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Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1440)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Deyun Holding Ltd. (the “**Company**”) announces the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2021 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2020.

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

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the Reporting Period was approximately RMB165.9 million, representing a decrease of approximately 16.4% as compared with those for corresponding period in 2020.
- Gross profit of the Group for the Reporting Period was approximately RMB39.2 million, representing a decrease of approximately 46.9% as compared with those for corresponding period in 2020. Gross profit margin for the Reporting Period decreased to approximately 23.6% from approximately 37.2% in the corresponding period 2020.
- Profit attributable to owners of the Company for the Reporting Period was approximately RMB21.2 million, representing a decrease of approximately 51.7% as compared with the corresponding period in 2020.
- Basic and diluted earnings per share attributable to owners of the Company was RMB1.70 cents for the Reporting Period.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Revenue	3	165,942	198,478
Cost of sales	4	<u>(126,748)</u>	<u>(124,621)</u>
Gross profit		39,194	73,857
Other income	5	1,944	5,328
Other losses, net	6	(3,689)	(1,584)
Selling and distribution expenses	4	(2,416)	(2,278)
Administrative expenses	4	(10,333)	(22,089)
Net impairment losses on financial assets and contract assets	4	<u>(1,974)</u>	<u>(425)</u>
Operating profit		22,726	52,809
Finance income		1,477	388
Finance costs		<u>(123)</u>	<u>(604)</u>
Finance income/(costs), net	7	<u>1,354</u>	<u>(216)</u>
Profit before income tax		24,080	52,593
Income tax expense	8	<u>(2,898)</u>	<u>(8,772)</u>
Profit for the year attributable to owners of the Company		<u>21,182</u>	<u>43,821</u>
Earnings per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents</i>)	9	<u>1.70</u>	<u>4.64</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	21,182	43,821
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>(19)</u>	<u>–</u>
Total comprehensive income for the year attributable to owners of the Company	<u>21,163</u>	<u>43,821</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
ASSETS			
Non-current assets			
Properties, plant and equipment	10	147,476	146,651
Right-of-use asset	10	2,640	2,722
Investment property		308	341
Intangible assets		1,236	645
Prepayments	11	7,807	277
		<u>159,467</u>	<u>150,636</u>
Current assets			
Inventories	12	9,737	9,272
Contract assets	13	8,320	7,556
Trade and bills receivables	13	18,774	13,060
Prepayments and other receivables	11	1,623	10,013
Cash and cash equivalents		182,294	109,483
		<u>220,748</u>	<u>149,384</u>
Total assets		<u>380,215</u>	<u>300,020</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		10,511	—*
Reserves		324,195	222,951
Total equity		<u>334,706</u>	<u>222,951</u>

* *The balance was rounded to the nearest thousand*

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Other payables	14	1,478	1,533
Deferred tax liabilities		535	346
		<u>2,013</u>	<u>1,879</u>
Current liabilities			
Trade payables	15	20,221	10,706
Other payables and accruals	14	17,242	37,859
Contract liabilities	14	588	3,440
Current income tax liabilities		5,445	10,185
Bank borrowings		–	13,000
		<u>43,496</u>	<u>75,190</u>
Total liabilities		<u>45,509</u>	<u>77,069</u>
Total equity and liabilities		<u>380,215</u>	<u>300,020</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

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

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

The ultimate holding company of the Company is Deyong Investment Co., Limited ("**Deyong Investment**"), a company incorporated in the British Virgin Islands ("**BVI**"). The ultimate controlling shareholders are Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen acting in concert (together, the "**Controlling Shareholders**").

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

These consolidated financial statements are presented in unit of Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**"), unless otherwise stated.

1.2 Reorganisation

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the reorganisation (the "**Reorganisation**") which mainly involved the following major steps:

- (a) On 4 January 2019, the Company was incorporated in the Cayman Islands. 10,000 shares of the Company were allotted and issued at par on 7 January 2019 to Deyong Investment which is held by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen.
- (b) On 29 January 2019, Deyun Investment Limited ("**Deyun Investment (BVI)**") was incorporated in the BVI and held by the Company.
- (c) On 13 March 2019, Deyun Holding (HK) Limited ("**Deyun Holding (HK)**") was incorporated in Hong Kong and held by Deyun Investment (BVI).

- (d) On 23 September 2019, Regal Star Holdings Limited (“**Regal Star**”), an investment holding vehicle of the pre-IPO investor, Mr. Tsoi Wing Sing (“**Mr. Tsoi**”), subscribed for 10% of equity interest of Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司) (“**Deyun Technology**”) at 16,000,000 Hong Kong dollar (“**HKD**”) (approximately RMB14,316,000). The amount was paid subsequently on 6 November 2019.
- (e) On 18 December 2019, Fujian Deyun Consulting Services Co., Ltd.* (福建德運諮詢服務有限公司) (“**Deyun Consulting**”) was incorporated in the People’s Republic of China (the “**PRC**”) and held by Deyun Holding (HK).
- (f) On 19 December 2019, Deyun Consulting acquired the entire equity interests in Deyun Technology from the Controlling Shareholders and Regal Star, at a total cash consideration of RMB5,000,000. The consideration was fully settled on 13 March 2020. Deyun Technology has since become an indirect wholly-owned subsidiary of the Company.
- (g) On 20 December 2019, the Company allotted and issued 8,000 and 2,000 new shares for cash consideration of 8,000 United States dollar (“**USD**”) and USD2,000 respectively to Deyong Investment and Glorious Way Investments Limited, which is controlled by Mr. Tsoi.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance (Cap 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors of the Group to exercise judgement in the process of applying the Group’s accounting policies.

(a) Amended standards adopted by the Group

The Group has adopted the following amended standards for the first time for their annual reporting period commencing 1 January 2021:

HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions
HKFRS 9, HKAS 39, and HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

(b) **New and amended standards, interpretation and accounting guideline issued but not yet adopted by the Group**

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
HKFRS 3 (Amendment)	Reference to the Conceptual Framework	1 January 2022
HKFRS 16 (Amendment)	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendment)	Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 (Amendments)	Annual Improvements to HKFRS Standards 2018 to 2020	1 January 2022
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combinations	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendments)	Amendments to HKFRS 17	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HK Interpretation 5 (2020)	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendment)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the above new and amended standards, interpretation and accounting guideline as and when they become effective. The Group has already commenced an assessment of the impact of these new and amended standards, interpretation and accounting guideline, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies changes in disclosures and remeasurements of certain items in the consolidated financial statements.

3 REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

(a) **Segment revenue by operating segments**

The segment information provided to the directors for the reportable segments for the years ended 31 December 2021 and 2020 is as follows:

	Manufacturing of lace		Provision of dyeing services		Sales of shoes		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>56,161</u>	<u>76,675</u>	<u>94,244</u>	<u>121,803</u>	<u>15,537</u>	<u>–</u>	<u>165,942</u>	<u>198,478</u>
Segment results	<u>18,572</u>	<u>33,579</u>	<u>18,995</u>	<u>40,278</u>	<u>1,627</u>	<u>–</u>	<u>39,194</u>	<u>73,857</u>
Other segmental information:								
Depreciation of properties, plant and equipment	7,425	7,522	8,023	7,209	–	–	15,448	14,732
Additions to non-current segment assets	<u>2,477</u>	<u>127</u>	<u>24,295</u>	<u>16,203</u>	<u>–</u>	<u>–</u>	<u>26,772</u>	<u>16,330</u>

(b) Segment revenue by customers' geographical location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
The PRC	148,577	196,672
Hong Kong	16,232	1,124
Others	1,133	682
	<u>165,942</u>	<u>198,478</u>

(c) Information about major customers

Revenue derived from any single external customer was less than 10% of the Group's total revenue during the years ended 31 December 2021 and 2020.

(d) Details of contract liabilities

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contract liabilities (<i>Note 14</i>)	<u>588</u>	<u>3,440</u>

Notes:

- (i) Contract liabilities represent advanced payments received from the customers for services that have not yet been transferred to the customers. The contract liabilities fluctuated during the years ended 31 December 2021 and 2020 due to fluctuation in sales orders with advanced payments.
- (ii) During the years ended 31 December 2021 and 2020, all brought-forward contract liabilities at the beginning of the financial years were fully recognised as revenue.

(e) Unsatisfied performance obligations

As at 31 December 2021 and 2020, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15 "Revenue from Contracts with Customers", the transaction price allocated to these unsatisfied performance obligations was not disclosed.

(f) Non-current assets by geographical location

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

4 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets and contract assets are analysed as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Raw materials and merchandise used	58,270	54,562
Employee benefit expenses, including directors' emoluments	37,056	37,703
Manpower service expenses	1,841	1,872
Amortisation of intangible assets	451	258
Utilities	9,806	9,863
Depreciation of properties, plant and equipment and right-of-use asset (<i>Note 10</i>)	16,086	15,389
Depreciation of investment property	33	41
Auditor's remuneration	1,843	1,600
Listing expenses	–	13,319
Professional fees	2,761	3,105
Other tax and surcharges	1,439	1,830
Packaging expenses	1,722	1,569
Commission expenses	921	–
Waste handling charges	4,001	4,068
Net impairment losses on financial assets and contract assets	1,974	425
Others	3,267	3,809
	<u>141,471</u>	<u>149,413</u>
Total cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets and contract assets	<u>141,471</u>	<u>149,413</u>

5 OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants	1,800	5,065
Rental income	17	34
Others	127	229
	<u>1,944</u>	<u>5,328</u>

6 OTHER LOSSES, NET

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposal of properties, plant and equipment	(3,174)	(620)
Exchange differences	(515)	(964)
	<u>(3,689)</u>	<u>(1,584)</u>

7 FINANCE INCOME/(COSTS), NET

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	<u>1,477</u>	<u>388</u>
Finance costs		
Unwinding of discount on other payables	(10)	(8)
Interest expenses on bank borrowings	(118)	(626)
Less: capitalised on qualifying assets	<u>5</u>	<u>30</u>
	<u>(123)</u>	<u>(604)</u>
Finance income/(costs), net	<u>1,354</u>	<u>(216)</u>

Borrowing costs have been capitalised at rates of 4.35% and 4.93% per annum on qualifying assets for the years ended 31 December 2021 and 2020 respectively.

8 INCOME TAX EXPENSE

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

During the years ended 31 December 2021 and 2020, Deyun Technology, the Group's subsidiary in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

During the year ended 31 December 2021, Hong Kong profits tax has been provided at the rate of 8.25% on the estimated assessable profits for the year. During the year ended 31 December 2020, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profit in Hong Kong.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax		
– PRC corporate income tax	2,618	8,859
– Hong Kong profits tax	91	–
	<u>2,709</u>	<u>8,859</u>
Deferred income tax	<u>189</u>	<u>(87)</u>
Income tax expense	<u><u>2,898</u></u>	<u><u>8,772</u></u>
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before income tax	<u>24,080</u>	<u>52,593</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	3,431	7,661
Tax effect of:		
Expenses not deductible for tax purpose	1,009	2,505
Super deductions from research and development expenditure (Note)	<u>(1,542)</u>	<u>(1,394)</u>
Income tax expense	<u><u>2,898</u></u>	<u><u>8,772</u></u>

Note: According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

9 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue which took place on 16 December 2020.

	2021	2020
Profit for the year attributable to owners of the Company <i>(RMB'000)</i>	21,182	43,821
Weighted average number of ordinary shares in issue <i>(thousands of shares)</i>	1,249,644	945,000
Basic and diluted earnings per share <i>(RMB cents)</i>	1.70	4.64

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2021 and 2020.

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

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Right- of-use asset RMB'000	Total RMB'000
At 1 January 2020								
Cost	40,997	258,809	3,808	1,090	1,513	306,217	4,121	310,338
Accumulated depreciation	(10,262)	(145,831)	(2,591)	(700)	-	(159,384)	(1,317)	(160,701)
Net book amount	<u>30,735</u>	<u>112,978</u>	<u>1,217</u>	<u>390</u>	<u>1,513</u>	<u>146,833</u>	<u>2,804</u>	<u>149,637</u>
Year ended								
31 December 2020								
Opening net book amount	30,735	112,978	1,217	390	1,513	146,833	2,804	149,637
Additions	96	7,904	86	-	8,645	16,731	-	16,731
Transfers	-	1,530	357	-	(1,887)	-	-	-
Depreciation	(2,079)	(12,763)	(361)	(104)	-	(15,307)	(82)	(15,389)
Disposals	-	(1,606)	-	-	-	(1,606)	-	(1,606)
Closing net book amount	<u>28,752</u>	<u>108,043</u>	<u>1,299</u>	<u>286</u>	<u>8,271</u>	<u>146,651</u>	<u>2,722</u>	<u>149,373</u>
At 31 December 2020								
Cost	41,093	264,444	4,251	1,090	8,271	319,149	4,121	323,270
Accumulated depreciation	(12,341)	(156,401)	(2,952)	(804)	-	(172,498)	(1,399)	(173,897)
Net book amount	<u>28,752</u>	<u>108,043</u>	<u>1,299</u>	<u>286</u>	<u>8,271</u>	<u>146,651</u>	<u>2,722</u>	<u>149,373</u>
Year ended								
31 December 2021								
Opening net book amount	28,752	108,043	1,299	286	8,271	146,651	2,722	149,373
Additions	1,382	13,896	248	1,832	3,473	20,831	-	20,831
Transfers	-	11,744	-	-	(11,744)	-	-	-
Depreciation	(2,104)	(13,453)	(386)	(61)	-	(16,004)	(82)	(16,086)
Disposals	-	(4,002)	-	-	-	(4,002)	-	(4,002)
Closing net book amount	<u>28,030</u>	<u>116,228</u>	<u>1,161</u>	<u>2,057</u>	<u>-</u>	<u>147,476</u>	<u>2,640</u>	<u>150,116</u>
At 31 December 2021								
Cost	42,475	279,053	4,499	2,922	-	328,949	4,121	333,070
Accumulated depreciation	(14,445)	(162,825)	(3,338)	(865)	-	(181,473)	(1,481)	(182,954)
Net book amount	<u>28,030</u>	<u>116,228</u>	<u>1,161</u>	<u>2,057</u>	<u>-</u>	<u>147,476</u>	<u>2,640</u>	<u>150,116</u>

During the years ended 31 December 2021 and 2020, depreciation expenses have been charged in cost of sales, selling and distribution expenses and administrative expenses as below:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of sales	15,448	14,731
Selling and distribution expenses	7	7
Administrative expenses	631	651
	<u>16,086</u>	<u>15,389</u>

11 PREPAYMENTS AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current portion		
Prepayments to suppliers	370	613
Other prepayments	242	9
Other tax receivables	–	895
Other receivables (<i>Note a</i>)	1,011	2,167
Prepaid listing expenses (<i>Note b</i>)	–	6,329
	<u>1,623</u>	<u>10,013</u>
Non-current portion		
Prepayments of acquisition of properties, plant and equipment	<u>7,807</u>	<u>277</u>

Notes:

- (a) As at 31 December 2021 and 2020, the carrying amounts of other receivables approximated their fair values.
- (b) The prepaid listing expenses as at 31 December 2020 were incurred in connection with the Listing and have been deducted from equity upon listing.

The carrying amounts of the Group's prepayments and other receivables were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	9,259	4,653
HKD	171	5,637
	<u>9,430</u>	<u>10,290</u>

12 INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Raw materials	<u>9,737</u>	<u>9,272</u>

The cost of inventories recognised as expense and included in cost of sales during the years ended 31 December 2021 and 2020 amounted to approximately RMB58,270,000 and RMB54,562,000 respectively.

13 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contract assets	8,348	7,564
Less: Provision for impairment of contract assets	<u>(28)</u>	<u>(8)</u>
Contract assets, net	<u>8,320</u>	<u>7,556</u>
Trade receivables	21,289	10,461
Bills receivables	100	3,260
Less: Provision for impairment of trade receivables	<u>(2,615)</u>	<u>(661)</u>
Trade and bills receivables, net	<u>18,774</u>	<u>13,060</u>
	<u>27,094</u>	<u>20,616</u>

Contract assets represent the Group's rights to consideration for work completed but unbilled for its business. The contract assets are transferred to trade receivables when the rights become unconditional which generally take one to three months. The balances of contract assets fluctuated from year-to-year during the years ended 31 December 2021 and 2020 as the Group provided varying amount of goods or services that were unbilled before the year-ends.

As at 31 December 2021 and 2020, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

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

Movements on the Group's provision for impairment of contract assets are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
As at 1 January	8	–
Provision for impairment on a collective basis	<u>20</u>	<u>8</u>
As at 31 December	<u><u>28</u></u>	<u><u>8</u></u>

Movements on the Group's provision for impairment of trade receivables are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
As at 1 January	661	612
Provision for impairment on an individual basis	1,617	386
Provision for impairment on a collective basis	354	92
Reversal of provision for impairment	(17)	(61)
Written-off of provision for impairment	<u>–</u>	<u>(368)</u>
As at 31 December	<u><u>2,615</u></u>	<u><u>661</u></u>

As at 31 December 2021 and 2020, the aging analysis of trade and bills receivables, based on invoice date, was as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
1 to 3 months	16,659	10,768
Over 3 months	<u>4,730</u>	<u>2,953</u>
	21,389	13,721
Less: Provision for impairment of trade receivables	<u>(2,615)</u>	<u>(661)</u>
	<u><u>18,774</u></u>	<u><u>13,060</u></u>

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	26,806	20,328
USD	288	288
	<u>27,094</u>	<u>20,616</u>

The maximum exposure to credit risk as at 31 December 2021 and 2020 was the carrying value of the receivables and contract assets mentioned above. The Group did not hold any collateral as security.

14 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current portion		
Payables for acquisition of properties, plant and equipment	9,648	16,550
Other tax payables	972	–
Other payables	622	369
Accruals for auditor's remuneration	1,494	1,600
Accruals for employee benefit expenses	2,632	2,744
Accruals for professional fees	457	1,677
Other accruals	154	173
Accrued listing expenses	–	10,747
Deposits from customers	1,263	3,999
Contract liabilities (<i>Note 3(e)</i>)	588	3,440
	<u>17,830</u>	<u>41,299</u>
Non-current portion		
Other payables	1,478	1,533

As at 31 December 2021 and 2020, the carrying amounts of the Group's other payables and accruals approximated their fair values.

The carrying amounts of the Group's contract liabilities, other payables and accruals were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	16,947	32,633
USD	376	553
HKD	1,985	9,646
	<u>19,308</u>	<u>42,832</u>

15 TRADE PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	20,221	10,706

As at 31 December 2021 and 2020, the aging analysis of trade payables, based on invoice date, was as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
1 to 3 months	17,728	9,631
Over 3 months	2,493	1,075
	20,221	10,706

As at 31 December 2021 and 2020, the carrying amounts of the Group's trade payables were denominated in RMB and approximated their fair values.

16 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2021 and 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

During the Reporting Period, the global economy was gradually recovering from the outbreak of the novel coronavirus (the "COVID-19") and demand on lace products and dyeing services from the PRC market remained stable. However, our financial performance for the Reporting Period was adversely affected by the following incidents.

In February 2021, a fire incident broke out in a dyeing factory in Fujian and it raised the concerns of the relevant PRC government authorities on fire safety. The dyeing factories in Fujian were ordered to halt operations and enhance their fire protection measures. We halted operations for approximately three weeks, which caused interruptions to our production schedule and sales. The relevant PRC government authorities were satisfied with our enhance fire protection measures. Further, an outbreak of COVID-19 in Guangdong Province in May 2021 caused interruptions to business activities of some of our Guangdong-based customers, which in turn negatively affected our sales performance for the first half of 2021.

In the second half of 2021, our production schedule and sales were affected as (i) another dyeing factory in Fujian had a fire incident and the dyeing factories in Fujian were once again ordered to halt operations and enhance their fire protection measures; and (ii) factories in the PRC were required under the power-cut policy of the PRC government to reduce their electricity usage in order to meet the environmental targets; and (iii) the Group's gross profit margin for the year ended 31 December 2021 decreased as a result of rising cost of raw materials and other production costs.

Overall, we recorded revenue of approximately RMB165.9 million for the Reporting Period, representing a decrease of approximately 16.4% from approximately RMB198.5 million for the year ended 31 December 2020. Our net profit for the Reporting Period decreased by approximately 51.7% to approximately RMB21.2 million from approximately RMB43.8 million for the year ended 31 December 2020.

OUTLOOK AND BUSINESS STRATEGY

Looking ahead, our business is supported by various market drivers, including rising disposable income, growing retail value of women's outerwear and lingerie, wider application of lace fabric, further expansion of online retailing and improved trading efficiency brought by the development of e-commerce. The government authorities may also roll out more stringent environmental protection policies from time to time and the lace dyeing industry will become more concentrated.

We will strive our best to expand our revenue streams, reduce our operating costs and identify appropriate business opportunities to maximise the interests of the Company and its shareholders. We will comply with any new laws, regulations and environmental policies that are relevant to our business operations.

FINANCIAL REVIEW

Revenue

The Group provides dyeing services as well as sale and manufacture of lace to its customers. The Group's customers are mainly lace and swim wear manufacturers. Substantial portion of the Group's revenue are domestic sales. As part of the business diversification strategies, the Group commenced its footwear trading business in Hong Kong during the Reporting Period.

Revenue by product types

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

	Year ended 31 December			
	2021		2020	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Dyeing	94,244	56.8	121,803	61.4
Lace				
– High density	45,097	27.2	50,020	25.2
– Regular density	11,064	6.6	26,655	13.4
Sub-total	56,161	33.8	76,675	38.6
Sales of shoes	15,537	9.4	–	–
Total	165,942	100.0	198,478	100.0

Revenue by geographical regions

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

	Year ended 31 December			
	2021		2020	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Domestic sales	148,577	89.5	196,672	99.1
International sales	17,365	10.5	1,806	0.9
Total	165,942	100.0	198,478	100.0

Dyeing

The Group's dyeing revenue decreased by approximately 22.6% from approximately RMB121.8 million for the year ended 31 December 2020 to approximately RMB94.2 million for the Reporting Period, primarily attributable to the following incidents: (i) an outbreak of COVID-19 in Guangdong Province in May 2021 caused interruptions to business activities of some of our Guangdong-based customers, which in turn negatively affected our sales performance for the first half of 2021; (ii) two dyeing factories in Fujian had fire incidents and the dyeing factories in Fujian were ordered to halt operations and enhance their fire protection measures during the Reporting Period; and (iii) factories in the PRC were required under the power-cut policy of the PRC government to reduce their electricity usage in order to meet the environmental targets. As a result of the fire incidents and the power-cut policy, our production schedule was delayed, leading to a significant decline in our production capacity and revenue for the Reporting Period.

Lace

The Group's lace products are classified into (i) regular density lace, and (ii) high density lace. The lace revenue decreased by approximately 26.8% from approximately RMB76.7 million for the year ended 31 December 2020 to approximately RMB56.2 million for the Reporting Period for the reasons mentioned above.

Sales of shoes

The Group commenced a footwear trading business in Hong Kong during the Reporting Period and recorded revenue of approximately RMB15.5 million (2020: nil).

Gross profit and gross profit margin

Gross profit decreased by approximately 46.9% from approximately RMB73.9 million for the year ended 31 December 2020 to approximately RMB39.2 million for the Reporting Period, primarily attributable to the decrease in sales of dyeing services and lace products.

Gross profit margin decreased from approximately 37.2% for the year ended 31 December 2020 to approximately 23.6% for the Reporting Period.

Other income

Other income decreased by approximately 63.5% from approximately RMB5.3 million for the year ended 31 December 2020 to approximately RMB1.9 million for the Reporting Period, primarily attributable to the decrease in one-off government grants in relation to the listing of the shares of the Company.

Other losses, net

The Group recorded net other losses of approximately RMB1.6 million for the year ended 31 December 2020 and such losses increased to approximately RMB3.7 million for the Reporting Period, primarily attributable to the increase in losses on disposal of properties, plant and equipment.

Selling and distribution expenses

Selling and distribution expenses primarily consist of packaging expenses and staff cost in relation to sales and marketing staff. Selling and distribution expenses increased by approximately 6.1% from approximately RMB2.3 million for the year ended 31 December 2020 to RMB2.4 million for the Reporting Period, primarily attributable to the increase in packaging expenses.

Administrative expenses

Administrative expenses decreased by approximately 53.2% from approximately RMB22.1 million for the year ended 31 December 2020 to approximately RMB10.3 million for the Reporting Period as the Group recognised one-off listing expenses of approximately RMB13.3 million for the year ended 31 December 2020.

Finance income/(costs), net

The Group recorded net finance costs of approximately RMB0.2 million for the year ended 31 December 2020 and net finance income of approximately RMB1.4 million for the Reporting Period, primarily attributable to the increase in Group's cash and cash equivalents after its successful listing that generated more interest income.

Income tax expenses

Deyun Technology, principal operating subsidiary of the Group, is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% for the year ended 31 December 2020 and for the Reporting Period. During the Reporting Period, Hong Kong profits tax has been provided at the rate of 8.25% on the estimated assessable profits. The income tax expenses decreased from approximately RMB8.8 million for the year ended 31 December 2020 to approximately RMB2.9 million for the Reporting Period, mainly due to the decrease in assessable profits that were subject to PRC corporate income tax.

Effective income tax rate decreased from approximately 16.7% for the year ended 31 December 2020 to approximately 12.0% for the Reporting Period, primarily attributable to the recognition of one-off listing expenses of approximately RMB13.3 million for the year ended 31 December 2020, which were non-deductible for tax purpose.

Net profit and net profit margin

As a result of foregoing, the Group's net profit for the year ended 31 December 2020 decreased from approximately RMB43.8 million to approximately RMB21.2 million for the Reporting Period. Net profit margin decreased from approximately 22.1% for the year ended 31 December 2020 to approximately 12.8% for the Reporting Period.

Dividend

The Board does not recommend the payment of dividend for the Reporting Period (2020: nil).

LIQUIDITY, CAPITAL RESOURCES AND GEARING

Net current assets

The Group had net current assets of approximately RMB177.3 million as at 31 December 2021 (2020: approximately RMB74.2 million). The current ratio of the Group increased from approximately 2.0 times as at 31 December 2020 to approximately 5.1 times as at 31 December 2021. The increase in net current assets and improvement of current ratio as at 31 December 2021 was primarily attributable to the increase in cash and cash equivalents and repayment of bank borrowings during the Reporting Period.

Cash and cash equivalents, borrowings and pledge of assets

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

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB182.3 million (2020: approximately RMB109.5 million) and they were denominated in RMB, USD and HKD.

As at 31 December 2021, the Group had no bank borrowings (2020: RMB13.0 million).

As at 31 December 2020, the Group's bank borrowings carried floating rates at 4.4% per annum. The Group's bank borrowings as at 31 December 2020 were denominated in RMB and they were secured by the Group's properties, plant and equipment with carrying amount of approximately RMB19.4 million.

As at 31 December 2021, the Group had no undrawn banking facilities (2020: RMB62.0 million).

Gearing ratio

As at 31 December 2021, the Group had a gearing ratio of nil, calculated by dividing total debt by total equity (2020: approximately 5.8%). The decrease in the gearing ratio was primarily due to the repayment of the Group's bank borrowings.

Capital structure

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

Capital expenditure

For the Reporting Period, the Group incurred cash flows on capital expenditures for the purchase of properties, plant and equipment in the amount of approximately RMB35.2 million (2020: approximately RMB2.0 million).

Foreign exchange risks and hedging

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

CAPITAL COMMITMENTS

As at 31 December 2021, the Group had capital commitments of approximately RMB0.2 million in relation to the purchase of properties, plant and equipment (2020: approximately RMB2.8 million).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: nil).

EMPLOYEES AND REMUNERATION POLICY

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

As at 31 December 2021, the Group had 495 employees (2020: 469 employees) and the Group's total employee benefit expenses (including directors' emoluments) for the Reporting Period amounted to approximately RMB37.1 million (2020: approximately RMB37.7 million).

PENSION SCHEME

The employees of the Group's subsidiaries established in the PRC are required to participate in a state-managed retirement benefit scheme (the "**Defined Contribution Scheme**") operated by the PRC government. The Group is required to contribute a certain percentage of basic payroll costs to the Defined Contribution Scheme.

The Group's contributions to the Defined Contribution Scheme vest fully and immediately with the employees. Accordingly, (i) for the year ended 31 December 2021, there was no forfeiture of contributions under the Defined Contribution Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Scheme as at 31 December 2021. The contributions are charged to profit or loss as they become payable in accordance with the rules of the Defined Contribution Scheme.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

FUTURE PLANS FOR MAJOR INVESTMENT

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

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Net proceeds from the initial public offering (the “**IPO**”), after deducting underwriting commissions and other relevant expenses, amounted to approximately HKD85.6 million. As at 31 December 2021, the net proceeds from the IPO had been applied as follows:

Planned use of net proceeds	Planned use of net proceeds <i>HKD million</i>	Net proceeds used as at 31 December 2021 <i>HKD million</i>	Unused balance as at 31 December 2021 <i>HKD million</i>	Timeframe for the unused balance
Expand dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring machineries and facilities	49.9	17.2	32.7	By end of 2022
Strengthen research and development capability and quality control for dyeing services	3.4	1.5	1.9	By end of 2022
Replace a coal-burning-boiler by a natural-gas-boiler	13.6	5.1	8.5	By end of 2022
Expand integrated enterprise planning resource system	0.9	0.9	–	N/A
Repayment of bank loan	9.5	9.5	–	N/A
General working capital	8.3	8.3	–	N/A
	<u>85.6</u>	<u>42.5</u>	<u>43.1</u>	

As at 31 December 2021, the Group has applied the net proceeds from the IPO in the manner and proportion set out in the prospectus of the Company dated 28 December 2020.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 16 December 2020 (the “**Adoption Date**”), which become effective on 13 January 2021. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to eligible participants, including any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group; and to promote the success of the business of the Group.

The Share Option Scheme remains valid for a period of ten years commencing on the Adoption Date. As of 31 December 2021 and the date of this announcement, no share options had been granted or agreed to be granted under the Share Option Scheme. As a result, the total number of shares available for issue under the Share Option Scheme as of the date of this announcement was 126,000,000, representing 10% of the issued share capital of the Company as of the Adoption Date.

CLOSURE OF THE REGISTER OF MEMBERS

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 25 May 2022 (Wednesday), the register of members of the Company will be closed from 20 May 2022 (Friday) to 25 May 2022 (Wednesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 19 May 2022 (Thursday). During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. on 19 May 2022 (Thursday).

CORPORATE GOVERNANCE

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as of the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

AUDIT COMMITTEE

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

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

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

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the Reporting Period as set out in this preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s consolidated financial statements for the Reporting Period.

The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

EVENT AFTER THE REPORTING PERIOD

The Group does not have any important events after the Reporting Period and up to the date of this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, suppliers, bankers and other business associates for their trust and support.

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

Hong Kong, 25 March 2022

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

* *For identification purposes only*