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Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Deyun Holding Ltd. (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 (the “**Interim Period**”), together with the comparative figures for the six months ended 30 June 2021.

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

KEY FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Interim Period was approximately RMB80.4 million, representing a decrease of approximately 3.2% as compared with those for corresponding period in 2021.
- Gross profit of the Group for the Interim Period was approximately RMB4.3 million, representing a decrease of approximately 84.1% as compared with those for corresponding period in 2021. Gross profit margin for the Interim Period decreased to approximately 5.4% from approximately 32.6% in the corresponding period in 2021.
- Profit attributable to owners of the Company for the Interim Period decreased by approximately 75.4% to approximately RMB4.9 million from approximately RMB19.9 million for the corresponding period in 2021.
- Basic and diluted earnings per share attributable to owners of the Company was approximately RMB0.39 cents for the Interim Period.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	<i>Notes</i>	Six months ended 30 June	
		2022 Unaudited <i>RMB'000</i>	2021 Unaudited <i>RMB'000</i>
Revenue	4	80,386	83,059
Cost of sales	5	(76,080)	(56,009)
Gross profit		4,306	27,050
Other income	6	4,604	1,069
Other gains, net	7	2,469	468
Selling and distribution expenses	5	(911)	(1,299)
Administrative expenses	5	(6,475)	(4,387)
Net impairment losses on financial assets and contract assets		(23)	(243)
Operating profit		3,970	22,658
Finance income, net	8	1,283	287
Profit before income tax		5,253	22,945
Income tax expense	9	(356)	(3,053)
Profit for the period attributable to owners of the Company		4,897	19,892
Earnings per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents</i>)	10	0.39	1.61

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	4,897	19,892
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>123</u>	<u>–</u>
Total comprehensive income for the period attributable to owners of the Company	<u><u>5,020</u></u>	<u><u>19,892</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

		30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Properties, plant and equipment	11	147,431	147,476
Right-of-use asset	11	2,598	2,640
Investment property		294	308
Intangible assets		990	1,236
Prepayments	12	440	7,807
		151,753	159,467
		151,753	159,467
Current assets			
Inventories	13	11,257	9,737
Contract assets	14	6,050	8,320
Trade and bills receivables	14	16,051	18,774
Prepayments and other receivables	12	1,008	1,623
Cash and cash equivalents		195,512	182,294
		229,878	220,748
		229,878	220,748
Total assets		381,631	380,215
EQUITY			
Equity attributable to owners of the Company			
Share capital		10,511	10,511
Reserves		329,215	324,195
		329,215	324,195
Total equity		339,726	334,706

		30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
	<i>Notes</i>		
LIABILITIES			
Non-current liabilities			
Other payables	15	1,453	1,478
Deferred tax liabilities		517	535
		<u>1,970</u>	<u>2,013</u>
Current liabilities			
Trade payables	16	17,104	20,221
Other payables and accruals	15	17,041	17,242
Contract liabilities	15	545	588
Current income tax liabilities		5,245	5,445
		<u>39,935</u>	<u>43,496</u>
Total liabilities		<u>41,905</u>	<u>45,509</u>
Total equity and liabilities		<u>381,631</u>	<u>380,215</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Group is principally engaged in (i) manufacturing of lace and provision of dyeing services; and (ii) sales of shoes.

The ultimate holding company of the Company is Glorious Way Investments Limited, a company incorporated in the British Virgin Islands. The ultimate controlling shareholder is Mr. Tsoi Wing Sing.

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

This condensed consolidated interim financial information ("Interim Financial Information") is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000"), unless otherwise stated.

This Interim Financial Information has not been audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This Interim Financial Information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2021, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standards. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in:

- (i) manufacturing of lace and provision of dyeing services; and
- (ii) sales of shoes.

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

In previous years, the directors consider the Group's operation from a business perspective and determine that the Group has two reportable operating segments being manufacturing of lace and provision of dyeing services. In 2021, a new subsidiary was incorporated in Hong Kong which is principally engaged in sales of shoes. Therefore, the Board currently considers the Group's operation from a business perspective and determines that the Group has three reportable operating segments being:

- (i) Manufacturing of lace – principally engaged in manufacturing of lace based on customers' orders for lingerie and other products;
- (ii) Provision of dyeing services – principally engaged in provision of dyeing services of lace and swim wear fabrics based on customers' orders; and
- (iii) Sales of shoes – principally engaged in the trading of casual and sports footwear.

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

(a) Segment revenue by operating segments

The segment information provided to the directors for the reportable segments for the six months ended 30 June 2022 and 2021 is as follows:

	Manufacturing of lace		Provision of dyeing services		Sales of shoes		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2022	2021	2022	2021	2022	2021	2022	2021
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>13,167</u>	<u>30,121</u>	<u>30,355</u>	<u>52,938</u>	<u>36,864</u>	<u>-</u>	<u>80,386</u>	<u>83,059</u>
Segment results (gross profit)	<u>906</u>	<u>11,088</u>	<u>374</u>	<u>15,962</u>	<u>3,026</u>	<u>-</u>	<u>4,306</u>	<u>27,050</u>
Other segmental information:								
Depreciation of properties, plant and equipment	3,719	3,723	4,447	3,824	-	-	8,166	7,547
Additions to non-current segment assets	<u>564</u>	<u>1,900</u>	<u>8,291</u>	<u>13,018</u>	<u>-</u>	<u>-</u>	<u>8,855</u>	<u>14,918</u>

(b) Disaggregation of revenue from contracts with customers

The Group derived revenue from the sales of goods at a point in time and provision of services over time as follows:

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	RMB'000
Timing of revenue recognition		
Over time – provision of services	43,522	83,059
At a point in time – sales of goods	36,864	–
	<u>80,386</u>	<u>83,059</u>

(c) Segment revenue by customers' geographical location

The Group is domiciled in the People's Republic of China (the "PRC"). The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	RMB'000
The PRC	43,031	82,096
Hong Kong	36,953	484
Others	402	479
	<u>80,386</u>	<u>83,059</u>

(d) Non-current assets by geographical location

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

5 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	RMB'000
Raw materials and merchandise used (<i>Note 13</i>)	44,733	22,532
Employee benefit expenses, including directors' emoluments	16,108	18,370
Manpower service expenses	793	952
Amortisation of intangible assets	246	243
Utilities	4,144	4,909
Depreciation of properties, plant and equipment and right-of-use asset (<i>Note 11</i>)	8,568	7,869
Depreciation of investment property	14	19
Auditor's remuneration	1,110	1,081
Professional fees	1,504	1,277
Other tax and surcharges	369	681
Packaging expenses	497	558
Commission and handling charges	2,140	–
Waste handling charges	1,390	1,775
Others	1,850	1,429
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses and administrative expenses	83,466	61,695
	<hr/> <hr/>	<hr/> <hr/>

6 OTHER INCOME

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	4,265	943
Rental income	–	17
Others	339	109
	<u>4,604</u>	<u>1,069</u>

7 OTHER GAINS, NET

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of properties, plant and equipment	1	–
Exchange differences	2,468	468
	<u>2,469</u>	<u>468</u>

8 FINANCE INCOME, NET

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	1,288	405
Finance costs		
Unwinding of discount on other payables	(5)	(4)
Interest expenses on bank borrowings	–	(119)
Less: capitalised on qualifying assets	–	5
	<u>(5)</u>	<u>(118)</u>
Finance income, net	<u>1,283</u>	<u>287</u>

Borrowing costs have been capitalised at rate of 4.35% per annum on qualifying assets for the six months ended 30 June 2021.

9 INCOME TAX EXPENSE

Taxation has been provided at the appropriate rates prevailing in the jurisdictions in which the Group operates.

During the six months ended 30 June 2022 and 2021, Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司) (“Deyun Technology”), the Company’s subsidiary in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department of Hong Kong from the year of assessment 2018/19 onwards, the first Hong Kong dollars (“HKD”) 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 million will be taxed at 16.5%.

During the period ended 30 June 2022, Hope Faith Limited, the Group’s subsidiary in Hong Kong, was a qualifying entity under the two-tiered profits tax rates regime with assessable profits less than HKD2 million and is therefore subject to a tax rate of 8.25%.

During the period ended 30 June 2021, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profit in Hong Kong.

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB’000	RMB’000
Current income tax expense	373	2,973
Deferred income tax (credit)/expense	(17)	80
Income tax expense	<u>356</u>	<u>3,053</u>

10 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Unaudited	
	Six months ended 30 June 2022	2021
Profit attributable to owners of the Company (RMB’000)	4,897	19,892
Weighted average number of ordinary shares in issue (thousands of shares)	1,260,000	1,239,116
Basic and diluted earnings per share (RMB cents)	0.39	1.61

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2022 and 2021.

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

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Right-of-use asset RMB'000	Total RMB'000
As at 1 January 2022 (Audited)								
Cost	42,475	279,053	4,499	2,922	–	328,949	4,121	333,070
Accumulated depreciation	(14,445)	(162,825)	(3,338)	(865)	–	(181,473)	(1,481)	(182,954)
Net book amount	<u>28,030</u>	<u>116,228</u>	<u>1,161</u>	<u>2,057</u>	<u>–</u>	<u>147,476</u>	<u>2,640</u>	<u>150,116</u>
Six months ended 30 June 2022 (Unaudited)								
Opening net book amount	28,030	116,228	1,161	2,057	–	147,476	2,640	150,116
Additions	85	8,043	355	–	–	8,483	–	8,483
Disposal	–	–	(2)	–	–	(2)	–	(2)
Depreciation (Note 5)	(1,188)	(6,999)	(231)	(108)	–	(8,526)	(42)	(8,568)
Closing net book amount	<u>26,927</u>	<u>117,272</u>	<u>1,283</u>	<u>1,949</u>	<u>–</u>	<u>147,431</u>	<u>2,598</u>	<u>150,029</u>
As at 30 June 2022 (Unaudited)								
Cost	42,560	287,096	4,815	2,922	–	337,393	4,121	341,514
Accumulated depreciation	(15,633)	(169,824)	(3,532)	(973)	–	(189,962)	(1,523)	(191,485)
Net book amount	<u>26,927</u>	<u>117,272</u>	<u>1,283</u>	<u>1,949</u>	<u>–</u>	<u>147,431</u>	<u>2,598</u>	<u>150,029</u>
As at 1 January 2021 (Audited)								
Cost	41,093	264,444	4,251	1,090	8,271	319,149	4,121	323,270
Accumulated depreciation	(12,341)	(156,401)	(2,952)	(804)	–	(172,498)	(1,399)	(173,897)
Net book amount	<u>28,752</u>	<u>108,043</u>	<u>1,299</u>	<u>286</u>	<u>8,271</u>	<u>146,651</u>	<u>2,722</u>	<u>149,373</u>
Six months ended 30 June 2021 (Unaudited)								
Opening net book amount	28,752	108,043	1,299	286	8,271	146,651	2,722	149,373
Additions	–	11,180	36	–	3,472	14,688	–	14,688
Transfers	–	11,743	–	–	(11,743)	–	–	–
Depreciation (Note 5)	(1,048)	(6,559)	(189)	(32)	–	(7,828)	(41)	(7,869)
Closing net book amount	<u>27,704</u>	<u>124,407</u>	<u>1,146</u>	<u>254</u>	<u>–</u>	<u>153,511</u>	<u>2,681</u>	<u>156,192</u>
As at 30 June 2021 (Unaudited)								
Cost	41,093	287,367	4,287	1,090	–	333,837	4,121	337,958
Accumulated depreciation	(13,389)	(162,960)	(3,141)	(836)	–	(180,326)	(1,440)	(181,766)
Net book amount	<u>27,704</u>	<u>124,407</u>	<u>1,146</u>	<u>254</u>	<u>–</u>	<u>153,511</u>	<u>2,681</u>	<u>156,192</u>

During the six months ended 30 June 2022 and 2021, depreciation expenses have been charged in cost of sales, selling and distribution expenses and administrative expenses as below:

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of sales	8,166	7,547
Selling and distribution expenses	3	3
Administrative expenses	399	319
	<u>8,568</u>	<u>7,869</u>

12 PREPAYMENTS AND OTHER RECEIVABLES

	30 June	31 December
	2022	2021
	Unaudited	Audited
	RMB'000	RMB'000
Current portion		
Prepayments to suppliers	858	370
Other prepayments	57	242
Other receivables (<i>Note</i>)	93	1,011
	<u>1,008</u>	<u>1,623</u>
Non-current portion		
Prepayments of acquisition of properties, plant and equipment	440	7,807

Note:

As at 30 June 2022 and 31 December 2021, the carrying amounts of other receivables approximated their fair values.

13 INVENTORIES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Raw materials	<u>11,257</u>	<u>9,737</u>

The cost of inventories recognised as expense and included in cost of sales during the six months ended 30 June 2022 and 2021 amounted to approximately RMB44,733,000 and RMB22,532,000 respectively (*Note 5*).

14 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Contract assets	6,070	8,348
Less: Provision for impairment of contract assets	<u>(20)</u>	<u>(28)</u>
Contract assets, net	<u>6,050</u>	<u>8,320</u>
Trade receivables	18,336	21,289
Bills receivables	360	100
Less: Provision for impairment of trade receivables	<u>(2,645)</u>	<u>(2,615)</u>
Trade and bills receivables, net	<u>16,051</u>	<u>18,774</u>
	<u>22,101</u>	<u>27,094</u>

Contract assets represent the Group's rights to consideration for work completed but unbilled for its business. The contract assets are transferred to trade receivables when the rights become unconditional which generally take one to three months. The balances of contract assets fluctuated from year-to-year during the six months ended 30 June 2022 and the year ended 31 December 2021 as the Group provided varying amount of goods or services that were unbilled before the period/year-ends.

As at 30 June 2022 and 31 December 2021, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

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

As at 30 June 2022 and 31 December 2021, the aging analysis of trade and bills receivables, based on invoice date, is as follows:

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
1 to 3 months	14,342	16,659
Over 3 months	4,354	4,730
	18,696	21,389
Less: Provision for impairment of trade receivables	(2,645)	(2,615)
	16,051	18,774

The maximum exposure to credit risk as at 30 June 2022 and 31 December 2021 was the carrying value of the receivables and contract assets mentioned above. The Group did not hold any collateral as security.

15 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Current portion		
Payables for acquisition of properties, plant and equipment	8,743	9,648
Other tax payables	2,021	972
Other payables	465	622
Accruals for auditors remuneration	1,110	1,494
Accruals for employee benefit expenses	1,979	2,632
Accruals for professional fees	462	457
Other accruals	117	154
Deposits from customers	2,144	1,263
Contract liabilities	545	588
	17,586	17,830
Non-current portion		
Other payables	1,453	1,478

As at 30 June 2022 and 31 December 2021, the carrying amounts of the Group's other payables and accruals approximated their fair values.

16 TRADE PAYABLES

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
Trade payables	17,104	20,221

As at 30 June 2022 and 31 December 2021, the aging analysis of trade payables, based on invoice date, is as follows:

	30 June 2022 Unaudited RMB'000	31 December 2021 Audited RMB'000
1 to 3 months	16,908	17,728
Over 3 months	196	2,493
	17,104	20,221

As at 30 June 2022 and 31 December 2021, the carrying amounts of the Group's trade payables approximated their fair values.

17 DIVIDEND

No dividend has been paid or declared by the Company during the six months ended 30 June 2022 and 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a long-established lace manufacturer and dyeing service provider based in Fuzhou City, Fujian, the People's Republic of China (the "PRC"). We are primarily engaged in manufacturing and sales of lace to our customers to produce branded lingerie products on order-by-order basis. For our dyeing services, our customers are mainly lace and swim wear manufacturers who would provide us with their own lace and swimwear fabrics to dye before further fabrication.

As part of our business diversification strategies, we tapped into the footwear trading business in Hong Kong in the second half of 2021.

During the Interim Period, the PRC experienced another outbreak of COVID-19 and the PRC government had to implement lockdown measures in response to the COVID-19 pandemic. These lockdown measures disrupted the supply chain and business activities of many enterprises in the PRC, including the Group and its business partners. Our revenue from lace sold and dyeing services and gross profit margin of these two business segments for the Interim Period was adversely affected, but partially offset by the contribution from our footwear trading business in Hong Kong. We recorded revenue of approximately RMB80.4 million for the Interim Period, representing a decrease of approximately 3.2% from approximately RMB83.1 million for the six months ended 30 June 2021. Our net profit for the Interim Period decreased by approximately 75.4% to approximately RMB4.9 million from approximately RMB19.9 million for the six months ended 30 June 2021.

OUTLOOK AND BUSINESS STRATEGY

The PRC economy is expected to gradually recover from the COVID-19. Going forward, we will adopt a prudent approach to run our existing business operations and also actively identify potential business opportunities that are in the interests of the Company and its shareholders.

We will continue to expand our production capacity and enhance efficiency; comply with environmental protection policies; and strengthen our research and development capability and quality control.

FINANCIAL REVIEW

Revenue

The Group derives its revenue from (i) dyeing services; (ii) manufacturing and sales of lace; and (iii) footwear trading business. As part of our business diversification strategies, we tapped into the footwear trading business in Hong Kong in the second half of 2021.

Revenue by product types

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

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Dyeing	30,355	37.8	52,938	63.7
Lace				
– High density	10,461	13.0	24,338	29.3
– Regular density	2,706	3.4	5,783	7.0
Sub-total	13,167	16.4	30,121	36.3
Sales of shoes	36,864	45.8	–	–
Total	80,386	100.0	83,059	100.0

Revenue by geographical regions

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

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Domestic sales	43,031	53.5	82,096	98.8
International sales	37,355	46.5	963	1.2
Total	80,386	100.0	83,059	100.0

Dyeing

The dyeing revenue decreased by approximately 42.5% from approximately RMB52.9 million for the six months ended 30 June 2021 to approximately RMB30.4 million for the Interim Period, primarily attributable to the disruption to the supply chain and business activities of our Group in the PRC, caused by the lockdown measures in response to the outbreak of COVID-19.

Lace

The Group's lace products are classified into (i) regular density lace, and (ii) high density lace. The lace revenue decreased by approximately 56.1% from approximately RMB30.1 million for the six months ended 30 June 2021 to approximately RMB13.2 million for the Interim Period, primarily attributable to the same reason for the decrease in dyeing revenue mentioned above.

Sales of shoes

The Group commenced a footwear trading business in Hong Kong in the second half of 2021 and recorded revenue of approximately RMB36.9 million for the Interim Period (six months ended 30 June 2021: nil).

Gross profit and gross profit margin

Gross profit decreased by approximately 84.1% from approximately RMB27.1 million for the six months ended 30 June 2021 to approximately RMB4.3 million for the Interim Period, primarily attributable to the decrease in dyeing revenue and sales of lace products.

Gross profit margin decreased to approximately 5.4% for the Interim Period from approximately 32.6% for the six months ended 30 June 2021, primarily attributable to the drop in revenue contributed by the Group's lace sold and dyeing services while cost of sales is mostly fixed and did not decrease in line with revenue.

Other income

Other income increased from approximately RMB1.1 million for the six months ended 30 June 2021 to approximately RMB4.6 million for the Interim Period, primarily attributable to the increase in government grants.

Other gains, net

Other gains mainly represented differences arising from translation of the Group's sales, assets and liabilities denominated in foreign currencies. The Group recorded other gains of approximately RMB2.5 million for the Interim Period (six months ended 30 June 2021: approximately RMB0.5 million).

Selling and distribution expenses

Selling and distribution expenses primarily consist of packaging expenses and staff cost in relation to sales and marketing staff. Selling and distribution expenses decreased by approximately 30.8% from approximately RMB1.3 million for the six months ended 30 June 2021 to approximately RMB0.9 million for the Interim Period, primarily attributable to the decrease in dyeing revenue and sales of lace products.

Administrative expenses

Administrative expenses increased from approximately RMB4.4 million for the six months ended 30 June 2021 to approximately RMB6.5 million for the Interim Period due to the increase in staff cost, depreciation and other general administrative expenses.

Finance income, net

Net finance income increased from approximately RMB0.3 million for the six months ended 30 June 2021 to approximately RMB1.3 million for the Interim Period, primarily attributable to the increase in interest income on bank balances.

Income tax expenses

Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司) (“**Deyun Technology**”), principal operating subsidiary of the Company, is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% for the six months ended 30 June 2021 and the Interim Period. During the Interim Period, Hong Kong profits tax has been provided at the rate of 8.25% on the estimated assessable profits. The income tax expenses decreased from approximately RMB3.1 million for the six months ended 30 June 2021 to approximately RMB0.4 million for the Interim Period, mainly attributable to the decrease in assessable profits that were subject to PRC corporate income tax.

Effective income tax rate decreased from approximately 13.3% for the six months ended 30 June 2021 to approximately 6.8% for the Interim Period, as the Group’s tax deductible expenses remained relatively stable and its assessable profits decreased in the Interim Period.

Net profit and net profit margin

As a result of foregoing, the Group’s net profit for the Interim Period decreased by approximately 75.4% to approximately RMB4.9 million from approximately RMB19.9 million for the six months ended 30 June 2021. Net profit margin decreased from approximately 23.9% for the six months ended 30 June 2021 to approximately 6.1% for the Interim Period.

Dividend

The Board does not recommend the payment of dividend for the Interim Period (six months ended 30 June 2021: nil).

LIQUIDITY, CAPITAL RESOURCES AND GEARING

Net current assets

The Group had net current assets of approximately RMB189.9 million as at 30 June 2022 (31 December 2021: approximately RMB177.3 million). The current ratio of the Group increased from approximately 5.1 times as at 31 December 2021 to approximately 5.8 times as at 30 June 2022. The increase in net current assets and improvement of current ratio as at 30 June 2022 was primarily attributable to the increase in cash and cash equivalents and the decrease in trade payables.

Cash and cash equivalents, borrowings and pledge of assets

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

As at 30 June 2022, the Group had cash and cash equivalents of approximately RMB195.5 million (31 December 2021: approximately RMB182.3 million) and they were denominated in RMB, USD and HKD.

As at 30 June 2022 and 31 December 2021, the Group had no bank borrowings.

As at 30 June 2022 and 31 December 2021, the Group had no undrawn banking facilities.

As at 30 June 2022 and 31 December 2021, the Group did not have any assets pledged as securities.

Gearing ratio

As at 30 June 2022 and 31 December 2021, the Group had a gearing ratio of nil, calculated by dividing total debt by total equity.

Capital structure

As at 30 June 2022, the Company's issued share capital was HKD12,600,000 and the number of issued shares of the Company was 1,260,000,000 ordinary shares of HKD0.01 each.

Capital expenditure

For the Interim Period, the Group purchased properties, plant and equipment in the amount of approximately RMB2.0 million (six months ended 30 June 2021: approximately RMB17.8 million).

Foreign exchange risks and hedging

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

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments of approximately RMB0.6 million in relation to the purchase of properties, plant and equipment (31 December 2021: approximately RMB0.2 million).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities (31 December 2021: nil).

EMPLOYEES AND REMUNERATION POLICY

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

As at 30 June 2022, the Group had 434 employees (31 December 2021: 495 employees) and the Group's total employee benefit expenses (including directors' emoluments) for the Interim Period amounted to approximately RMB16.1 million (six months ended 30 June 2021: approximately RMB18.4 million).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

FUTURE PLAN FOR MATERIAL INVESTMENTS

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

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Net proceeds from the initial public offering (the “**IPO**”), after deducting underwriting commissions and other relevant expenses, amounted to approximately HKD85.6 million. As of 30 June 2022, the net proceeds from the IPO had been applied as follows:

	Planned use of net proceeds <i>HKD million</i>	Net proceeds used as of 30 June 2022 <i>HKD million</i>	Unused balance as of 30 June 2022 <i>HKD million</i>	Timeframe for the unused balance
Expand dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring machineries and facilities	49.9	29.4	20.5	By end of 2022
Strengthen research and development capability and quality control for dyeing services	3.4	1.8	1.6	By end of 2022
Replace a coal-burning-boiler by a natural-gas-boiler	13.6	6.0	7.6	By end of 2022
Expand integrated enterprise planning resource system	0.9	0.9	–	N/A
Repayment of bank loan	9.5	9.5	–	N/A
General working capital	8.3	8.3	–	N/A
	<u>85.6</u>	<u>55.9</u>	<u>29.7</u>	

As of 30 June 2022, the Group has applied the net proceeds from the IPO in the manner and proportion set out in the Prospectus.

CHANGE IN CONTROLLING SHAREHOLDER OF THE COMPANY AND MANDATORY UNCONDITIONAL CASH OFFER

On 17 June 2022, Deyong Investment Co., Ltd (the “**Vendor**”), Mr. Lin Minqiang as the guarantor and Glorious Way Investments Limited (the “**Offeror**”) entered into a sale and purchase agreement (the “**SPA**”), pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase 724,500,000 Shares, representing 57.50% of the issued shares of the Company.

Immediately prior to the completion of the SPA, the Offeror and parties acting in concert with it were interested in an aggregate of 160,405,000 Shares, representing approximately 12.73% of the total issued shares of the Company. Immediately following the completion of the SPA, (i) the Offeror and parties acting in concert with it are interested in an aggregate of 884,905,000 Shares, representing approximately 70.23% of the total issued shares of the Company; and (ii) the Vendor continues to hold 126,000,000 Shares, representing 10.00% of the total issued shares of the Company. As a result, the Offeror became the controlling shareholder of the Company.

On 27 June 2022, the Company and the Offeror made a joint announcement (the “**Joint Announcement**”), pursuant to which, Dakin Securities Limited, for and on behalf of Offeror, will make a mandatory unconditional cash offer (the “**Offer**”) to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Hong Kong Code on Takeovers and Mergers. For further details, please refer to the Joint Announcement.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 16 December 2020 (the “**Adoption Date**”), which become effective on the 13 January 2021. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to eligible participants; and to promote the success of the business of the Group.

As of 30 June 2022 and the date of this announcement, no share options had been granted or agreed to be granted under the Share Option Scheme. As a result, the total number of shares available for issue under the Share Option Scheme as of the date of this announcement was 126,000,000, representing 10% of the issued shares of the Company as of the Adoption Date.

CORPORATE GOVERNANCE

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

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standards set out in the Model Code during the Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Immediately after the completion of the SPA, the Offeror and the Vendor held a total of 970,000,000 Shares, representing approximately 76.98% of the total issued shares of the Company. Accordingly, the Company cannot fulfill the minimum public float requirement set out under Rule 8.08(1)(a) of the Listing Rules. As such, the Company has made an application to the Stock Exchange for a temporary waiver (the “**Waiver**”) from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period of two months after the close of the Offer. On 5 July 2022, the Company was granted the Waiver by the Stock Exchange for the period from 17 June 2022 to 30 September 2022. The Offeror will take appropriate steps to restore the required minimum public float after the close of the Offer as early as practicable. Further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

AUDIT COMMITTEE

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

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

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

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

EVENT AFTER THE REPORTING PERIOD

Save as disclosed herein, the Group does not have any important events after the Interim Period and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 28 July 2022

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

* *For identification purposes only*