,768)
Interest element of lease rentals paid	—	(8,146)	(8,146)	—	(3,587)	(3,587)
Total changes from financing cash flows	72,620	(107,465)	(34,845)	—	(67,355)	(67,355)
Other changes:						
Increase in lease liabilities from entering into new leases during the financial year	—	156,683	156,683	—	187,114	187,114
Early termination of lease contracts	—	(20,022)	(20,022)	—	—	—
Interest expenses on lease liabilities (Note 5)	—	8,146	8,146	—	3,587	3,587
Exchange adjustments	—	(20)	(20)	—	46	46
Total other changes	—	144,787	144,787	—	190,747	190,747
At 31 December	72,620	161,251	233,871	—	123,929	123,929

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)**(d) Total cash outflow for leases**

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2021 RMB'000	2020 RMB'000
Within operating cash flows (Note 6(b))	11,912	2,882
Within investing cash flows	11,427	32,869
Within financing cash flows	107,465	67,355
	130,804	103,106

These amounts relate to the following:

	2021 RMB'000	2020 RMB'000
Leases rentals paid	119,377	70,237
Lease rental deposits paid	11,427	32,869
	130,804	103,106

20 BANK LOANS AND FACILITIES

	2021 RMB'000	2020 RMB'000
Discounted bank acceptance bills (financing in nature)	72,620	-

Discounted bank acceptance bills (financing in nature), secured by pledged bank deposits (see Note 18), were bills of exchange which were denominated at Renminbi, measured at amortised cost and repayable within one year.

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2021 RMB'000	2020 RMB'000
Facility amount	1,817,540	1,051,790
Utilised facility amount in respect of:		
— Bills payable (Note 21)	8,140	5,700
— Discounted bank acceptance bills (financing in nature)	72,620	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

21 TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	427,283	404,632
Bills payable (note ii)	8,140	5,700
Trade and bills payables (note iii)	435,423	410,332
Refund liabilities	—	390,000
Accrued salaries and wages	42,096	40,286
Payables for purchase of property, plant and equipment	156,824	66,563
Retirement benefit contribution payable	25,524	25,524
Other payables and accruals	210,216	103,317
	870,083	1,036,022

Notes:

- (i) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.
- (ii) Bills payable were secured by pledged bank deposits as disclosed in Note 18.
- (iii) An ageing analysis of trade and bills payables based on the invoice date is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	399,050	341,568
Over 3 months but within 6 months	33,454	62,668
Over 6 months but within 1 year	1,710	3,472
Over 1 year	1,209	2,624
	435,423	410,332

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

22 LEASE LIABILITIES

As at 31 December 2021, the lease liabilities were repayable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year (current)	97,568	62,003
After 1 year but within 2 years	49,960	42,848
After 2 years but within 5 years	13,723	19,078
Sub-total (non-current)	63,683	61,926
Total	161,251	123,929

23 CONTRACT LIABILITIES

Revenue that was included in the contract liability balance at the beginning of the reporting period was fully recognised in the reporting period. The balance of contract liabilities at 31 December 2021 is expected to be recognised as revenue within one year.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**(a) Current taxation in the consolidated statement of financial position:**

	2021 RMB'000	2020 RMB'000
At 1 January	152,489	152,156
Provision for PRC Corporate Income Tax (Note 7(a))	122,579	154,871
	275,068	307,027
PRC Corporate Income Tax paid	(100,302)	(154,538)
At 31 December	174,766	152,489

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and (liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax assets/(liabilities) arising from					Total RMB'000
	Accrued expenses and others RMB'000	Impairment of trade receivables, right-of- use asset, and inventories RMB'000	Tax losses of PRC subsidiaries RMB'000	Other deferred tax liabilities RMB'000	Undistributed profits of PRC subsidiaries RMB'000	
At 1 January 2020	19,390	1,433	-	-	(21,803)	(980)
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	(787)	4,274	-	-	(21,840)	(18,353)
Released upon distribution of dividends	-	-	-	-	35,680	35,680
At 31 December 2020 and 1 January 2021	18,603	5,707	-	-	(7,963)	16,347
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	(6,538)	23,525	13,756	(949)	(15,995)	13,799
Released upon distribution of dividends	-	-	-	-	15,690	15,690
At 31 December 2021	12,065	29,232	13,756	(949)	(8,268)	45,836

Reconciliation to the consolidated statement of financial position:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	55,053	24,310
Deferred tax liabilities	(9,217)	(7,963)
	45,836	16,347

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**(c) Deferred tax liabilities not recognised**

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 31 December 2021, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB2,325,671,000 (2020: RMB2,533,938,000) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that those profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities not provided for as at 31 December 2021 and 2020.

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Investments in subsidiaries		129,951	133,401
Current assets			
Amount due from a subsidiary		234,137	107,074
Prepayments and other receivables		191	185
Cash and cash equivalents		292	2,724
		234,620	109,983
Current liabilities			
Amount due to a subsidiary		2,075	2,130
Other payables and accruals		77	76
		2,152	2,206
Net current assets		232,468	107,777
Net assets		362,419	241,178
Capital and reserves			
	26(b)		
Share capital	26(a)	105,517	105,517
Reserves		256,902	135,661
Total equity		362,419	241,178

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2021 HK\$'000	2020 HK\$'000	
Authorised:			
100,000,000,000 shares of HK\$0.10 each	10,000,000	10,000,000	
	Number of shares '000	Nominal value of ordinary shares HK\$'000	RMB'000
Issued and fully paid:			
At 1 January and 31 December 2021 and 2020	1,197,485	119,748	105,517

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)**(b) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital (note 26(a)) RMB'000	Share premium (note 26(d)(i)) RMB'000	Capital reserve (note 26(d)(iii)) RMB'000	Exchange reserve (note 26(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020		105,517	31,411	996	(12,089)	205,241	331,076
Changes in equity for 2020:							
Total comprehensive income for the year		—	—	—	(6,770)	436,329	429,559
Equity-settled share-based payment	26(d)(iii)	—	—	1,765	—	—	1,765
Dividends approved in respect of the previous year	26(c)	—	—	—	—	(341,671)	(341,671)
Dividends declared in respect of the current year	26(c)	—	—	—	—	(179,551)	(179,551)
At 31 December 2020 and 1 January 2021		105,517	31,411	2,761	(18,859)	120,348	241,178
Changes in equity for 2021:							
Total comprehensive income for the year		—	—	—	(8,445)	572,858	564,413
Equity-settled share-based payment	26(d)(iii)	—	—	3,302	—	—	3,302
Dividends approved in respect of the previous year	26(c)	—	—	—	—	(267,936)	(267,936)
Dividends declared in respect of the current year	26(c)	—	—	—	—	(178,538)	(178,538)
At 31 December 2021		105,517	31,411	6,063	(27,304)	246,732	362,419

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2021 RMB'000	2020 RMB'000
Interim dividend declared and paid of HK13 cents (2020: HK12 cents) per share	128,944	126,742
Special interim dividend declared and paid of HK5 cents (2020: HK5 cents) per share	49,594	52,809
Final dividend proposed after the end of the reporting period of HK11 cents (2020: HK19 cents) per share	107,696	188,548
Special final dividend proposed after the end of the reporting period of HK5 cents (2020: HK8 cents) per share	48,953	79,388
	335,187	447,487

The final dividend and special final dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year of HK19 cents (2020: HK21 cents) per share	188,548	231,455
Special final dividend in respect of the previous financial year of HK8 cents (2020: HK10 cents) per share	79,388	110,216
	267,936	341,671

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)**(d) Nature and purpose of reserves****(i) Share premium**

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase paid-in capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iii) Capital reserve

The capital reserve comprises the following:

- (i) Fair value of design consultancy services contributed by the then shareholders and fair rental value of properties owned by the then shareholders but occupied by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange amounting to RMB1,143,000.
- (ii) The excess of net asset value of subsidiaries acquired over the nominal amount of shares issued upon the group reorganisation in 2007.
- (iii) The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(o)(ii).
- (iv) The nominal amount of the shares repurchased.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 1(s).

(e) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB278,143,000 (2020: RMB151,759,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 20% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company adopted a share option scheme on 23 April 2019 (the "2019 Share Option Scheme") whereby the Directors of the Company may invite, at their discretion, eligible participants, including employees and Directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 119,748,491 shares.

On 3 July 2020, the Company granted options to subscribe for an aggregate 11,500,000 shares of the Company to eligible employees under the 2019 Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)**(a)** The terms and conditions of the grant are as follows:

Contractual life of options:	10 years from date of grant
Exercise price:	HK\$4.31
Vesting period:	The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 3,417,000 options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 6,882,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

The closing prices of the Company's shares immediately before the date of grant and on the date of grant were HK\$4.23 and HK\$4.31 respectively.

(b) The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price	Number of options
Outstanding at 1 January 2020	—	—
Granted during the year	HK\$4.31	11,500,000
Exercised during the year	—	—
Lapsed during the year	—	—
Outstanding at 31 December 2020	HK\$4.31	11,500,000
Exercisable at 31 December 2020	—	—
Granted during the year	—	—
Exercised during the year	—	—
Lapsed during the year	—	—
Outstanding at 31 December 2021	HK\$4.31	11,500,000
Exercisable at 31 December 2021	—	—

The share options outstanding at 31 December 2021 had a weighted average remaining contractual life of 8.5 years (2020: 9.5 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and bills receivables. The Group's exposure to credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are banks for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 240 days from the date of billing. The Group will also obtain deposits from customers prior to delivery of goods when credit limits granted are temporarily exceeded.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 2.2% (2020: 2.4%) and 5.6% (2020: 13.9%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)**(a) Credit risk (Continued)****Trade receivables (Continued)**

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	Expected loss rate %	2021 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	456,749	2,947
Less than 3 months or equal to 3 months past due	15.0%	34,633	5,195
Past due over 3 months	75.0%	3,330	2,497
		494,712	10,639
	Expected loss rate %	2020 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	700,852	3,901
Less than 3 months or equal to 3 months past due	15.0%	13,139	1,971
Past due over 3 months	75.0%	14,300	10,725
		728,291	16,597

The Group keeps assessing the expected loss rates based on the Group's historical credit loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

At 31 December 2021, the Group had endorsed bank acceptance bills to its suppliers totalling RMB329,054,000 (2020: RMB287,460,000), which were derecognised as financial assets. The transferees have recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. Because these bank acceptance bills mature within six months from issue, the Group's maximum loss in case of default is RMB329,054,000 (2020: RMB287,460,000) before these bills mature by 30 June 2022.

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

(b) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables present the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay.

	31 December 2021				Carrying Amount RMB'000
	Contractual Undiscounted Cash Outflow			Total RMB'000	
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000		
Bank loans	72,620	—	—	72,620	72,620
Trade and other payables	870,083	—	—	870,083	870,083
Lease liabilities	99,845	53,567	15,462	168,874	161,251
	1,042,548	53,567	15,462	1,111,577	1,103,954

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)**(b) Liquidity risk (Continued)**

	31 December 2020				Carrying Amount RMB'000
	Contractual Undiscounted Cash Outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	
Trade and other payables	1,036,022	—	—	1,036,022	1,036,022
Lease liabilities	66,546	44,923	19,351	130,820	123,929
	1,102,568	44,923	19,351	1,166,842	1,159,951

(c) Currency risk

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management consider the Group's exposure to currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

(d) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2021 and 2020.

30 COMMITMENTS

Capital commitments of the Group in respect of property, plant and equipment outstanding at 31 December 2021 not provided for in the financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Contracted for	108,760	258,336
Authorised but not contracted for	63,112	170,119
	171,872	428,455

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

On 16 December 2019, the Group entered into a tenancy agreement (“Tenancy Agreement”) with Jinlang (Fujian) Investments Co., Ltd (“Jinlang Fujian”) for the lease of leasehold properties for a term from 1 January 2020 to 30 June 2021 at a monthly rent of RMB286,000. Pursuant to the Tenancy Agreement, the Group may terminate the Tenancy Agreement at any time during the term of the Tenancy Agreement by serving not less than one month prior written notice to Jinlang Fujian. Assuming that the early termination option will not be exercised, the present value of the rent payable for the entire term under the Tenancy Agreement recognised as a right-of-use asset by the Group at the date of inception pursuant to IFRS 16 amounted to approximately RMB4,979,000. The tenancy arrangement contemplated under the Tenancy Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules in 2019.

The Tenancy Agreement was terminated on 31 March 2021.

32 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the Directors used in applying the Group’s accounting policies have a significant impact on the Group’s financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group’s accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Intangible assets except for those with indefinite lives are amortised on straight line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any, based on the Group’s experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

(b) Impairments for non-current assets

The Group reviews the carrying amounts of the non-current assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group’s net asset value.

An increase or decrease in the above impairment loss would affect the net profit in the year and in future years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

32 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits.

(d) Net realisable value of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Loss allowance for trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

(f) Bank acceptance bills

As set out in note 29(a), the Group considers that the credit risk associated with bank acceptance bills issued by major banks in the PRC to be insignificant. The Group monitors the credit risk of issuing banks. The judgement to derecognise bank acceptance bills upon discounting or endorsement is reviewed when the credit risk of issuing banks deteriorates significantly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
Amendments to IAS 1, <i>Classification of liabilities as current or non-current</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of accounting policies</i>	1 January 2023
Amendments to IAS 8, <i>Definition of accounting estimates</i>	1 January 2023
Amendments to IAS 12, <i>Deferred tax related to assets and liabilities arising from a single transaction</i>	1 January 2023
IFRS 17, <i>Insurance contracts</i>	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

34 SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Particular of issued and fully paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Lilang Holdings Limited	BVI	US\$20,000	100%	100%	—	Investment holding
Lilang (Hong Kong) International Co., Limited	Hong Kong	HK\$20,000	100%	—	100%	Trading, investment holding and provision of management services
Lilang (Fujian) Garment Co., Ltd. (Note b)	The PRC	HK\$20,000,000	100%	—	100%	Sales of menswear and accessories
Lilang (China) Co., Ltd. ("Lilang China") (Note b)	The PRC	HK\$315,000,000	100%	—	100%	Manufacturing and sales of menswear and accessories
Lilang (Shanghai) Co., Ltd. (Note b)	The PRC	HK\$120,000,000	100%	—	100%	Sales of menswear and accessories
Lilang (Jiangxi) Garment Co., Ltd. (Note b)	The PRC	HK\$10,000,000	100%	—	100%	Sales of menswear and accessories
Xizang Lilang Garment Co., Ltd. ("Xizang Lilang") (Note c)	The PRC	Note a	100%	—	100%	Sales of menswear and accessories
Xizang Ling Shang Garment Co., Ltd. (Note b)	The PRC	HK\$50,000,000	100%	—	100%	Sales of menswear and accessories
Bujiandan (Xiamen) Garment Co., Ltd. (Note b)	The PRC	US\$27,000,000	100%	—	100%	Sales of menswear and accessories
Lilang (Fujian) Commerce Co., Ltd. ("Lilang Commerce") (Note b)	The PRC	Note a	100%	—	100%	Sales of menswear and accessories
Lilang E-commerce Co. Ltd. ("Lilang E-commerce") (Note b)	The PRC	Note a	100%	—	100%	Online sales of menswear and accessories

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

34 SUBSIDIARIES (CONTINUED)

Notes:

- (a) The registered capital of Xizang Lilang, Lilang Commerce and Lilang E-commerce are RMB20,000,000, HK\$20,000,000 and HK\$50,000,000 respectively which were yet to be contributed by the Group at 31 December 2021. There is no particular requirement on the timing of the contribution.
- (b) These entities are wholly foreign owned enterprises established in the PRC.
- (c) These entities are limited liability companies established in the PRC.

35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Connected transaction

On 21 February 2022, Lilang China, a wholly-owned subsidiary of the Company, entered into an agreement with a vendor, which is owned as to 23.22% and 6.78% by Mr. Wang Cong Xing and Mr. Cai Rong Hua, respectively, and as to 70% by Fujian Zhongjun Industrial Co., Ltd. (“Fujian Zhongjun”), a third party to the Group.

Mr. Wang Cong Xing and Mr. Cai Rong Hua are both executive directors and shareholders of Xiao Sheng International Limited, the controlling shareholder of the Group.

Pursuant to the agreement, Lilang China agreed to acquire, and the vendor agreed to sell, properties at a total consideration of RMB205,000,000.

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2021, the Directors consider the immediate and ultimate controlling party of the Group to be Xiao Sheng International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

FIVE YEARS SUMMARY

(Expressed in Renminbi)

	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Revenue	2,441,057	3,167,872	3,658,471	2,680,835	3,379,480
Profit from operations	668,946	881,863	979,795	651,385	532,753
Net finance income	52,543	63,376	44,168	43,401	28,464
Profit before taxation	721,489	945,239	1,023,963	694,786	561,217
Income tax	(110,450)	(194,045)	(211,783)	(137,544)	(93,090)
Profit for the year	611,039	751,194	812,180	557,242	468,127
Earnings per share					
Basic (cents)	50.71	62.74	67.82	46.53	39.09
Diluted (cents)	50.71	62.74	67.82	46.51	39.04
Assets and liabilities					
Non-current assets	745,849	925,329	1,032,680	1,393,525	1,735,218
Net current assets	2,430,996	2,494,452	2,595,402	2,329,889	2,011,070
Total assets less current liabilities	3,176,845	3,419,781	3,628,082	3,723,414	3,746,288
Non-current liabilities	35,114	19,922	21,803	69,889	72,900
Net asset	3,141,731	3,399,859	3,606,279	3,653,525	3,673,388
Capital and reserves					
Share capital	105,492	105,517	105,517	105,517	105,517
Reserves	3,036,239	3,294,342	3,500,762	3,548,008	3,567,871
Total equity	3,141,731	3,399,859	3,606,279	3,653,525	3,673,388