

2020 ANNUAL REPORT

LILANZ

CHINA LILANG LIMITED

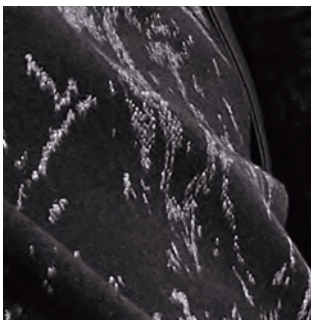
中國利郎有限公司

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

Ms. Ko Yuk Lan

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Ms. Ko Yuk Lan

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		
	2020 (RMB million)	2019 (RMB million)	Changes (%)
Revenue	**2,680.8**	3,658.5	-26.7
Gross profit	**1,203.8**	1,403.2	-14.2
Profit from operations	**651.4**	979.8	-33.5
Profit for the year	**557.2**	812.2	-31.4
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	**46.53**	67.82	-31.4
— Diluted	**46.51**	67.82	-31.4
Shareholders' equity per share	**305.1**	301.2	+1.3
Interim dividend per share	**HK12 cents**	HK18 cents	-33.3
Special interim dividend per share	**HK5 cents**	HK8 cents	-37.5
Final dividend per share	**HK19 cents**	HK21 cents	-9.5
Special final dividend per share	**HK8 cents**	HK10 cents	-20.0
	(%)	(%)	(% points)
Gross profit margin	**44.9**	38.4	+6.5
Operating profit margin	**24.3**	26.8	-2.5
Net profit margin	**20.8**	22.2	-1.4
Return on average shareholders' equity[1]	**15.4**	23.2	-7.8
Effective tax rate	**19.8**	20.7	-0.9
Advertising and promotional expenses and renovation subsidies (as a percentage of revenue)	**10.3**	9.3	+1.0

	Year ended 31 December		Six months ended
	2020	2019	30 June 2020
Average inventory turnover days[2]	**168**	111	185
Average trade receivables turnover days[3]	**101**	78	135
Average trade payables turnover days[4]	**115**	91	114

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



With a solid brand as foundation, China Lilang will adopt a prudent approach towards market development, focusing on the optimization of its existing store network and enhancement of retail network management. Apart from further promoting its new retail business, the Group will also strengthen sales and marketing, and inventory management so as to enhance the sales efficiency of the stores.















To all shareholders,

In 2020, the novel coronavirus erupted into a global pandemic ("COVID-19" or the "Pandemic"). At the same time, friction between China and the United States continued. Such developments, which were most severe in the first and second quarters, brought unprecedented challenges to China's economic progress. In the face of various challenges, the whole country united to fight against the Pandemic. As the Pandemic was brought under control in the second half of the year, retail consumption recovered gradually.

CHAIRMAN'S STATEMENT

In this unusual and challenging year, China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries known as the "Group") implemented flexible strategies to maintain healthy channels, lower inventory risks and accelerate new retail business development, while enhancing brand promotion. It also adopted a prudent approach towards store network development by opening stores in selected quality shopping malls while closing under-performing stores to improve operational efficiency.

For the year ended 31 December 2020, revenue decreased by 26.7% to RMB2,680.8 million year-on-year and net profit for the year decreased by 31.4% to RMB557.2 million.

During the year, the Group maintained a sound financial position with sufficient cash flows. The Board of Directors has resolved to pay a final dividend of HK19 cents per share and a special final dividend of HK8 cents per share, thus maintaining a relatively high payout ratio for the full year.

In general, the Group's key initiatives during the year have been to maintain healthy channels and reduce inventory to a satisfactory level. The Group decisively cancelled certain orders for the spring and summer collections and strictly controlled pre-orders for the fall and winter collections. It also accelerated destocking through various channels in the second half of the year. The inventory clearance in the second half of the year was effective, and currently both the inventory level and its ageing have improved. In addition, the financial liquidity of distributors also strengthened as compared with the interim period. Based on the balance of trade receivables as at the end of the year, the adjusted trade receivables turnover days reduced to 75 days.

New retail business experienced rapid growth during the year. To alleviate the impact of the decline in consumer traffic at physical stores on retail sales as well as distributors during the outbreak of the Pandemic, the Group stepped up efforts to promote the e-commerce business by organizing more marketing and promotional events online to boost e-commerce traffic. During the year, online store sales increased by more than 1.2 times. In addition, the Group also actively promoted the e-commence business by using the WeChat platform. Online stores were set up on WeChat Mall for the core collection and the smart casual collection respectively to capitalize on the complementary advantages of online and offline services, and to effectively expand the virtual inventory and sales of physical stores.

As for brand promotion, the Group organized a range of promotions during the year to extend the brand to a young consumer demographic, among which the promotional campaign for the LILANZ X CHINA DAILY products won the "Gold Case Award" (實戰金案獎) and was accredited among the "Top 100 Branding Cases of the Year" (品牌100年度案例) in the 9th ADMEN International Award Presentation Ceremony (第九届ADMEN國際大獎頒獎盛典). In addition, the in-depth interactive communication in colleges in respect of the promotion of LILANZ as the business wear brand of the new generation won the "Brand Rejuvenation Award" (品牌年輕化大獎) and the "Top 10 Brand Rejuvenation Cases Award" (品牌年輕化十大案例獎). In the fourth quarter, the Group engaged two top artists, Han Han and Li Dan, as brand ambassadors and carried out a series of promotional events which attracted tremendous attention from the market, and were hailed as being among the "2020 Top 15 Best Commented Cases" (2020年度口碑案例TOP 15) by the Advertising Gate (廣告門) APP.

Looking ahead to 2021, with COVID-19 vaccination commencing across the world, and a new leadership in the office in the United States, market stability is expected to be sustained. As a new development pattern is being formed based on domestic circulation, with domestic and international circulations reinforcing one another, and the Chinese government proactively encouraging the expansion of consumption, it is expected that new consumption will further evolve in a model involving online and offline integration. If the Pandemic situation remains under control, cautious optimism towards the retail market can be warranted.

In the wake of the Pandemic, and subsequent new normal, enterprises have to demonstrate utmost resilience. With a solid brand as foundation, China Lilang will adopt a prudent approach towards market development, focusing on the optimization of its existing store network and enhancement of retail network management. Apart from further promoting its new retail business, the Group will also strengthen sales and marketing, and inventory management so as to enhance the sales efficiency of the stores.

The Group converted the smart casual collection from the consignment model to direct-retailing last year, and the related transitional work has now been completed. The operations have been running smoothly after the change and the inventory level has decreased. To further control the retail end and reduce inventory risks, the Group will reform the operation model of the core collection this year by converting selected distributors with higher management capabilities to the consignment model from the 2021 spring and summer collections. This initiative covers 1,388 stores in provinces including Fujian, Shaanxi, Guizhou, and Henan (accounting for approximately 56% of the total store count of the core collection as at 31 December 2020 and around 60% of revenue from the core collection for 2020 before inventory buy-back provision). The change to consignment model will allow product transfers to become flexible, reduce the buffer inventory for individual stores, and enable the Group to manage inventory more effectively. In addition, the expanded virtual inventory of individual stores will help to improve store efficiency.

In order to further control the operation of the e-commerce business, the Group has turned its online stores into self-operated stores since January 2021, as opposed to distributor-operated stores. More online limited edition products will be launched this year, which will attract customer traffic and help build a more loyal customer base at the same time. In addition to having stores on online shopping platforms, online stores have been set up on the WeChat Mall for the core collection and smart casual collection; complementing the physical stores with virtual inventory to expand the customer base and increase sales efficiency.

The brand promotion campaign last year successfully attracted attention from the market as well as customers of a young demographic to the "LILANZ" brand. The Group will continue to invest in brand promotion to build customer loyalty and reach a wider customer base. The Group will also make use of the new store images to attract more customers. The seventh-generation store image revamp of the core collection will be rolled out across approximately 500 existing stores during this year. The smart casual collection also plans to launch a new store image in the second half of this year. In addition, the Group will continue to launch crossover products this year. For the 2021 spring and summer seasons, the core collection will continue to have LILANZ × CHINA DAILY crossover products, while the smart casual collection will launch crossover products with IP from the science fiction The Three-Body Universe. Online and offline promotional activities will be carried out for crossover product launches to attract market attention to the brand.

The Group will continue to adhere to the strategy of providing products that represent excellent value-for-money. As supply chain management has improved over the past few years, the Group's products show cost advantages over those of its peers. The gradual enhancement of fashion and design elements of the smart casual collection since the summer season of 2020 will be completed by the spring and summer seasons of 2021, which is expected to improve the profit margin of the smart casual collection.

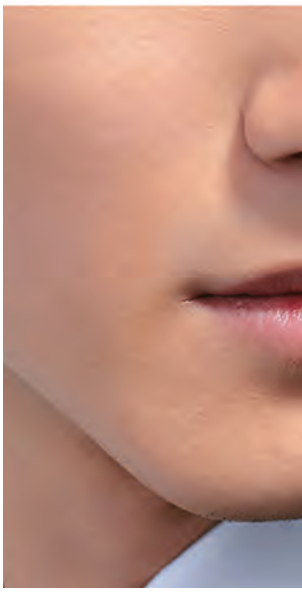
The new headquarters in Fujian officially commenced operation last month, providing an ideal platform for the Group's future development. Phase I of the new logistics park is expected to open in the second half of this year, which will facilitate better inventory management within the Group.

In 2021, China Lilang will adopt a prudent strategy for store openings, targeting a net increase of 100 to 150 stores. The Group will continue to add stores in quality shopping malls in provincial capitals and prefecture-level cities, and will open more stores in selected outlets as a recurring channel for inventory clearance. The target for total retail sales growth is no less than 10%.

Over the past year, the Group has made a concerted effort to overcome challenges and difficulties, and has successfully dealt with the impact of the Pandemic, thanks to the support of shareholders and customers as well as the contributions of all staff. I hereby would like to express my sincere gratitude. The Group will continue adhering to its multi-brand strategy over the long run, as it endeavors to enhance the competitiveness and value-for-money of its product. In this way, China Lilang will further consolidate its leading position in the menswear industry in China and realize sustainable long-term growth, which in turn will enable it to reward shareholders, staff and customers for their support.

Wang Dong Xing
Chairman
18 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

In 2020, the Pandemic raged worldwide and the friction between China and the United States continued, both of which exerted pressure on economic development. The macro environment in China faced various uncertainties. The central government adopted effective prevention and control measures to bring the Pandemic under control in China during the second half of the year. A new development pattern was proposed based on domestic circulation, with domestic and international circulations reinforcing one another, enabling the enhancement of domestic demand, encouraging innovation and promoting growth. This successfully turned the situation around and the economy recorded an unexpected recovery in the second half of the year. According to the National Bureau of Statistics, the country's gross domestic product (GDP) exceeded











RMB100 trillion for the first time in 2020, with a year-on-year growth of 2.3%. Although the annual total retail sales of consumer goods decreased by 3.9% year-on-year, the growth figure rebounded from negative to positive territory in the second half of the year and reached growth of 4.6% in the fourth quarter. Retail sales of apparel, footwear, headwear and knitwear followed a similar trend, with annual retail sales down by 6.6% year-on-year and retail sales up by 3.8% year-on-year in December.





MANAGEMENT DISCUSSION AND ANALYSIS

In face of the complex and volatile retail market, China Lilang adopted flexible strategies and promoted the new retail business to give full play to complementary advantages of online and offline. The Group also strived to keep the channel healthy and decisively cancelled some of the spring and summer orders while strictly controlling pre-orders for the fall and winter collections. The total retail sales of products resumed growth in the second half of the year, and both the inventory level and its ageing have improved.

In addition, the Group continued its strategy of providing products that offer excellent value-for-money and committed to original and individual designs. The Group's products show cost advantages after the continuous improvement of supply chain management over the past few years. The Group also promoted its brand to extend to customers of a younger demographic. A number of crossover products were launched during the year and artists were commissioned as brand ambassadors in the fourth quarter, drawing widespread attention from the market and consumers.

For the year ended 31 December 2020, the Group's revenue reduced by 26.7% year-on-year to RMB2,680.8 million, while net profit was RMB557.2 million and earnings per share were RMB46.53 cents, a decrease of 31.4% year-on-year for both.

During the year, the Group maintained a healthy financial position with sufficient cash flows. The Board of Directors recommended the payment of a final dividend of HK19 cents per share and a special final dividend of HK8 cents per share, thus maintaining a relatively high payout ratio.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year decreased by 26.7% to RMB2,680.8 million, which was after the provision for inventory buy-back totaling RMB390.0 million. As disclosed in the paragraph headed "Prospects", 1,388 stores of the core collection have been converted to the consignment model commencing from the 2021 spring and summer seasons. The Group would buy-back from these stores past-season inventories as at 28 February 2021. Provision for such inventory buy-back was made in 2020 and was deducted from revenue.

Excluding the effect of provision for inventory buy-back, the Group's revenue for the year decreased by 16.1% to RMB3,070.8 million. Although total retail sales of LILANZ products resumed growth in the second half of the year and total retail sales in the fourth quarter were up by 10%-15%, primarily benefiting from the nationwide cold weather, total annual retail sales dropped by approximately 10%-15% as sales of physical stores declined significantly in the first half of the year due to the Pandemic. In order to keep the channel healthy, the Group cancelled some of the 2020 spring and summer orders and reduced pre-orders for the 2020 fall and winter collections to speed up the destocking process. The Group's efforts relating to inventory clearance in the second half of the year have been effective; inventory level and its ageing have improved as a result.

A majority of stores for the smart casual collection switched to a direct-to-retail model on 1 July 2020, which replaced the consignment model previously adopted. Sales of these stores have been recognized at retail value since then.

By product category, based on revenue before the provision for inventory buy-back, tops remained the major contributor to revenue, accounting for 63.5% of revenue for the year (2019: 60.3%), with a drop of 13.6% in sales. Sales of accessories dropped 30.3% year-on-year as sales of footwear products decreased due to the large-scale inventory clearance by sports brands in the second half of the year.

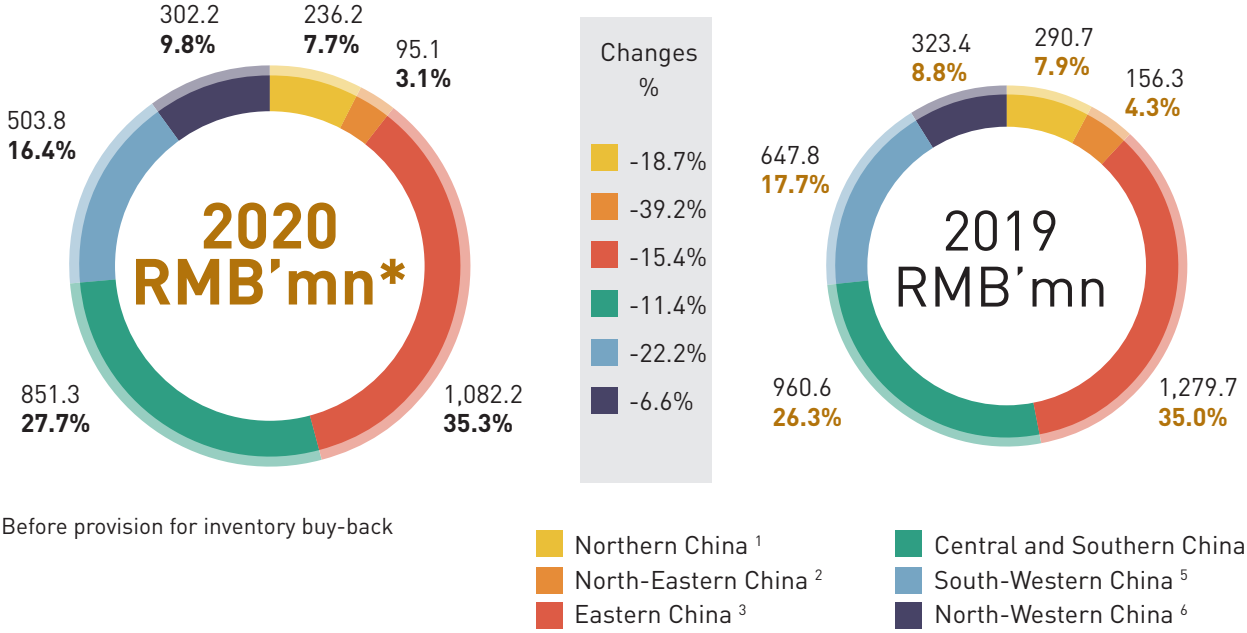
Revenue by Region

Sales in all regions decreased year-on-year. Sales in the North-Western China region saw the smallest drop, with a mere 6.6% decrease in sales year-on-year. This was due to more stores in Shaanxi, the region's largest market, being moved to quality shopping malls and experiencing a comparatively rapid recovery in sales as a result.

The sales performance of the North-Eastern China region was the weakest, with sales falling by 39.2% year-on-year. Although the Pandemic in China has been under control since the second half of the year, retail consumption in the region has not fully recovered as there were a number of imported COVID-19 cases. In addition, the region had the highest proportion of store closures as the issue of population outflow continued.

The Eastern China and the Central and Southern China regions remained the top revenue contributors, accounting for 63.0% (2019: 61.3%) of total revenue before the provision for inventory buy-back. The retail stores in these two regions accounted for 54.9% (2019: 54.1%) of the total number of stores.

Revenue by region for the year is set out below:



* Before provision for inventory buy-back

Northern China [1]
North-Eastern China [2]
Eastern China [3]
Central and Southern China [4]
South-Western China [5]
North-Western China [6]

Year ended 31 December

Region	2020 RMB million	2020 % of revenue	2019 RMB million	2019 % of revenue	Changes (%)
Northern China[1]	**236.2**	**7.7%**	290.7	7.9%	-18.7%
North-Eastern China[2]	**95.1**	**3.1%**	156.3	4.3%	-39.2%
Eastern China[3]	**1,082.2**	**35.3%**	1,279.7	35.0%	-15.4%
Central and Southern China[4]	**851.3**	**27.7%**	960.6	26.3%	-11.4%
South-Western China[5]	**503.8**	**16.4%**	647.8	17.7%	-22.2%
North-Western China[6]	**302.2**	**9.8%**	323.4	8.8%	-6.6%
Sub-total	**3,070.8**	**100.0%**	3,658.5	100.0%	-16.1%
Inventory buy-back provision	**(390.0)**		—		
Total	**2,680.8**		3,658.5		-26.7%

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 decreased by 34.5% to RMB1,477.0 million year-on-year. As sales decreased, outsourcing charges were down by 29.1% to RMB327.4 million.

The gross profit margin was 44.9%, up by 6.5 percentage points year-on-year. This was primarily due to the fact that the proposed inventory buy-back would be made at a price below the original wholesale price and that the 2019 gross profit margin was lower than usual as it reflected a one-off sales rebate. In addition, the retail gross profit margin of the smart casual collection in the second half of the year was higher than wholesale gross profit margin. These factors offset the impact of the higher fixed production overhead to revenue ratio as revenue declined.

Other Net Income

Other net income amounted to RMB105.5 million (2019: RMB 115.8 million), mainly comprising China's local government grants of RMB89.5 million (2019: RMB83.2 million). These local government grants were unconditional and at the discretion of relevant authorities.

Selling and Distribution Expenses

Selling and distribution expenses increased by 20.1% to RMB491.9 million, accounting for 16.0% of the revenue before the provision for inventory buy-back, up by 4.8 percentage points year-on-year. This sharp increase was primarily attributable to the operating expenses of the smart casual collection stores following the conversion to direct-to-retail on 1 July 2020.

Advertising expenses and renovation subsidies decreased by RMB63.9 million to RMB275.4 million, accounting for 9.0% of the revenue before provision for inventory buy-back (2019: 9.3%). A higher number of brand promotional activities were carried out during the year, and advertising expenses increased as a result. As for renovation subsidies, expenses decreased substantially as the number of store openings fell. The renovation costs for the smart casual collection direct-to-retail stores that were opened in the second half of the year were capitalized and subject to depreciation charge, and were not recognized as renovation subsidy expenses.

Administrative Expenses

Administrative expenses amounted to RMB108.4 million, up by RMB4.5 million from last year. These expenses increased to 3.5% of revenue before the provision for inventory buy-back (2019: 2.8%). Administrative expenses for the year included loss allowance provision of RMB7.4 million for trade receivables.

Other Operating Expenses

Other operating expenses mainly comprised compensation of RMB50.8 million paid to distributors for the conversion of the stores of the smart casual collection to direct-to-retail during the year and charitable donations of RMB4.6 million (2019: RMB25.2 million).

Profit from Operations

Profit from operations decreased by 33.5% to RMB651.4 million, which was mainly attributable to the decrease in sales and the provision for inventory buy-back. Although the gross profit margin increased year-on-year, the operating profit margin was down by 2.5 percentage points to 24.3%. This was due to the higher selling expenses for the smart casual collection after its conversion to the direct-to-retail model, the compensation expenses paid to distributors of the smart casual collection during the year, and increases in other expense ratios as sales declined.

Net Finance Income

Net finance income was RMB43.4 million, which was slightly lower than last year, of which interest income decreased by RMB6.9 million to RMB44.8 million as both the average cash balance and bank deposit interest rate decreased during the year.

Income Tax

The effective income tax rate was 19.8% for the year, down by 0.9 percentage point over last year. This was mainly due to the recognition of tax benefits of certain prior year's expense deductions confirmed by the relevant tax authorities during the year. One of the Group's subsidiaries in China has obtained the "Advanced and New Technology Enterprise" status and is eligible for a preferential tax rate of 15% between 2019 and 2021, while another two subsidiaries established by the Group in Tibet are eligible for a local preferential tax rate of 15%.

Net Profit

Net profit was RMB557.2 million for the year, down by 31.4%, which was mainly attributable to the decrease in sales revenue for the year and the provision for inventory buy-back. Net profit margin declined by 1.4 percentage points to 20.8%.

Earnings per Share

Earnings per share were RMB46.53 cents, down by 31.4%.

Final Dividend

The Board has resolved to distribute payment of a final dividend of HK19 cents (2019: HK21 cents) per ordinary share and a special final dividend of HK8 cents (2019: HK10 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK$323.3 million (equivalent to approximately RMB271.4 million). The final dividend and special final dividend will be paid in cash on or around 21 May 2021 to shareholders whose names appear on the Company's register of members on 6 May 2021.

BUSINESS REVIEW

Sales Channel Management

Through the LILANZ direct-to-retail stores and retail stores operated by distributors, the Group has established a distinctive brand image, in addition to providing professional retail services and an outstanding shopping experience so as to drive sales. During the year, a wholesale model was adopted to sell its core collection to distributors, while the smart casual collection has switched from a consignment model to direct-retailing in the second half of the year. The aim is to strengthen the management of areas such as inventory, market development, brand marketing and training of retail personnel.

The retail industry in China was hit hard by the Pandemic over the first half of the year. The Group pragmatically supported distributors in optimizing the retail network by closing underperforming stores while opening stores in carefully selected quality shopping malls to upgrade the channel. In addition, the Group encouraged distributors to open stores in outlet malls in the second half of the year as a recurring channel for inventory clearance.

As at the end of December 2020, LILANZ had a total of 2,761 retail stores nationwide, representing a net decrease of 54 stores during the year. Total retail floor area was approximately 398,900 square meters (31 December 2019: 406,400 square meters), representing a decrease of 1.8% as compared with the end of last year. Among which, there were 295 specialty stores for the smart casual collection, a net increase of 5 stores during the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Changes in the number of LILANZ stores in different regions are as follows:

	Number of Stores			
Region	**As at 1 January 2020**	**Opened during the year**	**Closed during the year**	**As at 31 December 2020**
Northern China	299	34	39	**294**
North-Eastern China	199	8	22	**185**
Eastern China	810	79	99	**790**
Central and Southern China	714	83	70	**727**
South-Western China	505	47	58	**494**
North-Western China	288	20	37	**271**
Total	2,815	271	325	**2,761**

As at the end of December 2020, the number of stores in shopping malls increased to 807 (31 December 2019: 780), accounting for approximately 29% of the total store count and approximately 32% of total retail floor area. There were a total of 36 outlet stores.

The Group has established stable relations with its distributors, with all distributors having maintained business relationships with the Group for over a decade. As at 31 December 2020, LILANZ had 90 distributors and 747 sub-distributors. Among the 2,761 stores, 287 stores were the Group's direct-to-retail stores, and the other stores were operated by distributors or sub-distributors respectively.

The number of stores is analyzed as follows:

	31 December 2020		31 December 2019	
	Number of distributors	**Number of stores**	Number of distributors	Number of stores
Direct-to-retail stores	**—**	**287**	—	1
Distributors	**90**	**1,348**	78	1,663
Sub-distributors	**747**	**1,126**	768	1,151
Total number of stores		**2,761**		2,815
Street stores		**1,609**		1,729
Stores in shopping malls and outlet malls		**843**		780
Shop-in-shops in department stores		**309**		306
Total number of stores		**2,761**		2,815

The Group monitors the sales and inventory of stores via the ERP system. During the year, in order to alleviate channel inventory pressure, the Group cancelled some of the 2020 spring and summer orders for the core collection and reduced 2020 fall and winter pre-orders. In addition, various promotional activities were organized both online and offline to accelerate inventory clearance. These efforts successfully improved the inventory level and its ageing.

The seventh-generation store image for the core collection launched by the Group on a pilot basis at its newly opened stores last year was also adopted by the new stores opened in 2020. However, the plan for rolling out the new generation store image to existing stores has been postponed until 2021.

New Retail Development

New retailing has been one of the Group's top priorities for business development in recent years. The Pandemic quickened the development of e-commerce during the year, and the Group made further efforts to boost online customer traffic by organizing various promotional activities, including placing advertisements on web portals and commissioning internet celebrities to promote products, and to expand the business of the LILANZ core collection and smart casual collection by integrating online services with offline in-store experiences and the comprehensive logistics services. All of these efforts also helped to mitigate the impact of the Pandemic on sales.

Online stores have been set up on major online shopping platforms for both the LILANZ core collection and smart casual collection. During the year, online store sales increased by more than 1.2 times year-on-year, largely in respect of inventory clearance sales.

In addition to online stores, the Group also actively promoted its business via the WeChat platform. Along with using the WeChat system to provide customer relationship management services, the Group also set up stores in WeChat Mall for the smart casual collection and the core collection respectively, with the aim of further capitalizing on the complementary advantages of online and offline stores. While the interactive characteristics of this social networking platform facilitate brand promotion, stores in the WeChat Mall also enlarge the virtual inventories of physical stores, leading to higher sales efficiency per store in tandem with more effective inventory control.

Product Design, Development and Supply Chain Management

The Group continued to adhere to personality-themed and original designs for its products as well as differentiating itself from its peers by providing products with great value-for-money. The proportion of originally designed products was maintained at approximately 70% among products available for sale during the year, and the proportion of these products utilizing proprietary fabrics developed by the Group was around 50%, which were both in line with the target levels. Meanwhile, the Group's plan to gradually upgrade the fashion elements and design of products of the smart casual collection starting from the 2020 summer season will be completed in the 2021 spring and summer seasons. It is expected that the profitability of the collection could be improved as a result.

To support environmental protection, the Group launched an eco-friendly jeans collection in its 2020 spring and summer collections. Such jeans are made of blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles. On average, each pair of jeans uses seven plastic bottles. Elsewhere, the Group gradually adopted the latest washing technology in the process of producing jean products in order to effectively reduce waste and significantly save on labor, water and energy consumption.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's international and local research and development teams have continued to keep abreast of popular trends in the international market. With the objective of meeting the fashion needs of mainland China's consumers, the teams have focused on designing value-for-money menswear products that are simple, fashionable, and in style, matching the different market positions of the core and smart casual collections. There are currently around 450 staff members in the Group's research and development department, engaging in areas such as product design, material development and sample creation, all striving to increase the overall 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, mainly targeting 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, targeting consumers aged 20 to 30 in first- and second-tier markets, comprises more classic products than the core collection.

In addition to placing advertisements on web portals and engaging internet celebrities to promote e-commerce, the Group launched a variety of brand promotional events during the year.

In the second quarter, the Group sponsored the costumes of actors in an urban hit drama,《誰說我結不了婚》("Who Says I Can't Get Married?"), showcasing the fashionable brand image of LILANZ through costume designs that matched the characters and the plot. The show was broadcast simultaneously on CCTV8 and several internet stations from late-May to mid-June and attracted a huge audience, greatly enhancing LILANZ's brand awareness and reputation.

In the fourth quarter, the Group engaged Han Han (a writer, director, and professional racer) and Li Dan (a stand-up comedian, screenwriter, writer, and program coordinator) as LILANZ brand ambassadors. This brand-new duo was featured in various advertisements to showcase LILANZ's young product positioning, which satisfied the diversified demands of consumers of the new generation and increased customers' recognition of the brand. The related online and offline promotional events have attracted extensive market attention.

During the year, the Group launched LILANZ crossover products with *China Daily*, Chinese comic "Under One Person", Japanese cartoon "Doraemon", US graffiti artist Jean Michel Basquiat and emerging artist Nick etc., respectively. Through its novel and fashionable style of products, the brand has become more youthful, drawing attention from the market as well as increasing the value of the brand.

The Group also continued to work with the Academy Award of Advertising Festival of Chinese College Students to solicit publicity plans and ideas for its brand and products from college students. The online creative theme solicitation tours for the spring and fall seasons engaged over a million college students, further enhancing brand awareness among a young consumer demographic.





Awards

A number of promotional campaigns launched by the Group during the year won awards from the advertising industry. The Group was granted several awards during the 9th ADMEN International Award Presentation Ceremony (第九屆ADMEN國際大獎頒獎盛典). The promotional campaign for the LILANZ X CHINA DAILY products won the "Gold Case Award" (實戰金案獎) and was accredited among the "Top 100 Branding Cases of the Year" (品牌100年度案例), and the in-depth interactive communication in colleges in respect of the promotion of LILANZ as the business wear brand of the new generation won the "Brand Rejuvenation Award" (品牌年輕化大獎) and the "Top 10 Brand Rejuvenation Cases Award" (品牌年輕化十大案例獎). The advertising campaigns with the new brand ambassadors were hailed as being among the "2020 Top 15 Best Commented Cases" (2020年度口碑案例TOP 15) by Advertising Gate APP (廣告門 APP).

In addition, LILANZ was accredited with the "2020 Trend-leading Brand of New Business Menswear" (2020年度引領時尚新商務男裝品牌) at the 15th Asia Brand Ceremony (15屆亞洲品牌盛典), held by various brand valuation agencies such as Asiabrand.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

Going into 2021, the economies of countries across the world will continue to be hit hard by the Pandemic, posing challenges for the macro-economic environment. Nevertheless, with its effective epidemic control measures, China's economy has been recovering rapidly. Though there are still a few sporadic outbreaks, social activities have generally returned to normal, providing favorable conditions for the retail market. In addition, the new structure of dual circulation as proposed by the central government encourages residents to expand their consumption, which can lead to consumption upgrade and drive economic growth. Therefore, the Group is cautiously optimistic about the development of the retail market.

In 2021, China Lilang will adopt a prudent strategy for store openings which will focus on optimizing the existing store network, and will further strengthen the management of the retail network. The Group will continue to add more stores in quality shopping malls in provincial capitals and prefecture level cities and will also add stores in outlets as a recurring channel for inventory clearance. The plan for the year is to add 100 to 150 stores and the target for total retail sales growth is 10% or more.

In order to more closely control the retail stores and reduce inventory risk, the Group will reform the operation model of the core collection in 2021 by converting selected distributors with higher management capability to the consignment operation model starting from the 2021 spring and summer collections. This initiative covers 1,388 stores in areas including Fujian, Shaanxi, Guizhou, and Henan (accounting for approximately 56% of the total store count of the core collection as at 31 December 2020 and around 60% of revenue from the core collection for 2020 before inventory buy-back provision). Under the consignment model, the Group would be able to manage inventory more effectively as product transfers will be more flexible and buffer inventory for individual stores could be reduced. As for store operations, the consignment model would enable the virtual inventory of individual stores to expand and adjust in response to market changes. This will help to improve store efficiency. Furthermore, the consignment model will allow the Group to continue to leverage the retail management talents of distributors while using the Group's financial resources to accelerate channel upgrade in any particular regions by adding stores in quality shopping malls in provincial capitals and prefecture level cities.

After converting 1,388 core collection stores to the consignment model, the Group expects the book inventory will increase while the credit periods of trade receivables will be shortened, and the point of sales recognition will be delayed. The Group has raised the wholesale price starting from the 2021 spring and summer seasons to make up for the possible inventory provision resulting from taking up the inventory risk under the consignment model. As part of the change to the consignment model, the Group would buy-back from these 1,388 stores the past-season products of approximately RMB390.0 million as at 28 February 2021. Provision for such inventory buy-back was made in 2020 financial statements and deducted from revenue. The related inventories of approximately RMB309.1 million, measured with reference to the former carrying value of the products, were recognized as other current assets in the 2020 financial statements.

The Group will continue to promote e-commerce and since January 2021 it has turned its online stores into self-operating, instead of distributor-operated stores. This could improve the management and control of online stores and facilitate the launch of special edition products online. For the 2021 fall and winter seasons, the Group plans to work with suppliers with environmental protection accreditation to launch eco-friendly special edition products online, which will be made using fabrics from recycled plastics and fast-growing non-edible plants. In addition to online shopping platforms, online stores have been set up on the WeChat Mall for both the core collection and the smart casual collection. It is expected that the customer base of the WeChat store will continue to expand, complementing the physical retail stores with virtual inventory to increase sales efficiency.

As for brand promotion, the Group will continue to organize a range of activities through online and offline channels to promote its brand, and launch crossover products with *China Daily* or other parties. The use of new store images to showcase a more fashionable and fresh brand image to attract more customers is also in the plan. The seventh-generation store image renovation of the core collection will gradually roll out to the existing stores, with a plan to cover about 500 existing stores in 2021. In doing so, the Group will use different decorative materials, subject to the different market positions of the stores, to achieve better cost efficiency. It also plans to launch a new store image for the smart casual collection in the second half of 2021.

As for product positioning, the Group will continue to adhere to the strategy of providing products that represent excellent value-for-money. As supply chain management has improved over the past few years, the Group's products show cost advantages over those of its peers. In addition, the project to enhance the fashion and design elements of the smart casual collection since the 2020 summer season will be completed by the 2021 spring and summer seasons, which is expected to improve the profit margin of the smart casual collection.

Operations at the new headquarters in Fujian began in February 2021, providing a new step forward for the Group's development. Phase I of the new logistics park is targeted for opening in the second half of 2021, which will facilitate better inventory management within the Group.

The Pandemic has accelerated the consolidation of the menswear industry where only the fittest would survive, and competitive brands would stand out and gain a larger market share. As a well-established menswear enterprise, China Lilang is confident that it will continue to outperform other industry peers. The Group will further improve its sales and marketing management and prepare itself for the full recovery of the market. In the long run, China Lilang will retain its multi-brand strategy as it endeavors to strengthen its product competitiveness and value-for-money. This will further consolidate its leading position in the menswear industry in China and realize sustainable long-term growth to reward its shareholders, staff and customers for the support they have shown to the Group.





MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balances and Cash Flows

	Year ended 31 December	
	2020 RMB million	2019 RMB million
Amounts pledged as security for bills payable	**1.7**	8.9
Cash and cash equivalents	**1,738.9**	1,750.6
Total cash and bank balance	**1,740.6**	1,759.5

As at 31 December 2020, the Group's total cash and bank balance was mainly denominated in Renminbi (95.1%) and Hong Kong Dollars (4.1%). There were no bank loans outstanding as at 31 December 2020 and 2019.

Cash and cash equivalents balance decreased by RMB11.7 million. Major cash flow movements during the year were as follows:

— Net cash generated from operating activities amounting to RMB773.3 million.

  The major reconciling items between the net amount of operating cash inflow and the net profit for the year of RMB557.2 million were the decrease in trade and bills receivables of RMB245.6 million, the decrease in trade and bills payables of RMB107.4 million, and the impact of the provision of inventory buy-back on net current assets. As retail business recovered from the COVID-19 Pandemic in the second half of the year and channel inventory clearance accelerated, financial liquidity of distributors as well as the Group's trade receivables improved as compared with the interim period.

— Net cash used in investing activities amounting to RMB190.8 million, comprising mainly capital expenditure totalling RMB261.4 million, less interest income of RMB44.8 million and the net proceed of RMB25.8 million from the disposal of a subsidiary received during the year.

— Net cash outflows from financing activities amounting to RMB590.3 million, comprising mainly the payments of final dividends in respect of 2019 and the interim dividends for the year totalling RMB521.2 million, and the capital and interest elements of lease rentals paid totalling RMB67.4 million.

Trade Working Capital Turnover Days

	Year ended 31 December	
	2020	2019
Average inventory turnover days	**168**	111
Average trade receivables turnover days	**101**	78
Average trade payables turnover days	**115**	91

Inventory turnover days

The Group's average inventory turnover days was 168 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted average turnover days was 139 days, up by 28 days year-on-year.

Total inventory balance slightly decreased by RMB22.2 million year-on-year. Inventory balance of the smart casual collection reduced as inventory control improved after the conversion to direct-retailing in the second half of the year. Inventory balance of the core collection however increased as it included 2020 spring and summer inventories of about RMB60.2 million resulting from the cancellation of trade fair orders.

As at 31 December 2020, total provision of RMB15.6 million was made in accordance with the Group's inventory provision policy.

In addition, the Group has converted 1,388 stores of the core collection to consignment model starting from 2021 spring and summer seasons. As part of the conversion, the Group has agreed to buy-back inventories from these stores as at 28 February 2021. The related inventories of about RMB309.1 million, measured with reference to the former carrying value of the products, were recognised as other current assets in the 2020 financial statements.

Trade receivables turnover days

The Group's average trade and bills receivables turnover days was 101 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted average turnover days was 88 days, an significant improvement from the average turnover days of 135 days for the interim period. If based on the year-end balance, the adjusted turnover days was 75 days. The trade receivables balance reduced by RMB245.6 million year-on-year to RMB711.7 million.

As retail business gradually recovered from the COVID-19 Pandemic in the second half of the year and channel inventory clearance accelerated, financial liquidity of distributors as well as the Group's trade receivables improved as compared with the interim period.

As at 31 December 2020, a loss allowance provision of RMB16.6 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 115 days for the year. Excluding the impact of provision for inventory buy-back, the adjusted turnover days was 95 days which was similar to that in 2019. There was no material change in the payment terms with suppliers.

Trade and bills payables balance dropped by RMB107.4 million during the year to RMB410.3 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 2020, deposits with certain banks totalling RMB1.7 million (2019: RMB8.9 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2020, the Group had total capital commitments of RMB428.5 million, primarily related to the renovation work of the new headquarters , and the construction of the logistics centre, the first phase of which is expected to be completed in the second half of 2021.

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

As at 31 December 2020, the Group had no material contingent liabilities.

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 35 to 44 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

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 24 to 34 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 2020, the Group had 4,104 staff. Total staff costs for the year amounted to approximately RMB281.5 million (2019: RMB230.7 million). Details of the Group's policies on human resources are summarised in the Environmental, Social and Governance Report on pages 24 to 34 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 26 April 2021 to Thursday, 29 April 2021 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2021 annual general meeting ("2021 AGM"). In order to qualify for attending and voting at the 2021 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 Friday, 23 April 2021.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2021 AGM, the register of members will be closed from Wednesday, 5 May 2021 to Thursday, 6 May 2021 (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 Tuesday, 4 May 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(A) 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. As the Group is principally engaged in the design, manufacturing and sales of apparel products, its operating activities do not generate any emissions or wastes that would severely pollute the environment.

This report covers the Group's headquarters in Jinjiang City, Fujian Province (the "Headquarters") and its production facilities in Wuli Industrial Park, Fujian Province (the "Wuli Plant"). 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) and also the venue for the three trade fairs held every year.

Aspect A1: 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 vehicle fleets, the transportation of raw materials and products are all outsourced to third-party transportation service providers. In addition, 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. Every year the Group commissions a third-party professional organization to audit air emissions from the boiler to ensure compliance with relevant laws and regulations.

The operating activities of the Group do not produce any hazardous wastes. The Wuli Plant has adopted the following measures to maximize the utilization rate of fabrics, thereby controlling costs and reducing scraps, non-hazardous wastes, generated during the production process:

1) Strictly adhere to the minimal usage of fabrics and optimize 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; and

3) Optimize 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.

Scraps are regularly collected by recyclers to be converted into or reused in other products (such as gloves).

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.

According to the key performance indicators ("KPIs") as set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of air and greenhouse gas emissions and waste generation is summarised as follows:

KPIs		For the year ended 31 December 2020
A1.1	Type of emissions and respective emissions data	Total air emissions (particulates, NOx and SO_2) of the boiler (note 1) were 0.65 tonnes (2019: 0.34 tonnes) for the year. Total air emissions increased year-on-year but were still negligible. The intensity (based on the total annual production cost of the Wuli Plant (note 2)) is negligible. Total air emissions reduced significantly after using natural gas instead of coal for the boiler since September 2017.
A1.2	Total greenhouse gas emissions and intensity	As noted above, greenhouse gas emissions generated by the Group's operating activities are limited.
A1.3	Total hazardous wastes produced and intensity	The operating activities of the Group have not produced any hazardous wastes.
A1.4	Total non-hazardous wastes produced and intensity (based on the total annual production cost of the Wuli Plant (note 2))	Scraps of 244.86 tonnes (2019: 359.47 tonnes); intensity of 0.69 Kg/RMB'000 (2019: 0.83 Kg/RMB'000). The intensity reduced as fabric costs as a percentage of manufacturing costs reduced year-on-year.
A1.5	Measures to mitigate emissions and results achieved	Natural gas is used instead of coal for the boiler since September 2017 and air emissions have been significantly reduced as a result. Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. The air emissions of the boiler conformed to the requirements of relevant laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs		For the year ended 31 December 2020
A1.6	How hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	The operating activities of the Group have not produced any hazardous wastes. In respect of non-hazardous wastes, the Group strictly controls the usage of fabrics and reduces scraps through production equipment upgrades, using a computer program to optimize cutting layouts and training workers. Scraps produced are collected by recyclers to be reused in other products.

Note 1: This assumes an average annual total working hours of the boiler is 2,200 hours.

Note 2: Total annual production cost of the Wuli Plant equals to total cost of sales less OEM procurement costs, subcontracting costs, inventory write-down and sales tax surcharges, and excludes the impact of provision for inventory buy-back.

Aspect A2: 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 optimize 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.

The resources used in the Wuli Plant during the past two years are summarised as follows:

		For the year ended 31 December	
		2020	2019
Electricity	Consumption quantity	**4,270,300 units**	4,121,400 units
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**11.96 units/RMB'000**	9.48 units/RMB'000
Natural gas	Consumption quantity	**359,300 m^3**	380,500 m^3
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**1.01 m^3/RMB'000**	0.88 m^3/RMB'000
Water	Consumption quantity	**46,100 m^3**	74,900 m^3
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**0.13 m^3/RMB'000**	0.17 m^3/RMB'000
Packaging materials (note 2)	Purchases (weight)	**1,173.27 tonnes**	2,186.10 tonnes
	Intensity (based on annual cost of sales (note 3))	**0.66 Kg/RMB'000**	0.97 Kg/RMB'000

Note 1: Total annual production cost of the Wuli Plant equals to total cost of sales less OEM procurement costs, subcontracting costs, inventory write-down and sales tax surcharges, and excludes the impact of provision for inventory buy-back.

Note 2: This includes paper shopping bags, and also plastic bags and non-woven bags used for the individual packaging of certain products produced in the Wuli Plant. Packaging materials of individual products purchased from OEM suppliers are excluded.

Note 3: Total cost of sales excludes the impact of the provision for inventory buy-back.

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 intensity of electricity consumption in Wuli Plant increased by 26.2% during the year as more electronic production equipments have been added in the past few years. In particular, more high electricity consumption equipments were added for the production lines of leisure footwear in mid 2019. The intensity of natural gas consumption increased as sales dropped year-on-year. As for packaging materials, the decrease in intensity based on annual cost of sales mainly reflected the cancellation of individual packaging of certain products since mid 2019 and the increase in sales contribution from e-commerce for which product packaging requirements are less stringent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The resources used by the Headquarters during the past two years are summarised as follows:

		For the year ended 31 December	
		2020	2019
Electricity	Consumption quantity	**4,874,400 units**	4,881,700 units
	Intensity (based on annual cost of sales (note 1))	**2.73 units/RMB'000**	2.16 units/RMB'000
Natural gas	Consumption quantity	**11,100 m^3**	13,300 m^3
	Intensity (based on annual cost of sales (note 1))	**0.01 m^3/RMB'000**	0.01 m^3/RMB'000
Water	Consumption quantity	**47,400 m^3**	37,600 m^3
	Intensity (based on annual cost of sales (note 1))	**0.03 m^3/RMB'000**	0.02 m^3/RMB'000

Note 1: Total cost of sales excludes the impact of the provision for inventory buy-back.

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) and also the venue for the three trade fairs held every year. The electricity, natural gas and water consumption varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery in the sample workshop. The intensity of resources consumption increased as sales dropped year-on-year.

According to the KPIs set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of resource utilization is summarized as follows:

KPIs		**For the year ended 31 December 2020**
A2.1	Electricity consumption and intensity (based on the total annual production cost of the Wuli Plant or annual cost of sales)	9,144,700 units (2019: 9,003,100 units); intensity of 14.69 units/RMB'000 (2019: 11.64 units/RMB'000). The intensity increased as sales dropped year-on-year. Also, more high electricity consumption equipments were added for the production lines of leisure footwear in mid 2019.
	Natural gas consumption and intensity (based on the total annual production cost of the Wuli Plant or annual cost of sales)	370,400 m^3 (2019: 393,800 m^3); intensity of 1.02 m^3/RMB'000 (2019: 0.89 m^3/RMB'000). The Group started using natural gas to replace coal for the boiler since September 2017 to reduce air emissions.

KPIs		For the year ended 31 December 2020
A2.2	Water consumption and intensity (based on the total annual production cost of the Wuli Plant or annual cost of sales)	93,500 m^3 (2019: 112,500 m^3); intensity of 0.16 m^3/RMB'000 (2019: 0.19 m^3/RMB'000).
A2.3	Energy use efficiency initiatives and results achieved	The Group adheres to the "5S management system" and requires all employees to conserve water and 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 lights in the production workshops are powered off during lunch hour and after work. In respect of the use of natural gas, the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. The consumption of natural gas and electricity in the Wuli Plant varies depending on the types of products, nature of fabrics, production processes, types of manufacturing equipment employed as well as weather and temperature. The electricity consumption of the Headquarters varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery.
A2.4	Water efficiency enhancement initiatives and results achieved	Water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency.
A2.5	Total packaging materials used for finished products and intensity (based on annual cost of sales)	1,173.27 tonnes (2019: 2,186.10 tonnes); intensity of 0.66 Kg/RMB'000 (2019: 0.97 Kg/RMB'000). The intensity of the weight of packaging materials purchased has reduced mainly due to the cancellation of individual packaging of certain products since mid-2019 and the increase in sales contribution from e-commerce for which product packaging requirements are less stringent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect A3: The Environment and Natural Resources

The Group's operating activities have no direct or significant impact on the environment and natural resources.

In respect of the control over the use of natural resources, water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency. In addition, the Group promotes a paperless office and reduces the use of paper by using ERP system, OA system and mobile phone applications.

In respect of the control over the materials used in products, the Wuli Plant has adopted the following measures to maximize the utilization rate of fabrics and reduce wastes:

1) Strictly adhere to the minimal usage of fabrics and optimize 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; and

3) Optimize production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added over the past few years to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out.

In addition, the Group has started using more eco-friendly fabrics made from bamboo fiber for some of its products since 2015; however, this accounted for a relatively small proportion of the total sales volume, as the current market demand for this kind of product is still low.

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 products under this collection is made with blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles; each pair of jeans on average uses about seven plastic bottles, an effective way to dispose and recycle a quantity of plastics. In addition, hangtag and other accessory materials for this collection are sourced from suppliers engaged in sustainable practices.

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 labor and energy consumption.

The Group plans to launch 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.

Aspect A4: Climate Change

The Group's business is susceptible to climate change. Extreme or unseasonable weather conditions would severely affect retail sales performance and increase inventory risk. 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 lowered the pre-order levels in trade fairs, and increase supplementary orders if necessary, to better control inventory risk.

(B) SOCIAL

Aspect B1: Employment

As at 31 December 2020, the Group had 4,104 staff in total.

All human resources decisions of the Group are based on merits. 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 regardless of age or gender.

The Group also attaches great importance to employees' rights and benefits, and offers competitive remuneration packages to its employees based on factors such as market wage rates, responsibilities, job complexity as well as the Group's performance. 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 recognize and reward the contribution of its employees to the growth and development of the Group. In addition, 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.

The gender, age group and employment type of the Group's employees as at 31 December 2020 are summarised as follows (KPI B1.1):

	Total workforce
By gender	
Male	1,405
Female	2,699
By age group	
Age below 16	–
Age 16 to 24	671
Age 25 to 40	2,674
Age 41 to 59	749
Age 60 and above	10
By employment type	
Office staff	1,697
Retail staff	1,428
Workers	979

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)





Aspect B2: Health and Safety

The Group cares about the health, working environment and safety of its employees. The artistically decorated new headquarters and the beautiful green areas at the Wuli Plant offer a cosy working environment to the employees. The Wuli Plant has a basketball field and the Headquarters has a gym for its staff.



KPIs		For the year ended 31 December 2020
B2.1	Number and rate of work-related fatalities occurred	There were no work-related fatalities of the employees of the Group occurred in the past three years ended 31 December 2020.
B2.3	Occupational health and safety measures	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 centre and sample workshop at the Headquarters, in order to ensure the safe operation by the employees.

Aspect B3: 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. The 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. During 2015 to 2018, the Group also collaborated with Jiangnan University (江南大學), the Online and Continuing Education College of Fujian Normal University (福建師範大學網絡與繼續教育學院) and two professional education and training companies to provide a state-approved online distance education diploma program to over 100 staff members from its design department and craftsmanship department in order to further enhance its design capabilities and craftsmanship.

Annual training provided by the Group 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 was suspended in 2020 due to the COVID-19 Pandemic.

Aspect B4: Labour Standards

No one under the age of 16 is employed by the Group for any position.

Aspect B5: Supply Chain Management

As at 31 December 2020, the Group had about 470 OEM product suppliers, raw material suppliers and process sub-contracting suppliers, about 30 of which are located outside the PRC.

In selecting suppliers, the Group puts much emphasis on the legal compliance of their operations in addition to cost consideration. On-site visits are conducted before the commencement of business with suppliers, and followed by one or two such visits annually afterwards, so as to ensure that they have a stable workforce and there are no child labour issues. 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. For the year ended 31 December 2020, suppliers with ISO14000 accreditation accounted for about 50% of the Group's total purchases of raw materials.

Aspect B6: 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.

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 methanol 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In accordance with the requirements of the Trademark Law of the PRC, all products bear labels specifying details such as fiber 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.

For the year ended 31 December 2020, 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.

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.

The Group pays great attention to 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.

Aspect B7: Anti-corruption

The Group is committed to good corporate governance practices and strictly prohibits its employees from engaging in acts of corruption. 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. 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.

For the year ended 31 December 2020, the Group had not been involved in any litigation related to corruption, and there had been no complaints about the involvement of its employees in corruption cases.

Aspect B8: Community Investment

The Group cares about the need of the community and makes donations to educational associations or charitable organizations to the best of its ability every year. For the year ended 31 December 2020, charitable donations totaling RMB4.6 million were made by the Group. This included a donation of RMB3.0 million to China Charity Federation during the outbreak of COVID-19 Pandemic in early 2020 to support those infected and their families. The Group was also one of the first group of enterprises contributing its manufacturing resources and produced a total of 20,000 sets of protective outfits for supporting medical staff on the frontlines.



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 2020.

(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 45 to 49 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 2020.

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 2020, 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 2020 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.

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 2020. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2019 and the interim report of the Group for the six months ended 30 June 2020, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(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 2020, 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 2019 and salary adjustments (if any) for the year ended 31 December 2020 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.

During the year ended 31 December 2020, 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 2020 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 2020, 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 23 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 2020 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Risk Management Committee Meeting	2020 Annual General Meeting
No. of meetings held during the year ended 31 December 2020	11	2	1	1	1	1
Executive Directors						
Mr. Wang Dong Xing	11	N/A	N/A	1	1	1
Mr. Wang Liang Xing	8	N/A	N/A	N/A	N/A	1
Mr. Wang Cong Xing	11	N/A	1	N/A	1	1
Mr. Cai Rong Hua	8	N/A	N/A	N/A	N/A	1
Mr. Hu Cheng Chu	8	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	1
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.

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

Ms. Ko Yuk Lan, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the financial year, Ms. Ko has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Ms. Ko is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 45 to 49 of the Annual Report.

(B) FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting

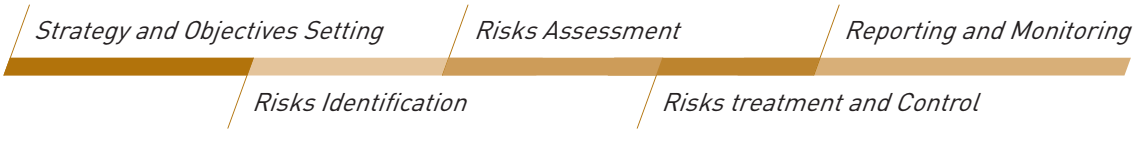
The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, 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 23 of this Annual Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(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 RMB2,850,000. Fees payable to KPMG for non-audit services in respect of internal control review and tax advisory services for the year amounted to RMB400,000.

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.

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 23 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 60, 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 58, 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).

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang Cong Xing (王聰星先生), aged 52, 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 52, 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 76, 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—人物獎之功勛獎);
- 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 47, 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 60, 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 three other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), 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 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. He resigned as independent non-executive director of that company on 1 March 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Nie Xing (聶星先生), aged 56, 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 46, 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

Ms. Ko Yuk Lan (高玉蘭女士), aged 59, is the chief financial officer and company secretary of the Company. She first joined the Group in January 2008 and worked with the Group until September 2008. She rejoined the Group in May 2010. Ms. Ko graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a Professional Diploma in Management Accountancy. She has over 25 years of experience in financial management and corporate finance. Prior to joining the Group, she had worked in an international accounting firm and other companies listed on the Main Board of the Stock Exchange. Ms. Ko is a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Cost and Management Accountants. During the last three years, she was also an independent non-executive director of Hosa International Limited (浩沙國際有限公司) (delisted, previous stock code 2200), the shares of which were listed on the Stock Exchange. She retired as independent non-executive director of that company on 30 April 2018.

Ms. Shi Mei Ya (施美芽女士), aged 44, 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 50, 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.

Mr. Zhuang Zhi Han (莊志函先生), aged 51, 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 Xiaxin 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 51, 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 45, 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 2020.

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 23 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:

	2020		2019	
	Percentage of the Group's Total		Percentage of the Group's Total	
	Sales	Purchases	Sales	Purchases
The largest customer	**3.4%**		3.7%	
Five largest customers in aggregate	**16.2%**		15.8%	
The largest supplier		**5.9%**		4.8%
Five largest suppliers in aggregate		**19.0%**		19.1%

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 118 of the Annual Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2020 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 65 to 117 of the Annual Report.

TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB557,242,000 (2019: RMB812,180,000) 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 HK12 cents (2019: HK18 cents) per ordinary share and a special interim dividend of HK5 cents (2019: HK8 cents) per ordinary share were paid on 18 September 2020. The Directors now recommend the payment of a final dividend of HK19 cents (2019: HK21 cents) per ordinary share and a special final dividend of HK8 cents (2019: HK10 cents) per ordinary share in respect of the year ended 31 December 2020.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB4,553,000 (2019: RMB25,185,000).

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 2020 are set out in note 20 to the consolidated financial statements. All bank loans were fully repaid as at 31 December 2019 and 2020.

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 2020 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 2020.

REPORT OF THE DIRECTORS (CONTINUED)

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 45 to 49 of the Annual Report.

In accordance with article 105(a) of the Company's articles of association, Mr. Wang Dong Xing, Mr. Cai Rong Hua and Mr. Pan Rong Bin 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.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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	Settlor of a discretionary trust (Note 5)	4,500,000 shares (L)	—	0.376%
	Xiao Sheng International (Note 3)	Settlor of a discretionary trust (Note 5)	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:

1. The letter "L" denotes the Directors' long position in the shares and underlying shares of the Company or the relevant associated corporation.

2. 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.

3. 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 (note 5), 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 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.

5. The interests of Mr. Hu Cheng Chu in 4,500,000 shares of the Company and 500 shares of Xiao Sheng International are held through Luxuriant Treasure Global Limited ("LTGL"). The entire issued share capital of LTGL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Hu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2020, 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 2020, 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 (note 5), 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 (note 5), 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)

(5) The entire issued share capital of Luxuriant Treasure Global Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Hu Cheng Chu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2020, 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 2020.

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.

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:

	Number of options							
Name or category of participants	As at 1 January 2020	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2020	Exercise price	Exercise period
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.

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 and the average value per option is provided in note 1(o)(ii) and note 28 to the financial statements respectively. As at 31 December 2020, 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 RMB9,486,000. Assuming that all the options outstanding as at 31 December 2020 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 2021

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 65 to 117, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 ("HKSAs") 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.

Revenue recognition	
Refer to note 3 to the consolidated financial statements and the accounting policies on page 85	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue principally comprises sales of menswear goods, including tops, pants and accessories to distributors and through consignees. 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. 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. 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. We identified the recognition of revenue 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 misstatement of revenue by management to meet specific targets.	Our audit procedures to assess the recognition of revenue included the following: • 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 2020 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)

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

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Revenue	3	**2,680,835**	3,658,471
Cost of sales		**(1,477,031)**	(2,255,300)
Gross profit		**1,203,804**	1,403,171
Other net income	4	**105,508**	115,822
Selling and distribution expenses		**(491,874)**	(409,707)
Administrative expenses		**(108,371)**	(103,902)
Other operating expenses		**(57,682)**	(25,589)
Profit from operations		**651,385**	979,795
Net finance income	5	**43,401**	44,168
Profit before taxation	6	**694,786**	1,023,963
Income tax	7(a)	**(137,544)**	(211,783)
Profit for the year		**557,242**	812,180
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")		**9,461**	5,792
Total comprehensive income for the year		**566,703**	817,972
Earnings per share	11		
Basic (cents)		**46.53**	67.82
Diluted (cents)		**46.51**	67.82

The notes on pages 69 to 117 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 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	12	**923,727**	713,892
Investment properties	13	**122,198**	142,403
Right-of-use assets	14	**279,407**	139,506
Intangible assets	15	**7,914**	7,776
Deposits for purchases of plant and equipment		**3,100**	8,280
Lease rental deposits	14	**32,869**	—
Deferred tax assets	24(b)	**24,310**	20,823
		1,393,525	1,032,680
Current assets			
Inventories	16	**667,054**	689,243
Trade and other receivables	17	**1,210,168**	1,081,849
Pledged bank deposits	18	**1,710**	8,946
Cash and cash equivalents	19(a)	**1,738,934**	1,750,609
		3,617,866	3,530,647
Current liabilities			
Trade and other payables	21	**1,036,022**	755,828
Lease liabilities	22	**62,003**	537
Contract liabilities	23	**37,463**	26,724
Current tax payable	24(a)	**152,489**	152,156
		1,287,977	935,245
Net current assets		**2,329,889**	2,595,402
Total assets less current liabilities		**3,723,414**	3,628,082
Non-current liabilities			
Deferred tax liabilities	24(b)	**7,963**	21,803
Lease liabilities	22	**61,926**	—
		69,889	21,803
Net assets		**3,653,525**	3,606,279
Capital and reserves			
Share capital	26(a)	**105,517**	105,517
Reserves		**3,548,008**	3,500,762
Total equity		**3,653,525**	3,606,279

Approved and authorised for issue by the board of directors on 18 March 2021.

Mr. Wang Dong Xing	**Mr. Wang Liang Xing**	**Mr. Wang Cong Xing**
Chairman	*Chief Executive Officer*	*Executive Director*

The notes on pages 69 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020
(Expressed in Renminbi)

	Note	Share capital (note 26(a)) RMB'000	Share premium (note 26(d)(i)) RMB'000	Statutory reserve (note 26(d)(ii)) 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 2019		105,517	31,411	257,038	23,176	(43,161)	3,025,878	3,399,859
Changes in equity for 2019:								
Profit for the year		–	–	–	–	–	812,180	812,180
Other comprehensive income for the year		–	–	–	–	5,792	–	5,792
Total comprehensive income for the year		–	–	–	–	5,792	812,180	817,972
Dividends approved in respect of the previous year	26(c)	–	–	–	–	–	(328,196)	(328,196)
Dividends declared in respect of the current year	26(c)	–	–	–	–	–	(283,356)	(283,356)
Appropriation to statutory reserve		–	–	6,429	–	–	(6,429)	–
At 31 December 2019 and 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		**105,517**	**31,411**	**266,037**	**24,941**	**(27,908)**	**3,253,527**	**3,653,525**

The notes on pages 69 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	19(b)	**927,833**	816,235
Tax paid	24(a)	**(154,538)**	(207,038)
Net cash generated from operating activities		**773,295**	609,197
Investing activities			
Payments for purchases of property, plant and equipment		**(225,000)**	(93,894)
Payments for purchases of right-of-use assets		**—**	(38,851)
Payments for lease rental deposits		**(32,869)**	—
Payments for purchases of intangible assets		**(3,486)**	(4,194)
Proceeds from disposal of property, plant and equipment		**23**	95
Disposal of subsidiary, net of cash disposed of		**25,763**	—
Interest income received		**44,784**	51,685
Net cash used in investing activities		**(190,785)**	(85,159)
Financing activities			
Capital element of lease rentals paid	19(c)	**(63,768)**	(1,526)
Proceeds from bank loans	19(c)	**335,000**	508,838
Repayment of bank loans	19(c)	**(335,000)**	(508,838)
Interest element of lease rentals paid	19(c)	**(3,587)**	(56)
Interest expense paid on bank borrowings		**(1,753)**	(3,749)
Dividends paid	26(c)	**(521,222)**	(611,552)
Net cash used in financing activities		**(590,330)**	(616,883)
Net decrease in cash and cash equivalents		**(7,820)**	(92,845)
Cash and cash equivalents at 1 January		**1,750,609**	1,842,850
Effect of foreign exchange rate changes		**(3,855)**	604
Cash and cash equivalents at 31 December	19(a)	**1,738,934**	1,750,609

The notes on pages 69 to 117 form part of these financial statements.

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 2020 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 except that the derivative financial instruments are stated at fair value as explained in note 1(v).

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

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)).

Deprecation 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 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 any rent concessions which arose as a direct consequence of the COVID-19 Pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognised the change in consideration as if it were not a lease modification.

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.

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.

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.

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).

- 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 and other receivables are stated at amortised cost using the effective interest method 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)).

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 cost.

(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.

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.

(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 leasee 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income (Continued)

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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies (Continued)

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.

(v) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Related parties (Continued)

(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.

(x) 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.

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 2020 and 2019, 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).

4 OTHER NET INCOME

	2020 RMB'000	2019 RMB'000
Government grants (note)	**89,814**	83,218
Rental income from investment properties	**4,248**	4,117
Compensation income in respect of suppliers' default	**6,803**	18,681
Others	**4,643**	9,806
	105,508	115,822

Note: Government grants included a total amount of RMB89,478,000 (2019: RMB83,218,000) 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. The balance of RMB336,000 for the year ended 31 December 2020 was received under the Employment Support Scheme under the Anti-epidemic Fund set up by the government in Hong Kong, which the Group was required to spend on paying wages to the employees in Hong Kong.

5 NET FINANCE INCOME

	2020 RMB'000	2019 RMB'000
Interest income on financial assets measured at amortised cost	**44,784**	51,685
Net foreign exchange gain/(loss)	**3,957**	(3,712)
Interest on lease liabilities	**(3,587)**	(56)
Interest on bank borrowings	**(1,753)**	(3,749)
	43,401	44,168

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION

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

		2020 RMB'000	2019 RMB'000
(a)	**Staff costs:**		
	Salaries, wages and other benefits	**275,588**	225,457
	Contributions to defined contribution retirement plans (Note 27)	**4,148**	5,250
	Equity-settled share-based payment expense (Note 28)	**1,765**	—
		281,501	230,707
(b)	**Other items:**		
	Amortisation of intangible assets	**3,348**	3,170
	Depreciation		
	— owned property, plant and equipment	**27,393**	29,222
	— investment properties	**3,819**	3,295
	— right-of-use assets	**52,573**	4,174
	Short term lease rental expenses (Note 19(d))	**2,882**	3,288
	Auditor's remuneration	**2,850**	2,700
	Cost of inventories (note (i))	**1,477,031**	2,255,300
	Loss on disposal of property, plant and equipment	**318**	147
	Research and development costs	**120,173**	137,138
	Subcontracting charges (note (ii))	**327,356**	461,919
	Impairment losses on trade receivables (Note 17)	**7,443**	—
	Gain on disposal of subsidiary (note iii)	**5,063**	—
	Compensation to distributors (note iv)	**50,802**	—

Notes:

(i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and lease expenses totalling RMB549,954,000 (2019: RMB696,448,000) included in items disclosed above, and after the deduction of inventories subject to returns totalling RMB309,089,000 (2019: RMB nil) 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.

(iii) During the year ended 31 December 2020, the Group disposed of Lilang (Xiamen) Garment Co., Ltd. ("Lilang Xiamen"), a wholly owned subsidiary, at a consideration of RMB27,000,000, and realised a profit on disposal of RMB5,063,000. The principal activity of Lilang Xiamen was the holding of a piece of land in Xiamen, the PRC. The assets held by Lilang Xiamen when disposed included a piece of land of RMB 10,078,000, construction in progress of RMB 8,748,000, cash and cash equivalents of RMB1,237,000 and VAT deductible of RMB 1,874,000. The company didn't have any liability when disposed.

(iv) During the year, the Group has taken over 242 stores of the smart casual collection from distributors for conversion from a consignment model to direct-retailing, and compensation of RMB50,802,000 was paid to distributors.

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:

	2020 RMB'000	2019 RMB'000
Current tax — PRC Corporate Income Tax (Note 24(a))	**154,871**	224,709
Deferred tax	**(17,327)**	(12,926)
	137,544	211,783

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 2020 and 2019.

(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 2019 and 2020. 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 2019 and 2020.

(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 RMB21,840,000 provided for the year (2019: RMB30,450,000).

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:

	2020 RMB'000	2019 RMB'000
Profit before taxation	**694,786**	1,023,963
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**171,572**	258,047
Tax effect of non-deductible expenses	**14,085**	3,947
Tax effect of non-taxable income	**(28)**	(86)
Tax effect of tax concessions (Note 7(a)(iii))	**(68,233)**	(83,120)
(Over)/under-provision in prior year	**(1,692)**	2,545
Withholding tax effect of undistributed profits retained by PRC subsidiaries (Note 24(b))	**21,840**	30,450
Actual tax expense	**137,544**	211,783

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	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

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	2019 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	163	1,216
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	600	5,330	65	163	6,158

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 (2019: four) are Directors whose emoluments are disclosed in Note 8. The emoluments in respect of the remaining one (2019: one) individual are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	**1,440**	1,431
Discretionary bonuses	**487**	493
Contributions to retirement benefit schemes	**16**	16
Share-based compensation	**23**	—
	1,966	1,940

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:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	2,913	2,907
Discretionary bonuses	977	1,036
Contributions to retirement benefit schemes	41	48
Share-based compensation	165	—
	4,096	3,991

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

	2020 Number of individuals	2019 Number of individuals
Nil to HK$1,000,000 (Nil to RMB839,000)	5	5
HK$2,000,001 to HK$2,500,000 (RMB1,679,001 to RMB2,098,000)	1	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 RMB557,242,000 (2019: RMB812,180,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2019: 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 RMB557,242,000 (2019: RMB812,180,000) 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):

	2020 '000	2019 '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	554	—
Weighted average number of ordinary shares (diluted)	1,198,039	1,197,485

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 2019	233,198	60,178	80,305	11,576	35,759	8,376	432,960	862,352
Additions	–	1,964	9,572	152	5,308	17	74,097	91,110
Transfer from construction in progress	25,375	1,384	5,888	–	–	–	(32,647)	–
Reclassify to investment properties (Note 13)	(47,018)	–	–	–	–	–	–	(47,018)
Disposals	–	–	(730)	(37)	(506)	(8)	–	(1,281)
Exchange adjustment	–	15	–	–	8	2	–	25
At 31 December 2019 and 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	228,642	99,967	101,382	12,713	48,430	8,718	640,695	1,140,547
Accumulated depreciation:								
At 1 January 2019	32,221	48,844	39,017	5,195	29,982	7,969	–	163,228
Charge for the year	5,249	6,758	10,844	1,086	5,102	183	–	29,222
Reclassify to investment properties (Note 13)	(131)	–	–	–	–	–	–	(131)
Written back on disposals	–	–	(529)	(20)	(485)	(5)	–	(1,039)
Exchange adjustment	–	7	–	–	7	2	–	16
At 31 December 2019 and 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	43,186	61,229	57,146	7,322	39,631	8,306	–	216,820
Net book value:								
At 31 December 2020	185,456	38,738	44,236	5,391	8,799	412	640,695	923,727
At 31 December 2019	174,216	7,932	45,703	5,430	5,963	238	474,410	713,892

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

	2020 RMB'000	2019 RMB'000
Cost:		
At 1 January	**165,080**	118,062
Reclassify (to)/from property, plant and equipment (Note 12)	**(17,087)**	47,018
At 31 December	**147,993**	165,080
Accumulated depreciation:		
At 1 January	**22,677**	19,251
Reclassify (to)/from property, plant and equipment (Note 12)	**(701)**	131
Charge for the year	**3,819**	3,295
At 31 December	**25,795**	22,677
Net book value:		
At 31 December	**122,198**	142,403

Investment properties represent retail outlets and office premises that are leased to distributors. As at 31 December 2020, the total 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 RMB196,683,000 (2019: RMB218,100,000).

14 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Properties leased for own use RMB'000	Total RMB'000
Cost:			
At 1 January 2019	117,566	2,030	119,596
Additions	38,851	18	38,869
Exchange adjustment	—	35	35
At 31 December 2019 and 1 January 2020	**156,417**	**2,083**	**158,500**
Additions	**—**	**202,504**	**202,504**
Disposal of subsidiary	**(12,758)**	**—**	**(12,758)**
Exchange adjustment	**—**	**(108)**	**(108)**
At 31 December 2020	**143,659**	**204,479**	**348,138**
Accumulated depreciation:			
At 1 January 2019	14,800	—	14,800
Charge for the year	2,607	1,567	4,174
Exchange adjustment	—	20	20
At 31 December 2019 and 1 January 2020	**17,407**	**1,587**	**18,994**
Charge for the year	**2,710**	**49,863**	**52,573**
Disposal of subsidiary	**(2,680)**	**—**	**(2,680)**
Exchange adjustment	**—**	**(156)**	**(156)**
At 31 December 2020	**17,437**	**51,294**	**68,731**
Net book value:			
At 31 December 2020	**126,222**	**153,185**	**279,407**
At 31 December 2019	139,010	496	139,506

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. None of the leases includes variable lease payments. 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 2020, rental deposits of RMB32,869,000 were paid for the leases, which will be held by the lessors throughout the respective lease terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

15 INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
Cost:		
At 1 January	**31,687**	27,493
Additions	**3,486**	4,194
At 31 December	**35,173**	31,687
Accumulated amortisation:		
At 1 January	**23,911**	20,741
Charge for the year	**3,348**	3,170
At 31 December	**27,259**	23,911
Net book value:		
At 31 December	**7,914**	7,776

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.

16 INVENTORIES

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

	2020 RMB'000	2019 RMB'000
Raw materials	**97,927**	137,739
Work-in-progress	**66,502**	69,551
Finished goods	**502,625**	481,953
	667,054	689,243

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

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	**1,461,469**	2,255,300
Write-down of inventories	**15,562**	—
	1,477,031	2,255,300

17 TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**728,291**	965,872
Less: Loss allowance	**(16,597)**	(9,154)
	711,694	956,718
Bills receivable	**—**	600
Trade and bills receivables, net of loss allowance	**711,694**	957,318
Other assets in relation to refund liabilities (Note 21(iv))	**309,089**	—
Prepayments to suppliers	**1,103**	6,420
Prepaid advertising expenses	**5,658**	6,868
Rental prepayment to a related party	**—**	3,432
VAT deductible	**130,752**	94,719
Other deposits, prepayments and receivables	**51,872**	13,092
	1,210,168	1,081,849

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 and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	**554,283**	854,708
Over 3 months but within 6 months	**135,979**	96,993
Over 6 months but within 1 year	**21,432**	5,617
	711,694	957,318

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

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

	2020 RMB'000	2019 RMB'000
At 1 January	**9,154**	9,154
Impairment losses for the year	**7,443**	—
At 31 December	**16,597**	9,154

18 PLEDGED BANK DEPOSITS

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

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 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	**1,738,934**	1,750,609

At 31 December 2020, cash and cash equivalents held in the mainland China amounted to RMB1,671,337,000 (2019: RMB1,710,560,000). Remittance of funds out of the mainland China is subject to exchange restrictions imposed by the PRC government.

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

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2020 RMB'000	2019 RMB'000
Profit before taxation		**694,786**	1,023,963
Adjustments for:			
— Depreciation	6(b)	**83,785**	36,691
— Amortisation of intangible assets	6(b)	**3,348**	3,170
— Equity-settled share-based payment expense	6(a)	**1,765**	—
— Loss on disposal of property, plant and equipment	6(b)	**318**	147
— Interest on bank borrowings	5	**1,753**	3,749
— Interest on lease liabilities	5	**3,587**	56
— Interest income	5	**(44,784)**	(51,685)
— Gain on disposal of subsidiary	6(b)	**(5,063)**	—
— Unrealised foreign exchange loss		**13,317**	5,179
Changes in working capital:			
— Decrease/(increase) in inventories		**22,189**	(12,832)
— Increase in trade and other receivables		**(130,194)**	(129,229)
— Decrease in pledged bank deposits		**7,236**	6,255
— Increase/(decrease) in trade and other payables		**265,051**	(55,225)
— Increase/(decrease) in contract liabilities		**10,739**	(14,004)
Cash generated from operations		**927,833**	816,235

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.

	2020			2019		
	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	**—**	**537**	**537**	—	2,030	2,030
Changes from financing cash flows:						
Proceeds from new bank loans	**335,000**	**—**	**335,000**	508,838	—	508,838
Repayment of bank loans	**(335,000)**	**—**	**(335,000)**	(508,838)	—	(508,838)
Capital element of lease rentals paid	**—**	**(63,768)**	**(63,768)**	—	(1,526)	(1,526)
Interest element of lease rentals paid	**—**	**(3,587)**	**(3,587)**	—	(56)	(56)
Total changes from financing cash flows	**—**	**(67,355)**	**(67,355)**	—	(1,582)	(1,582)
Other changes:						
Increase in lease liabilities	**—**	**187,114**	**187,114**	—	18	18
Interest expenses on lease liabilities (Note 5)	**—**	**3,587**	**3,587**	—	56	56
Exchange adjustments	**—**	**46**	**46**	—	15	15
Total other changes	**—**	**190,747**	**190,747**	—	89	89
At 31 December	**—**	**123,929**	**123,929**	—	537	537

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:

	2020 RMB'000	2019 RMB'000
Within operating cash flows (Note 6(b))	**2,882**	3,288
Within investing cash flows	**32,869**	38,851
Within financing cash flows	**67,355**	1,582
	103,106	43,721

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Leases rentals paid	**70,237**	4,870
Lease rental deposits paid	**32,869**	—
Payments for purchase of land use rights	**—**	38,851
	103,106	43,721

20 BANK LOANS AND FACILITIES

As at 31 December 2020 and 2019, there were no outstanding bank loans.

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

	2020 RMB'000	2019 RMB'000
Facility amount	**1,051,790**	1,158,600
Utilised facility amount in respect of:		
— Bills payable (Note 21)	**5,700**	29,820
— Bank guarantee	**—**	35

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

21 TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	404,632	487,899
Bills payable (note ii)	5,700	29,820
Trade and bills payables (note iii)	410,332	517,719
Refund liabilities (note iv)	390,000	—
Accrued salaries and wages	40,286	37,088
Payables for purchase of property, plant and equipment	66,563	66,809
Retirement benefit contribution payable	25,524	25,524
VAT payables	—	228
Other payables and accruals	103,317	108,460
	1,036,022	755,828

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:

	2020 RMB'000	2019 RMB'000
Within 3 months	341,568	464,589
Over 3 months but within 6 months	62,668	37,912
Over 6 months but within 1 year	3,472	3,550
Over 1 year	2,624	11,668
	410,332	517,719

(iv) The Group recognises refund liabilities for products subject to returns, which is measured at the consideration received or receivable of which the Group does not expect to be entitled. The Group also recognises other assets in relation to such sales returns, measured with reference to the former carrying amount of the products (Note 17). The costs to recover the products are not expected to be material as the products to be returned are usually in saleable condition.

22 LEASE LIABILITIES

As at 31 December 2020, the lease liabilities were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year (current)	**62,003**	537
After 1 year but within 2 years	**42,848**	—
After 2 years but within 5 years	**19,078**	—
Sub-total (non-current)	**61,926**	—
Total	**123,929**	537

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 2020 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:

	2020 RMB'000	2019 RMB'000
At 1 January	**152,156**	134,485
Provision for PRC Corporate Income Tax (Note 7(a))	**154,871**	224,709
	307,027	359,194
PRC Corporate Income Tax paid	**(154,538)**	(207,038)
At 31 December	**152,489**	152,156

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			
	Accrued expenses and others RMB'000	Impairment of trade receivables and inventories RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2019	4,583	1,433	(19,922)	(13,906)
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	14,807	—	(30,450)	(15,643)
Released upon distribution of dividends	—	—	28,569	28,569
At 31 December 2019 and 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	**18,603**	**5,707**	**(7,963)**	**16,347**

Reconciliation to the consolidated statement of financial position:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	**24,310**	20,823
Deferred tax liabilities	**(7,963)**	(21,803)
	16,347	(980)

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 2020, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB2,533,938,000 (2019: RMB2,227,267,000) 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 2020 and 2019.

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Investments in subsidiaries		**133,401**	142,492
Current assets			
Amount due from a subsidiary		**107,074**	186,138
Prepayments and other receivables		**185**	198
Cash and cash equivalents		**2,724**	4,603
		109,983	190,939
Current liabilities			
Amount due to a subsidiary		**2,130**	2,275
Other payables and accruals		**76**	80
		2,206	2,355
Net current assets		**107,777**	188,584
Net assets		**241,178**	331,076
Capital and reserves	26(b)		
Share capital	26(a)	**105,517**	105,517
Reserves		**135,661**	225,559
Total equity		**241,178**	331,076

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2020 HK$'000	2019 HK$'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 2020 and 2019	1,197,485	119,748	105,517

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 2019		105,517	31,411	996	(28,869)	471,287	580,342
Changes in equity for 2019:							
Total comprehensive income for the year		–	–	–	16,780	345,506	362,286
Dividends approved in respect of the previous year	26(c)	–	–	–	–	(328,196)	(328,196)
Dividends declared in respect of the current year	26(c)	–	–	–	–	(283,356)	(283,356)
At 31 December 2019 and 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		**105,517**	**31,411**	**2,761**	**(18,859)**	**120,348**	**241,178**

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:

	2020 RMB'000	2019 RMB'000
Interim dividend declared and paid of HK12 cents (2019: HK18 cents) per share	**126,742**	196,170
Special interim dividend declared and paid of HK5 cents (2019: HK8 cents) per share	**52,809**	87,186
Final dividend proposed after the end of the reporting period of HK19 cents (2019: HK21 cents) per share	**190,959**	231,455
Special final dividend proposed after the end of the reporting period of HK8 cents (2019: HK10 cents) per share	**80,404**	110,216
	450,914	625,027

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:

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year of HK21 cents (2019: HK21 cents) per share	**231,455**	222,326
Special final dividend in respect of the previous financial year of HK10 cents (2019: HK10 cents) per share	**110,216**	105,870
	341,671	328,196

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 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB151,759,000 (2019: RMB236,652,000).

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.

(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:

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

The share options outstanding at 31 December 2020 had a weighted average remaining contractual life of 9.5 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted during the year has been measured using the binomial model. The contractual life of the share option is used as an input into this model. The inputs used in the measurement of the fair value were as follows:

	Grant date 3 July 2020
Fair value	HK$1.02
Share price on grant date	HK$4.31
Exercise price	HK$4.31
Expected volatility (weighted-average)	37.64%
Expected life	10 years
Expected dividends	6.45%
Risk-free interest rate (based on Exchange Fund Notes)	0.69%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. There were no market conditions associated with the share option grants.

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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade and bills 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 90 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, 2.4% (2019: 4.6%) and 13.9% (2019: 15.7%) 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.

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

	2020		
	Expected loss rate %	**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**

	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.5%	951,701	4,610
Less than 3 months or equal to 3 months past due	7.9%	9,335	739
Past due over 3 months	70.0%	5,436	3,805
		966,472	9,154

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade and bills receivables (Continued)

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.

At 31 December 2020, the Group had endorsed bank acceptance bills to its suppliers totalling RMB287,460,000 (2019: RMB325,668,000), 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 RMB287,460,000 (2019: RMB325,668,000) before these bills mature by 30 June 2021.

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 2020				
	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	Carrying Amount 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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk (Continued)

	31 December 2019				
	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	Carrying Amount RMB'000
Trade and other payables	755,828	—	—	755,828	755,828
Lease liabilities	548	—	—	548	537
	756,376	—	—	756,376	756,365

(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 2020 and 2019.

30 COMMITMENTS

Capital commitments of the Group in respect of property, plant and equipment, and computer system and software outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 RMB'000	2019 RMB'000
Contracted for	258,336	104,016
Authorised but not contracted for	170,119	318,062
	428,455	422,078

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.

For the year 31 December 2020, total rental paid or payable by the Group to Jinlang Fujian under the Tenancy Agreement amounted to RMB3,432,000.

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.

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.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 and which have not been adopted in these financial statements.

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: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
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.	The PRC	HK$20,000,000	100%	–	100%	Sales of menswear and accessories
Lilang (China) Co., Ltd.	The PRC	HK$315,000,000	100%	–	100%	Manufacturing and sales of menswear and accessories
Lilang (Shanghai) Co., Ltd.	The PRC	HK$120,000,000	100%	–	100%	Sales of menswear and accessories
Lilang (Jiangxi) Garment Co., Ltd.	The PRC	HK$10,000,000	100%	–	100%	Sales of menswear and accessories
Xizang Lilang Garment Co., Ltd. ("Xizang Lilang") (note a)	The PRC	RMBNil	100%	–	100%	Sales of menswear and accessories
Xizang Ling Shang Garment Co., Ltd.	The PRC	HK$50,000,000	100%	–	100%	Sales of menswear and accessories
Bujiandan (Xiamen) Garment Co., Ltd.	The PRC	US$27,000,000	100%	–	100%	Sales of menswear and accessories
Lilang (Fujian) Commerce Co., Ltd. ("Lilang Commerce") (note a)	The PRC	HK$Nil	100%	–	100%	Sales of menswear and accessories
Lilang E-commerce Co. Ltd. ("Lilang E-commerce") (note a)	The PRC	HK$Nil	100%	–	100%	Online sales of menswear and accessories

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 2020. There is no particular requirement on the timing of the contribution.

(b) During the year ended 31 December 2020, the Group disposed of Lilang (Xiamen) Garment Co., Ltd. ("Lilang Xiamen"), a wholly owned subsidiary, at a consideration of RMB27,000,000, and realised a profit on disposal of RMB5,063,000. The principal activity of Lilang Xiamen was the holding of a piece of land in Xiamen, the PRC.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, 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)

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	2,411,638	2,441,057	3,167,872	3,658,471	**2,680,835**
Profit from operations	663,353	668,946	881,863	979,795	**651,385**
Net finance income	83,423	52,543	63,376	44,168	**43,401**
Profit before taxation	746,776	721,489	945,239	1,023,963	**694,786**
Income tax	(206,912)	(110,450)	(194,045)	(211,783)	**(137,544)**
Profit for the year	539,864	611,039	751,194	812,180	**557,242**
Earnings per share					
Basic (cents)	44.66	50.71	62.74	67.82	**46.53**
Diluted (cents)	44.66	50.71	62.74	67.82	**46.51**
Assets and liabilities					
Non-current assets	553,346	745,849	925,329	1,032,680	**1,393,525**
Net current assets	2,507,484	2,430,996	2,494,452	2,595,402	**2,329,889**
Total assets less current liabilities	3,060,830	3,176,845	3,419,781	3,628,082	**3,723,414**
Non-current liabilities	49,268	35,114	19,922	21,803	**69,889**
Net asset	3,011,562	3,141,731	3,399,859	3,606,279	**3,653,525**
Capital and reserves					
Share capital	106,467	105,492	105,517	105,517	**105,517**
Reserves	2,905,095	3,036,239	3,294,342	3,500,762	**3,548,008**
Total equity	3,011,562	3,141,731	3,399,859	3,606,279	**3,653,525**