

Annual Report 2022

利郎 LESS IS MORE



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
Mr. Zhang Shengman (appointed on 17 March 2023)

BOARD COMMITTEES

Audit Committee

Mr. Nie Xing (*Chairman*)
Dr. Lu Hong Te
Mr. Lai Shixian
Mr. Zhang Shengman (appointed on 17 March 2023)

Remuneration Committee

Mr. Lai Shixian (*Chairman*)
Mr. Nie Xing
Mr. Wang Cong Xing
Mr. Zhang Shengman (appointed on 17 March 2023)

Nomination Committee

Mr. Wang Dong Xing (*Chairman*)
Dr. Lu Hong Te
Mr. Nie Xing
Mr. Zhang Shengman (appointed on 17 March 2023)

Risk Management Committee

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

COMPANY SECRETARY

Mr. Shum Chi Chung

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Mr. Shum Chi Chung

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE IN THE PRC

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

SHARE REGISTRARS AND TRANSFER OFFICES

Suntera (Cayman) Limited

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

Hong Kong Share Registrar

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

AUDITOR

KPMG, Certified Public Accountants
(*Public Interest Entity Auditor registered in accordance
with the Accounting and 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		
	2022 (RMB million)	2021 (RMB million)	Changes (%)
Revenue	3,086.2	3,379.5	-8.7
Gross profit	1,420.2	1,415.0	+0.4
Profit from operations	519.1	532.8	-2.6
Profit for the year	448.1	468.1	-4.3
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	37.42	39.09	-4.3
— Diluted	37.42	39.04	-4.2
Shareholders' equity per share	315.8	306.8	+2.9
Interim dividend per share	HK13 cents	HK13 cents	0
Special interim dividend per share	HK5 cents	HK5 cents	0
Final dividend per share	HK9 cents	HK11 cents	-18.1
Special final dividend per share	HK5 cents	HK5 cents	0
	(%)	(%)	(% points)
Gross profit margin	46.0	41.9	+4.1
Operating profit margin	16.8	15.8	+1.0
Net profit margin	14.5	13.9	+0.6
Return on average shareholders' equity ⁽¹⁾	12.0	12.8	-0.8
Effective tax rate	18.1	16.6	+1.5
Advertising, promotional and renovation expenses (as a percentage of revenue)	13.0	10.1	+2.9
	Year ended 31 December		Six months ended
	2022	2021	30 June 2022
Average inventory turnover days ⁽²⁾	195	145	217
Average trade receivables turnover days ⁽³⁾	54	57	54
Average trade payables turnover days ⁽⁴⁾	111	79	91

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

Operating in such a challenging business environment, China Lilang actively responded to the changing market by continuously facilitating new retail business, promoting sales and driving store efficiency. By launching quality and iconic items as well as rejuvenating the brands, it enhanced the competitiveness of the Group's brands.





To all shareholders,

In 2022, lockdowns and control measures were imposed one after another to address the fluctuating coronavirus pandemic (“COVID-19” or the “Pandemic”), slowing down economic development and, at the same time, dampening consumer sentiment as in-store shopping and social activities were refrained, of which the apparel industry bore the brunt with negative growth recorded in retail sales of apparel for the year.

Operating in such a challenging business environment, China Lilang Limited (the “Company” or “China Lilang”, together with its subsidiaries, the “Group”) actively responded to the changing market by continuously facilitating new retail business, promoting sales and driving store efficiency. The Group also adhered to the strategy of providing products that represent excellent value for money by launching quality and iconic items with original and personalised design, as well as rejuvenating the brands with new and stylish promotions, so as to epitomise China Lilang’s design concept with simple menswear and enhance the competitiveness of the Group’s brands.

CHAIRMAN'S STATEMENT (CONTINUED)

For the year ended 31 December 2022, the Group's revenue for the year decreased by 8.7% year-on-year to RMB3,086.2 million. Net profit decreased by 4.3% year-on-year to RMB448.1 million, mainly due to the decrease in overall revenue as the Pandemic weighed heavily on the offline retail business, with certain stores being temporarily suspended due to the Pandemic prevention and control measures, and rebates provided to distributors by the Group during the year. Earnings per share were RMB37.42 cents, representing a year-on-year decrease of 4.3%.

During the year, the Group maintained a healthy financial position with sufficient cash flow. The Board of Directors has resolved to pay a final dividend of HK9 cents (2021: HK11 cents) per share and a special final dividend of HK5 cents (2021: HK5 cents), thus maintaining a stable payout ratio throughout the year.

To ride on the growing popularity of e-commerce, the Group actively develop the business in WeChat Mall during the year to take advantage of the interactive features of the social platform and capitalise on the complementary advantages of online and offline services, thus driving store efficiency growth. The Group gradually transformed its online sales service from a channel for off-season inventory clearance to a platform mainly for advertising its brand image, and promoted sales through sales promotion, e-commerce live streaming and other campaigns, such as the launch of pants hot products on e-commerce platforms during the 618 E-Commerce Shopping Festival and the premier launch of quality and hot items, hydrophobic downs, online prior to the Double 11 Shopping Festival. Although retail sales decreased by 0.4% under a stagnant market, a significant increase in gross profit was recorded as both the unit price of product sales and sales proportion of new products increased. The new retail business started generating net profit.

However, in response to the impact to the sales in physical stores by the Pandemic. The Group closed certain underperforming stores and slowed down its plan to open new stores, thus falling short of the target of maintaining the same number of stores throughout the year as the beginning of the year. As of the end of the previous year, the Group had 2,644 stores,

representing a decrease of 89 stores as compared to the end of 2021. The Group further optimised its nationwide sales network by relocating approximately 50 stores to premium locations of first- and second-tier markets, so as to enhance store efficiency and utilisation of store space.

Moreover, the Group adhered to the strategy of providing products that represent excellent value for money with original and personalised design, as well as highlighting the stylishness through a style of simplicity, so as to enhance competitiveness for its products. The Group launched the hydrophobic downs during the fourth quarter and the icy pineapple shirts made of fabrics developed in-house in the summer, both were well received by consumers and delivered satisfactory sales performance.

With respect to inventory management, the effort put into inventory clearance by the Group was effective, as the inventory balance during the year approximated that of last year despite weaker sales caused by the volatile Pandemic situation. The inventory control and logistics efficiency were further enhanced after the new logistics centre commenced operation in September.

With respect to brand promotion, the Group has been on the forefront of the apparel industry by promoting its key products with the newly-created virtual ambassador, 勵Li, so as to show China Lilang's brand concepts with simple menswear and attract young consumers' attention. Moreover, the Group continued to work with the brand ambassador of its core collection "LILANZ", Han Han, by being the official menswear partner for his new film "Only Fools Rush In" and launching co-branding products with him and the *Chinese National Geographic* magazine, while Kido Gao would be the ambassador of its smart casual collection LESS IS MORE, as a way to demonstrate the youthfulness and style of the collection. China Lilang has also co-partnered with artist Cao Yu (Leo), and LESS IS MORE has formed a co-branding partnership with the science fiction, *The Three-Body Universe*, for its shop image.

CHAIRMAN'S STATEMENT (CONTINUED)

Looking ahead to 2023, the Pandemic situation has gradually stabilised. Since the authorities relaxed the management of COVID-19 with the measures against class-B infectious diseases, foot traffic has increased significantly and social and economic activities are picking up. Although uncertainties from geopolitical conflicts, rising inflation and the possible resurgence of the Pandemic remain, the long-suppressed consumer demand is expected to be gradually unleashed with the support of consumption-stimulating policies. The Group will adopt a wait-and-see attitude towards the retail market in the first half of 2023, with a cautiously optimistic outlook for the full year.

Through improvement of sales channels, facilitation of new retail and brand rejuvenation, China Lilang will continue to strengthen the Group's internal management, in order to lay a more solid foundation to achieve sustainable development and to outperform its peers.

China Lilang will adopt a prudent store opening approach to improve its sales network. The Group is aiming for a net increase of approximately 100 stores in the next year, and plans to continue to open stores in quality shopping malls in provincial capitals and prefecture level cities. The Group will also open more stores at outlet malls and use them as the default channel for inventory clearance. The Group aims to grow its total retail sales for the year 2023 by 10% or more.

The Group will further promote e-commerce by utilising online stores as the bridgehead for the Group's new product launches, and increase the proportion of new products for its, e-commerce sales. By leveraging the new items and precise online promotions, the Group aims to facilitate continuous growth of e-commerce sales. To this end, the Group will step up efforts to develop the business model of "selling at online stores and delivery to offline stores" and introduce more enhanced services to provide more convenient and satisfactory shopping experiences to customers.

The Group will strengthen brand promotion on platforms such as Xiaohongshu, Weibo, TikTok and others, and deploy rich contents and a vivid store image, in order to showcase a more fashionable, dazzling and energetic brand image to attract more customers both online and offline.

Over the past year, thanks to the concerted efforts of our colleagues, the Group successfully navigated through the challenges brought on by the Pandemic, and forged ahead with various innovations and reforms. I hereby express my sincere gratitude for the support of our shareholders and customers, and the efforts of our staff. In the long run, China Lilang will remain committed to the mission of bringing stylish and cost effective menswear to its customers; enhancing the competitiveness of our brand with unique product designs and marketing promotions; and further consolidating the Group's leading position in the menswear industry, thereby enabling sustainable and long-term growth of the business for our supportive shareholders, colleagues and customers.

WANG DONG XING

Chairman

17 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2022, China's macro environment was filled with uncertainty amid a fluctuating pandemic situation and geopolitical tensions. The central government managed to maintain overall stability in the operation of the economy by coordinating pandemic prevention and control measures with economic development; strengthening macroeconomic regulation and control; and launching policies to encourage consumption. According to the National Bureau of Statistics of China, the gross domestic product (GDP) for the year was RMB121 trillion, representing a year-on-year increase of 3.0%. However, as the consumer market was hit by a series of blows including the resurgence of the pandemic and the lockdowns imposed in certain cities such as Shanghai, the total retail sales of social consumer goods decreased by 4.6% and 2.7% year-on-year in the second quarter and the fourth quarter respectively, offsetting the sales rebound of the retail market recorded in the other two quarters, and fell slightly by 0.2% year-on-year for the whole year. Within this segment, a relatively significant decline was seen in the retail sales of apparel, footwear, headwear and knitwear, ending the year with a cumulative decline of 6.5%.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In face of a complex and ever-changing retail market, China Lilang remained committed to the strategy of providing products that represent excellent value for money; enhanced product competitiveness with original and personalised designs, as well as highlighting the stylishness through a style of simplicity; and launched quality and iconic items. Meanwhile, the Group rejuvenated its brand image by incorporating a virtual character as the brand ambassador to convey the design concept and brand spirit of China Lilang, enhance the interaction between the brand and consumers in the digital world, and improve the efficiency of new media marketing.

In addition, the Group continued to drive its new retail business by leveraging the complementary advantages of its online and offline services through its online stores and WeChat Mall business to promote sales and inventory clearance. Starting from the first half of the year, the Group had taken steps to achieve a healthier mode of fashion apparels inventory management and e-commerce operation by increasing the proportion of seasonal product sales; launching hot products during the 618 E-Commerce Shopping Festival; and promoting the sales of down jackets during the Double 11 e-commerce festival.

During the year, the Group decisively closed stores with low store efficiency and deferred its store opening plans in response to the pandemic. As a result, the total store count for the year fell short of the target to remain the same as the beginning of the year. As of the end of 2022, the Group had a total of 2,644 stores, including a total of 251 smart casual collection stores operated under the direct-to-retail model and a total of 2,393 core collection stores operated under the consignment and distributor models, representing a net year-on-year decrease of 89 stores.

For the year ended 31 December 2022, the Group's revenue for the year decreased by 8.7% year-on-year to RMB3,086.2 million. Net profit was RMB448.1 million, and earnings per share were RMB37.42 cents, down by 4.3% year-on-year respectively.

During the year, the Group maintained a healthy financial position with sufficient cash flow. The Board of Directors recommends the payment of a final dividend of HK9 cents per share and a special final dividend of HK5 cents per share, maintaining a stable payout ratio.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

During the year, the Group actively promoted sales and strived to maintain healthy sales channels by integrating its online services with offline in-store experiences and comprehensive logistics services to alleviate the pressure on retail operations brought by the ever-evolving pandemic. However, a number of stores were temporarily suspended due to the pandemic prevention and control measures, which led to drop in sales. In particular, with about 40% of the Group's stores converted to the consignment model, together with a satisfactory off-season inventory clearance, an increase in the peak season sales of the Group's core collection was recorded and reflected before Chinese New Year in the first quarter, albeit later offset by the weaker sales in April, May and late October due to the pandemic. In addition, the Group provided distributors with a total of RMB83.7 million in rebates during the year. The turnover of the core collection fell by 6.8% compared with last year. In terms of the smart casual collection, the retail unit prices increased by 15% to 20% following an enhancement of product design during the year. However, the turnover of smart casual collection dropped by 16.0% due to the plunge in foot traffic. The total revenue for the year decreased by 8.7% to RMB3,086.2 million, and the annual total retail sales decreased by approximately 6.0% year-on-year.

By product category, tops remained the major revenue contributor, accounting for 63.2% (2021: 62.4%) of total revenue for the period, with a 5.2% decrease in sales. Pants accounted for 20.7% (2021: 19.9%) of total revenue, with a 2.3% decrease in sales. Sales of accessories dropped by 13.9%.

Revenue by Region

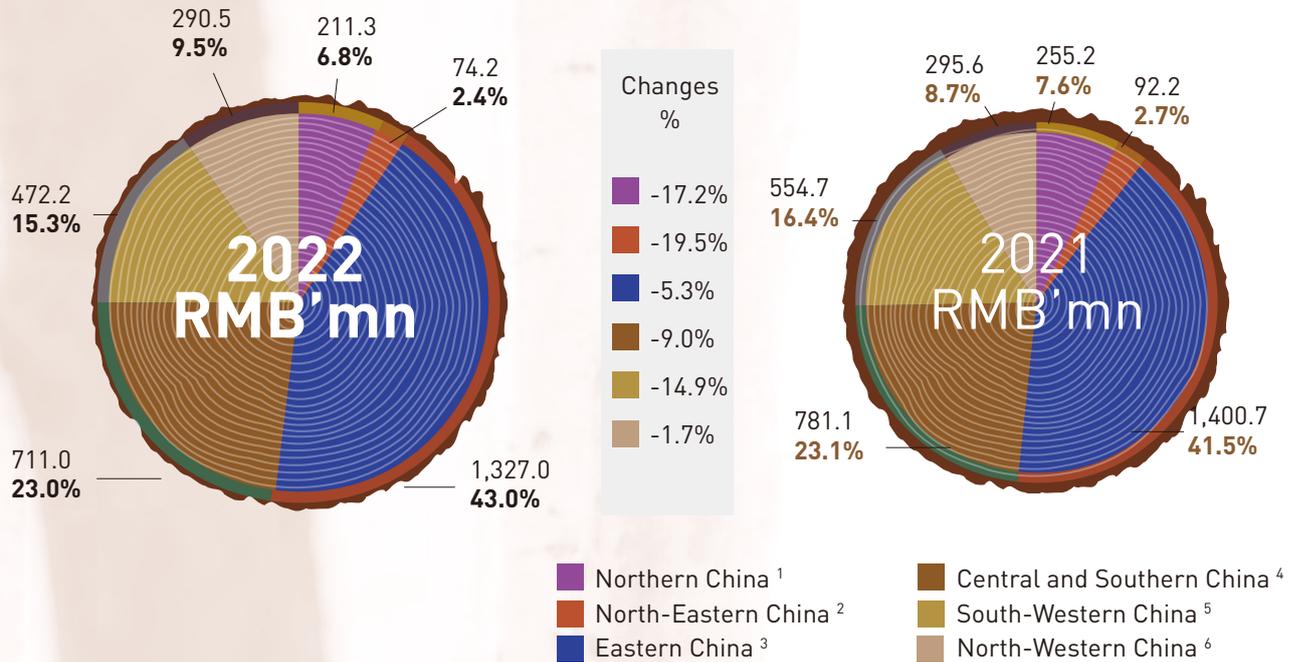
Sales varied from region to region. Sales in Eastern China dropped by 5.3%, which was less than the average, primarily because sales from e-commerce were included in the Eastern China region, and online sales performed better than offline sales during the year. Sales in Central and Southern China dropped by 9.0%, which was in line with the overall sales performance.

Sales in North-Western China, where core collection stores converted from the distributor model to the consignment model were predominantly located, benefited from delayed sales recognition and recorded a decline of approximately 1.7% during the year, which was the smallest decline among all regions.

Sales in Northern China, North-Eastern China and South-Western China decreased by 17.2%, 19.5% and 14.9%, respectively, as the proportion of stores under the distributor model was relatively higher in these regions, and therefore the benefit from delayed sales recognition from the conversion of the distributor model to the consignment model was less significant.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the period is set out below:



Region	2022		2021		Changes (%)
	RMB million	% of revenue	RMB million	% of revenue	
Northern China ¹	211.3	6.8%	255.2	7.6%	-17.2%
North-Eastern China ²	74.2	2.4%	92.2	2.7%	-19.5%
Eastern China ³	1,327.0	43.0%	1,400.7	41.5%	-5.3%
Central and Southern China ⁴	711.0	23.0%	781.1	23.1%	-9.0%
South-Western China ⁵	472.2	15.3%	554.7	16.4%	-14.9%
North-Western China ⁶	290.5	9.5%	295.6	8.7%	-1.7%
Total	3,086.2	100.0%	3,379.5	100.0%	-8.7%

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 15.2% year-on-year to RMB1,666.0 million. The gross profit margin was 46.0%, representing an increase of 4.1 percentage points year-on-year, which was primarily attributable to the inventory provision of RMB120 million recorded in 2021 and the write-back of inventory provision of RMB22.26 million during the year. In addition, the sales volume affected by the market environment during the year also contributed to the decrease in cost of sales.

Other Net Income

Other net income amounted to RMB71.5 million (2021: RMB89.2 million), which included China's local government grants of RMB57.9 million (2021: RMB75.0 million). The decrease in subsidy income was mainly due to the decrease in subsidy received by operating subsidiaries in China. These local government grants were granted unconditionally and at the discretion of the relevant authorities.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased slightly by RMB3.6 million to RMB791.7 million during the year. Selling and distribution expenses accounted for 25.7% of the total revenue, with an increase of 2.1 percentage points compared with the same period last year. Expenses incurred by smart casual collection direct-to-retail stores decreased by RMB42.0 million to RMB232.7 million, accounting for 7.5% (2021: 8.1%) of the total revenue, which was mainly due to the impact of suspension or closure of certain stores as a result of the pandemic.

During the year, advertising and renovation expenses increased by RMB59.7 million to RMB401.7 million, accounting for 13.0% (2021: 10.1%) of the total revenue. The increase in percentage was mainly attributable to the increased brand building effort and the increased support provided to the distributors.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative Expenses

Administrative expenses amounted to RMB178.9 million, and the expenses to total revenue ratio increased to 5.8% (2021: 5.1%). This was an increase of RMB7.2 million compared with the expenses for the same period last year. The increase in expenses during the year was mainly due to the increase in trade receivable provision. The write-back of trade receivable provision was RMB6.0 million in 2021, while a provision of RMB12.7 million was made in 2022.

Other Operating Expenses

Other operating expenses mainly comprised charitable donations of RMB2.1 million (2021: RMB4.8 million).

Profit from Operations

Profit from operations decreased by 2.6% to RMB519.1 million. It was mainly due to the increase in management costs and decrease in government subsidies. Operating profit margin increased by 1.0 percentage point to 16.8%.

Net Finance Income

Net finance income was RMB27.7 million, which was RMB0.8 million lower than the same period last year. It was mainly due to the foreign exchange loss of RMB6.5 million arising from the depreciation of RMB during the year as compared with the foreign exchange gain of RMB3.8 million arising from the appreciation of RMB in 2021. In addition, interest income increased as a result of increased fixed deposits.

Income Tax

The effective income tax rate for the year was 18.1%, representing an increase of 1.5 percentage points compared with the same period last year, which was mainly due to the year-on-year decrease in provision during the year and the decrease in deferred tax credits. In addition, the turnaround from loss to profit of the smart casual business, which has a higher tax rate, has increased the effective tax rate.

Net Profit

Net profit for the year was RMB448.1 million, down by 4.3%. Net profit margin increased by 0.6 percentage point to 14.5%.

Earnings per Share

Earnings per share were RMB37.4 cents, down by 4.3%.

Final Dividend

The Board has resolved to pay a final dividend of HK9 cents (2021: HK11 cents) per ordinary share and a special final dividend of HK5 cents (2021: HK5 cents) per ordinary share in respect of this financial year, making a total dividend payment of approximately HK\$167.6 million (equivalent to approximately RMB148.6 million). The final dividend and special final dividend will be paid in cash on or around 24 May 2023 to shareholders whose names appear on the Company's register of members on 5 May 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW

Sales Channel Management

The Group is currently operating its LILANZ retail stores through distributors to build a distinctive brand image and provide professional retail services. Last year, the Group converted stores from the core collection to the consignment model for operation. Thus far, nearly 40% of core collection stores are operating under the consignment model, which delayed the timing of sales recognition from the end of 2021 to 2022. Coupled with the vigorous efforts to clear out off-season inventory in the beginning of 2022, China Lilang's sales recorded a year-on-year increase for the first half of 2022. However, the sales sustained a certain hit later in the year due to the spread of the pandemic nationwide and the lockdown in certain areas leading to the suspension of certain stores.

During the year, the Group continued to consolidate and develop its nationwide sales network through long-term partnership with distributors in order to reach more consumers across China. At the same time, the Group pragmatically supported distributors in optimising the retail network by closing certain underperforming stores while opening stores in carefully selected quality shopping malls and prime shop locations. The Group also promoted increased usage of the WeChat platform in physical stores to achieve higher store efficiency. To further enhance store efficiency and usage of space in its smart casual collection stores, the Group optimised its store network and the store locations by moving closer to first- and second-tier cities during the year. During 2022, approximately 50 stores has been optimised, and over 100 stores are scheduled to be optimised in 2023. To continue to enhance the LILANZ brand image and consumer shopping experience, the Group continued to promote the seventh-generation store image of the core collection. A total of approximately 300 existing stores were renovated during the year, and approximately 400 stores are scheduled to undergo renovation of the same kind in 2023.

As at the end of December 2022, LILANZ had a total of 2,644 retail stores nationwide, representing a net decrease of 89 stores during the year. Among which, 49

core collection stores and 40 smart casual collection stores were closed. The store closures were mainly focused on the Eastern China region, as the region was significantly affected by the pandemic during the year. As at the end of December 2022, the aggregate retail floor area of retail stores was approximately 403,703 square metres (31 December 2021: 404,020 square metres), representing a decrease of 0.1% as compared with the end of the previous year.

As at the end of December 2022, there were 835 stores (31 December 2021: 852) in shopping malls, accounting for approximately 31.6% of the total store count and approximately 33.9% of total retail floor area. In addition, there were a total of 55 outlet stores (31 December 2021: 49).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Region	As at 1 January 2022	Number of Stores		As at 31 December 2022
		Opened during the year	Closed during the year	
Northern China	272	24	44	252
North-Eastern China	158	12	19	151
Eastern China	784	82	122	744
Central and Southern China	736	77	98	715
South-Western China	508	38	44	502
North-Western China	275	34	29	280
Total	2,733	267	356	2,644

As at 31 December 2022, 251 of the 2,644 LILANZ stores were smart casual collection direct-to-retail stores, and the other stores were operated by distributors or sub-distributors respectively. Re-authorisation of core collection stores was required due to the adjustment

of market factors. During the year, the number of distributors decreased from 69 to 65, while the number of sub-distributors increased from 733 to 735.

The breakdown of store numbers is as follows:

	31 December 2022		31 December 2021	
	Number of distributors	Number of stores	Number of distributors	Number of stores
Direct-to-retail stores	-	251	-	290
Distributors	65	1,265	69	1,303
Sub-distributors	735	1,128	733	1,140
Total number of stores		2,644		2,733
Street stores		1,454		1,528
Stores in shopping malls and outlet stores		890		901
Shop-in-shops in department stores		300		304
Total number of stores		2,644		2,733

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

With respect to inventory management, the inventory balance during the year approximated that of last year, as the Group proactively put effort in inventory clearance and further improved logistics management, despite the impact on sales brought by the volatility of the pandemic. For the smart casual collection, inventory of direct-to-retail stores continued to improve through the adjustment of procurement volume and increase in number of outlet stores to clear off-season inventories, and inventory levels reduced. For the core collection, the early delivery by suppliers due to the early arrival of Chinese New Year in 2023, together with the effect of conversion from distributor model to consignment model, resulted in an increase in the book inventory at the end of the year as compared with the end of last year. Distributor channel inventory of spring items was at a relatively high level, while the rest were at a healthy level. Moreover, the new logistics centre has commenced operation in September during the year. Its intelligent logistics system helped implementing the Group's nationwide logistics network and accelerated the delivery pace of goods to stores, while enhancing its inventory control and logistics efficiency. As at the end of December 2022, total provision of RMB115.5 million was made in accordance with the Group's inventory provision policy.

New Retail Development

During the year, new retail remains one of the Group's top priorities for business development. The Group actively promoted the business of its LILANZ core collection and smart casual collection by integrating online services with offline in-store experiences and comprehensive logistics services.

During the year, the Group organised sales promotion and e-commerce live streaming in a more flexible manner through its direct-to-retail online stores. The Group launched hot products of pants on its e-commerce platform during the activities of the 618 E-commerce Shopping Festival, and responded swiftly via its in-house production plant to add seven production lines. This reflected the Group's ability to produce small batch orders promptly and continued to develop the new model of selling new products with e-commerce. Prior to the Double 11 Shopping Festival, the Group launched hydrophobic downs as its quality items online to cater consumers' demand for winter clothes early. In addition, the Group actively utilised

its WeChat business platform to provide customer relationship management services and to set up stores in the WeChat Mall, taking advantage of the interactive features of the social platform and at the same time capitalising on the complementary advantages of online and offline services, thus driving store efficiency growth. The online channels converted gradually from off-season inventory clearance to the brand touch point of mainly promoting brand image. Despite the decrease of 0.4% in retail sales due to the effect of a recessionary market, the gross profit increased significantly as boosted by selling more new products with higher unit prices, leading to a net profit firstly recorded by the new retail operations.

Product Design and Development

The Group continued to enhance the personalisation and original design of its products to provide greater value for money and differentiate itself from its peers, through adhering to the strategy of providing products that represent excellent value for money. The style of its products emphasized on simplicity, stylishness and comfort. The proportion of products for sale during the year with original designs was approximately 75%, and the proportion of these products utilising proprietary fabrics developed by the Group was around 50%.



The hydrophobic down jacket launched in the fourth quarter is a machine-washable, quick-drying and water-repellent product developed by the Group after conducting a research on consumers' preferences on wearing down jackets. Such product is made of non-fluorocarbon water-repellent down, with a loft of 800+ and high warmth retention. The fabric can repel water for more than 1,000 minutes. It can be machine washed at home, and stays as fluffy as new after washing.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The icy pineapple shirt launched in summer is made of fabric independently developed by China Lilang. The fabric is both cooling and antibacterial, and the fabric has a comfortable texture, making it cooling, breathable and not stuffy even when sweating. With its cooling wearing experience and the hybrid style of business and casual, it was popular among consumers. There were successive rounds of quick replenishment orders even only on online channels.

There are around 350 staff members in the Group's research and development department who are meticulous in all areas of product design, material development and sample creation, so as to enhance the overall competitiveness of the Group's products.

Brand Management and Promotion

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

In terms of brand promotion, Lilang continues its cooperation with renowned writer, racer and film director Han Han on his endorsement of Lilang's core collection "LILANZ". In spring and summer, the Group collaborated with *Chinese National Geographic* to display the specially designed clothing of the Lilanz China National Geographic series with beautiful Chinese scenery as the background. In autumn and winter, the themed commercial "Style all the way, Fast or slow" was launched to promote the Group's brand spirit of innovation, simplicity and comfort, and relaxation. The ambassador of its smart casual collection LESS IS MORE would be singer Kido Gao, as a way to demonstrate the youthfulness and style of the concept of apparel design with a style of simplicity and rich product structure. In addition, in order to provide consumers with a new shopping experience and increase digital interactions, Lilang launched a virtual ambassador 勵 Li to help promote the new autumn and winter hydrophobic down in the second half of the year.

During the year, the Group continued to place advertisements on high speed railways and airports. As it places more advertisements on large shopping malls, the Group also launches a number of crossover promotional events, using diversified approaches and combining different creative elements to satisfy the diverse demands of the new generation of consumers, lead the fashion apparel trend and

increase customers' recognition of the CHINA LILANG brand. In addition to becoming the official menswear partner of Han Han's new movie "Only Fools Rush In", and working together with Han Han and *Chinese National Geographic* magazine to create co-branded products, China Lilang has also formed a co-branding partnership with artist Cao Yu (Leo), and LESS IS MORE has formed a co-branding partnership with the science fiction "The Three-Body Universe" for its shop image.

Awards

A number of promotional campaigns launched by the Group won awards from the advertising industry, including the FW2022 commercial "Style all the way, Fast or slow", which was awarded the China International Advertising Festival – Annual content marketing case in the Advertiser Ceremony of the China International Advertising Festival 2022 and by the Admen Culture Group.

In addition, the Group was once again listed among the "Top 100 Leading Brands in China" List jointly organised by Winshang (赢商网) and Midtown Business Research Institute.

Charity

The Group is enthusiastic about giving back to the society, and is committed to promoting social corporate responsibility. We provide appropriate help to people in need to enhance the corporate image. The Group actively contributes to environmental protection. It participated in and responded to World Earth Day and Chinese White Dolphin Protection Day by adopting environmental friendly fabrics and techniques. On the other hand, the Group is dedicated to social welfare affairs. The Board and all employees has donated to Double Ninth Festival and Quanzhou's anti-pandemic frontline in cash and in kind. The Group also continues to improve its aesthetic education plan by continuing its cooperation with Shanghai Adream Charitable Foundation to organize the Lilang youth aesthetic education charitable programme 2022-2027. No less than RMB500 million are expected to be invested to help students of less-developed regions to develop the accomplishments of discovering, exploring and presenting beauty through aesthetic education. In addition, the Group also organizes charitable courses for the active participation of its employees, for their in-depth experience of the power of charity and corporate culture, as well as better understanding and appreciation on aesthetic education, charity courses are also held to allow employees to actively participate, experience the power of charity and corporate culture, and have a deeper understanding and experience of "aesthetic education".



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

With the relaxation of epidemic prevention and control measures in the end of 2022, the mobility of the people has increased significantly and social and economic activities are recovering. The long-pent-up consumer demand is expected to be finally unleashed. Retail showed signs of steady growth in the beginning of this year as boosted by the Chinese New Year, and the overall economy is expected to gradually recover its growth momentum as driven up by the increasing consumption. Besides, multiple provinces and cities have introduced intensive policies to promote consumption, providing strong support to boost market confidence and consumption levels. However, issues such as geopolitical conflicts and rising inflation persist, alongside with the potential sporadic outbreaks of the epidemic, uncertainties continue to cast a shadow in 2023. The Group maintains a wait-and-see attitude towards the retail market in the first half of next year, but adopts a cautiously optimistic outlook on the full year.

In 2023, China Lilang will adopt a prudent store opening strategy to further improve retail network management and enhance store efficiency. The goal is to increase the number of stores in high-quality shopping malls in provincial capitals and prefecture-level cities, and also increase the opening of stores in outlet malls to speed up inventory clearance. The total number of stores is expected to increase by 100.

After the efforts of digesting the off-season inventory over the past two years, the inventory is now at a very healthy level. With commencement of operation of the logistics centre during the year, which supports further control of the retail end and reduced inventory risk of channels, the Group will expand virtual inventory in stores and take full advantage of the mutual exchange of inventory and the complementary advantages of WeChat Mall stores and physical stores, so as to enhance store efficiency and drive sales growth. The Group aims to grow its total retail sales for the year 2023 by no less than 10%, which mainly comes from the increase in sales volume.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group will step up efforts to promote its new retail business, cultivate the business model of selling at online stores and delivery to offline stores, and introduce better services to provide more convenient and satisfactory shopping experiences to customers. Instead of being just a channel of the Group for inventory clearance, online stores will also become an important tool for the Group to launch new products. It is expected that through the increase in the proportion of new products for e-commerce sales, together with precise online promotions, the Group will drive traffic and cultivate customer loyalty, and thereby achieve the continuous of growth in sales from e-commerce business.

In terms of brand promotion, the Group will continue to utilise different activities and channels, as well as through placing advertisements on high speed railways, airports, etc., and online platforms such as Xiaohongshu, Weibo, TikTok and others. The Group will showcase a more fashionable and distinctive brand image with new store image to attract more customers. The renovation works of the seventh-generation store image of the core collection will gradually be promoted to existing stores, and 400 existing stores are scheduled to be renovated in 2023.

In terms of product positioning, the Group adhered to the strategy of providing products that represent excellent value for money, to provide customers with simple yet stylish menswear. Following efforts to optimise supply chain management over the past few years, the Group's products now show cost advantages over those of its peers. Among which, after the completion of the project to upgrade the fashion and design elements of the smart casual collection products, the retail unit price and profit margin have been increased successfully while well-accepted by consumers. While its price level of the following year approximates that of 2022, with new methods of sales and promotion, sales expansion and increase in profit

can be achieved. The Group will continue to offer stylish and cost-effective products to consumers, cater to their demands and lead the menswear trend.

The pandemic has accelerated the market consolidation of the retail sector and realised the principle of the survival of the fittest. As a capable menswear enterprise, China Lilang will continue to adhere to its strategy of providing products that offer excellent value for money in the following year in a bid to strengthen its product competitiveness. The efforts made during the past few years enabled the Group to build internally a strong supply chain and inventory management capabilities and to add externally channels of consignment model, retail and e-commerce along with the original distributor model. All of the new channels have been on the right track and recorded profits. In the long run, the Group determines to further consolidate its leading position in China's menswear industry and realise sustainable long-term growth, which in turn will enable it to reward shareholders, staff members and customers for their support.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balances and Cash Flows

	Year ended 31 December	
	2022 RMB million	2021 RMB million
Pledged bank deposits	281.2	12.1
Fixed deposits held at banks	650.0	—
Cash and cash equivalents	960.1	1,571.6
Total cash and bank balance	1,891.3	1,583.7

As at 31 December 2022, the Group had time deposits totalling RMB850.0 million (31 December 2021: Nil). The Group's total cash and bank balance was mainly denominated in Renminbi (99.8%).

As at 31 December 2022, the Group had bank loans maturing within one year totalling RMB249.5 million (31 December 2021: RMB72.6 million) and bank loans maturing over one year totalling RMB187.0 million (31 December 2021: Nil). All the bank loans carried interest at fixed rates.

Cash and cash equivalents balance decreased by RMB611.5 million. Major cash flow movements during the year were as follows:

- Net cash generated from operating activities amounting to RMB653.7 million.

The major reconciling items between the net amount of operating cash inflow and the profit before taxation for the year of RMB546.8 million were the increase in trade and other payables, which reflected the increase in usage in trade bills which will be settled in later stage. Besides, depreciation of RMB225.3 million, which was charged as a result of the new head quarter and logistic centre.

- Net cash used in investing activities amounting to RMB1,175.1 million, comprising mainly capital expenditure totalling RMB378.5 million, placement of deposits totalling RMB850.0 million less interest income of RMB52.2 million.

- Net cash outflows from financing activities amounting to RMB90.4 million, comprising mainly the payments of final dividends in respect of 2021 and the interim dividends for the year totalling RMB340.9 million, the capital and interest elements of lease rentals paid totalling RMB95.5 million, less net borrowing of bank loans of RMB361.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trade Working Capital Turnover Days

	Year ended 31 December	
	2022	2021
Average inventory turnover days	195	145
Average trade receivables turnover days	54	57
Average trade payables turnover days	111	79

Inventory turnover days

The Group's average inventory turnover days was 195 days for the year, an increase of 50 days as compared to last year. The increase of average inventory turnover days is mainly due to a higher cost of sales and lower average inventory balance in 2021. The cost of sales in 2021 was driven up by charging of inventory provision of RMB122.2 million and the average inventory balance in 2021 was impacted by a lower opening inventory balance before the conversion of 40% of core collection stores to consignment model.

Total inventory balance decreased by RMB8.6 million to RMB885.1 million. For core collection, there is an increase in the inventory balance and the increase was mainly attributable to the early delivery by suppliers due to the early arrival of Chinese New Year this year, together with the effect of conversion from distributor model to consignment model, resulted in an increase in the book inventory at the end of the year as compared with the end of last year.

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

As at 31 December 2022, total provision of RMB115.5 million was made in accordance with the Group's inventory provision policy.

Trade receivables turnover days

The Group's average trade receivables turnover days was 54 days for the year. Turnover days reduced as about 40% of the core collection stores have been converted to consignment model, which impacted by a higher trade receivables balance for 2021.

As at 31 December 2022, a loss allowance provision of RMB23.3 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 111 days for the year. There was no material change in the payment terms with suppliers. The increase in trade and bills payables is mainly because of increase in usage in trade bills which will be settled in later stage.

Trade and bills payables balance increased by RMB144.4 million during the year to RMB579.8 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 2022, deposits with certain banks totalling RMB281.2 million (2021: RMB12.1 million) were pledged as securities for bills payable and bank loans. The pledged bank deposits will be released upon the settlement of relevant bills payable and bank loans.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company conducted an exercise based on the ERM Framework, as set out in the paragraph headed "Risk Management and Internal Controls" in the Corporate Governance Report on pages 52 to 63 of this Annual Report, to review, assess and control the identified risks faced by 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 pandemic

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2022, the Group had total capital commitments of RMB45.9 million, primarily related to new equipments of logistics centre, and new smart casual stores.

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

As at 31 December 2022, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability and incorporating it in daily operations. Details of the Group's environmental policies and performance are summarized in the Environmental, Social and Governance Report on pages 26 to 51 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 2022, the Group had 3,689 staff. Total staff costs for the year amounted to approximately RMB347.4 million (2021: RMB370.5 million). Details of the Group's policies on human resources are summarised in the Environmental, Social and Governance Report on pages 36 to 40 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 April 2023 to Friday, 28 April 2023 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2023 annual general meeting ("2023 AGM"). In order to qualify for attending and voting at the 2023 AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 24 April 2023.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2023 AGM, the register of members of the Company will be closed from Friday, 5 May 2023 to Tuesday, 9 May 2023 (both days inclusive) for the purpose of determining shareholders who qualify for the proposed final dividend and special final dividend. In order to qualify for the proposed final dividend and special final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712- 1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 4 May 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 ABOUT THIS REPORT

1.1 Basis of Preparation

This report is the 2022 Environmental, Social and Governance (“ESG”) report of China Lilang Limited (“Lilang” or the “Group”) prepared based on the requirements of the Environmental, Social and Governance Reporting Guide of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The reporting period is from 1 January 2022 to 31 December 2022 (the “Year” or “Reporting Period”). This report is prepared in Chinese, and the English version is the translation. In case there is any discrepancy between the Chinese and the English versions, the Chinese version shall prevail. For the content related to corporate governance, please refer to the “Corporate Governance Report” in the 2022 Annual Report of the Group.

1.2 Reporting Standards

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

1.3 Reporting Scope

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

1.4 Information and Feedback

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

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

2 SUSTAINABILITY MANAGEMENT

2.1 Our Approach to Sustainability

The robust ESG governance is essential to the Group's sustainable development and to the assurance of the effective assessment and management of ESG related risks and opportunities. During the previous reporting period, the Group established a comprehensive and rigorous ESG governance structure to assist the Board in supervising ESG-related matters and to ensure that ESG has been incorporated into our daily operations and considerations.

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

As one of the leading menswear companies in China, the Board of the Company is aware of the impact of greenhouse effect on climate and the risks and opportunities brought by climate change to the Group. Therefore, the Group is committed to fulfilling its corporate social responsibility, incorporating environmental sustainability in daily operations, and strictly complying with the Environmental Protection Law of the People's Republic of China (the "PRC") and other relevant regulations. Although the Company's manufacturing business and operating products do not severely pollute the environment, the Company still actively invested additional resources and adopted various measures to save resources, and reduced emissions through environmental optimisation. In the meantime, the Company attaches great importance to various rights and interests of employees, protects employees' health and safety, focuses on talent training, and improves product quality, reduces costs, and enhances product competitiveness and brand reputation through product innovation, with an aim to become the leader of the menswear industry in the PRC.

2.2 Communication with Stakeholders

The Group highly values the opinion of all stakeholders, and strives to protect the legitimate interests of all stakeholders. We have identified all substantial stakeholders, established and continuously improved various communication mechanisms, proactively achieved the coordination and balance of the interests of shareholders, employees, society and other parties through effective communication with stakeholders, and jointly promoted the sustainable, healthy and steady development of the Company. We consider maintaining sustainable relationships with our stakeholders as one of our top priorities. Apart from understanding better the expectations and demands of stakeholders, the Group takes the concerns and demands of stakeholders into consideration, and actively responds with practical actions to facilitate mutual growth with stakeholders. During the Year, we continued to engage with substantial stakeholder groups on a regular basis by the following diversified means to ensure timely feedback with our stakeholders on issues concerned.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Stakeholder category	Major communication method
Staff	Company intranet Training and staff activities Labour union Various seminars
Government and regulatory authorities	Regular reporting Supervision and inspection
Investment institutions/ shareholders	Company's announcements Shareholders' meetings Roadshows and reverse roadshows Strategy conference Email, telephone, WeChat and corporate website
Suppliers/OEM manufacturers	Tenders and biddings Review and appraisal meeting Regular communication Email, telephone, WeChat and corporate website
Customers	Customer survey Call centre and hotline Customer visits Exhibitions
Peers	Industry forums and exchanges On-site visits Research and investigation
Media	Performance conference Media day Special report
Local community	Community activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.3 Materiality Assessment

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

Material issues	Overview of issues
Employee benefits	Employees' remuneration, welfare, working hours and other benefits, as well as the recruitment and employment process.
Human rights and labour interests	Basic human rights protection, such as child and forced labour prevention, as well as labour interests such as labour union and living wages (which are sufficient to meet the basic expenses necessary for living).
Health and safety	Securing the occupational safety of employees, providing appropriate working environment and promoting their physical and mental health.
Product and innovation	Developing and adopting innovative materials and product designs, as well as improving product production technology to enhance functionality and product sustainability.
Intellectual property management	Respecting and protecting the intellectual property rights of self and others (such as patents, designs, logos, etc).
Product life cycle	Environmental considerations of the enterprise over the whole product life cycle (from design, raw material acquisition to production, consumption, handling at the end of life cycle, recycling and reuse and final disposal).
Product quality and safety	Ensuring the products provided to customers meet the quality requirements and related product health standards.
Supply chain management	Evaluating the social and environmental risks along the supply chain and seeking to enhance the social and environmental performance of the supply chain through cooperation.
Corporate governance	Maintaining an efficient and sound governance structure (including environmental and social issues) as well as integrity governance.
Community investment	Facilitating the development of the community through various means, such as organising charity activities, carrying out volunteer services, organising volunteers and making donations.

3 ENVIRONMENT

The Group moves towards the goal of sustainability by incorporating environmental protection into daily operations while strictly complying with the Environmental Protection Law and the Energy Conservation Law of the PRC and other related regulations. Always adhering to the green production concept, the Group applies advanced energy saving technologies in production. Through the establishment and implementation of an environmental management system that complies with the ISO14001, we comprehensively strengthened the environmental protection measures and implemented strict management to ensure that the emission targets of sewage, air, solid wastes and noise were met. Currently, our environmental management system that complies with the ISO14001 covers Lilang Creative Park, Lilang Industrial Park and all employees.

3.1 Emissions

The Group has formulated a production-plant management manual, setting out a series of pollution prevention and emission reduction 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, in order to minimise emissions at source. As for gas emissions, air and greenhouse gas emissions generated by the Group's operating activities are limited. The Group does not own logistics fleets, and the transportation of raw materials and products are all outsourced to third-party transportation service providers. In addition, the Group actively adopts clean energy. A majority of the electricity consumed by both the Headquarters and the Wuli Plant is supplied by a hydropower plant. Hydropower transformed from the potential energy of water does not consume any fossil fuels. It is therefore widely considered as a kind of 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 are carried out by the Group to ensure it functions normally. The natural gas emissions of Lilang Industrial Park are regularly reviewed every year to ensure compliance with the requirements of relevant laws and regulations.

In respect of waste management, the Group strictly complies with the Law of Prevention and Control of Environmental Pollution by Solid Waste, Administrative Measures for Hazardous Waste Transfer Manifests and other relevant laws and regulations in China, and set out the detailed management requirements for hazardous wastes in the environmental policies. Our production does not involve the processes of weaving, printing and dyeing, and therefore basically no hazardous wastes will be generated. For the waste management of fabric testing laboratory, the Group has formulated internal rules and regulations such as Technical Service Contract — Hazardous Waste Management and Disposal and Operation Instruction for Chemical Waste Liquid Handling and Recycling to ensure our laboratory's environmental performance complies with the relevant policy requirements. In the process of collecting, storing, and disposing of chemical liquid waste, the Group regards safety protection as the top priority, and requires the testing specialists of the testing centre to take safety precaution measures according to the chemical properties of the concerned liquid waste throughout the process to avoid chemical corrosion, poisoning and other safety incidents. Meanwhile, supervisors are put in place to supervise the safety precaution measures, and halt the process if any violations are spotted, so as to jointly prevent the occurrence of safety accidents. A very limited number

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

of chemicals in the fabric testing laboratory are used for inspection, where relevant hazardous wastes are collected and handled by qualified third parties. During the Reporting Period, the Group discharged a total of 181.5 litres of chemical liquid waste, reaching the goal of discharging less than 200 litres in 2022. In terms of new product development, the Group complies with the internal control standard Q/LLZG 201-2022 of the enterprise standard of Lilang (China) Co., Ltd. and GB 18401 National General Safety Technical Code for Textile Products, and conducts enterprise standard tests for newly developed fabrics during the year to ensure proper compliance.

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

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

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

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

	Unit	2022	2021	2020
Total air emissions of the boiler¹	tonnes	0.72	0.84	0.65
Non-hazardous wastes²				
Scraps	tonnes	196.44	196.33	244.86
Scrap metal	tonnes	1.78	1.28	Undisclosed
Cardboards	tonnes	48.42	56.78	Undisclosed

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3.2 Use of Resources

The Group understands that resources are precious, and strictly adheres to the “5S management system” and requires all employees to conserve water and electricity to actively cultivate employees’ awareness of energy saving and emission reduction. We put up related posters in the office area and across the plant for promotion and education, and security guards in the Wuli Plant check and make sure the power sources of all production equipment and the lights in production workshops are powered off during lunch hour and after work. Both the Headquarters and the Wuli Plant of the Group have switched to LED lighting since late 2015. For the use of resources during the production process, the Group conducts regular repairs and maintenance for the boiler to avoid any potential waste of resources due to equipment ageing or failure and minimise the use of natural gas for the boiler. 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 products, the Group is determined to resist the arbitrary use of raw materials. For the precise control of the usage of fabrics, we give full play to the utilisation of fabrics through production equipment upgrades, commencement of worker training and adoption of a computer program to optimise cutting layouts, thereby increasing the controllability of the usage of fabrics while reducing wastage through customisation based on the requirements of different orders. As for the usage of packaging materials, the Group eradicates excessive packaging for its products and instead maintains an appropriate balance among cost control, product protection and consumer expectation as its basic purposes. More environmental-friendly paper bags are used as shopping bags. Although certain products are also individually packaged in plastic bags, non-woven bags or paper boxes for the protection against dirt, dust or damp, we adhere to the zero-waste principle on this basis, and engage packaging material suppliers that are in compliance with the requirements relevant national laws and regulations. The Group has formulated a procurement management plan, under which we engage packaging material suppliers through tender and establish long-term partnership with suppliers depending on their ESG performance.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

			Unit	2022	2021
Electricity					
Wuli Plant	Consumption quantity	kWh		6,509,388	5,851,230
	Intensity	kWh/RMB'000		15.79	13.36 ³
Headquarters	Consumption quantity	kWh		10,831,080	11,454,107
	Intensity	kWh/RMB'000		6.41	5.90 ³
Logistics centre	Consumption quantity	kWh		843,800⁴	—
	Intensity	kWh/RMB'000		0.50	—
Natural gas					
Wuli Plant	Consumption quantity	m ³		306,155	350,829
	Intensity	m ³ /RMB'000		0.74	0.80 ³
Headquarters	Consumption quantity	m ³		213,769⁵	147,564
	Intensity	m ³ /RMB'000		0.13	0.08
Logistics centre	Consumption quantity	m ³		—	—
	Intensity	m ³ /RMB'000		—	—
Water					
Wuli Plant	Consumption quantity	m ³		89,179	84,934
	Intensity	m ³ /RMB'000		0.22	0.19 ³
Headquarters	Consumption quantity	m ³		233,596⁶	178,089
	Intensity	m ³ /RMB'000		0.14	0.09
Logistics centre	Consumption quantity	m ³		41,653	—
	Intensity	m ³ /RMB'000		0.02	—
Packaging materials⁷					
Wuli Plant	Consumption quantity	tonnes		1,256	1,473
	Intensity	Kg/RMB'000		0.74	0.76 ³

³ 2021 data has been restated to incorporate a more accurate dataset.

⁴ The logistics centre has commenced operation since September 2022, prior to which purchased electricity was primarily used for preliminary works.

⁵ The amount of natural gas consumption in the Headquarters increased from previous reporting period mainly due to the shift to natural gas from electricity in all catering areas and workshops after the relocation of the Headquarters.

⁶ The amount of water consumption in the Headquarters increased from previous reporting period mainly due to the leakage of underground water pipes during the period from late January to early February 2022 and timely repair was made by the Group after the leakage had been discovered.

⁷ Packaging materials include garment packaging bags, paper boxes, shopping bags and cartons used for the individual packaging of certain products produced in the Wuli Plant. Packaging materials of individual products purchased from OEM suppliers are excluded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3.3 Environment-friendly Products

The Group has always been adhering to sustainability, and has integrated such concept into our products. Since 2015, the Group has started using biodegradable fabrics made from bamboo fibre for some of its products. Starting from the 2020 spring and summer collections, the Group has launched a new eco-friendly jeans collection. The first batch of products under this collection is made with blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles, which is an effective way to dispose and recycle a certain amount of plastics. In addition, we made respective strides in the development of materials, including decorative signs made with recycled fibre and others. As a pioneer of fashion industry in the PRC, we bravely expand our business vision and support the promotion of sustainable fashion.

Apart from the innovative mind for raw materials, we also focus on decreasing energy consumption during the production process of environmental-friendly products. To reduce the use of other resources in the production of jeans, the Group has adopted the latest washing technology in the washing process of some of its jeans products, which reduces water consumption by about 20% on average and also saves labour and energy consumption.

In addition, the Group launches various eco-friendly products as special edition products for its online shops since 2021 fall and winter. The materials of these products will be made with eco-friendly fabrics made of recycled plastics and/or fast-growing non-edible plants, which will be sourced from suppliers with sustainable practice certification, so that customers can support environmental protection upon purchasing.

3.4 Climate Change

Although the Group actively reduces greenhouse gas emissions in the course of business operations, climate change will have an impact on our business to a certain extent. Extreme or unusual weather conditions may lead to changes in product design direction and timing of sales. For example, in face of global warming characterised by shortened spring, earlier fall and delayed winter, corresponding adjustments are required to tackle such situation. In terms of product design, fabric thickness, trending styles and such would be affected accordingly. In terms of sales, seasonal changes may upset the sales of thick coats and down jackets, thus increasing the inventory risk.

Therefore, to manage corresponding risks and minimise losses as much as possible, the Group has implemented various measures against climate change, including:

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

To reduce the impact of climate change on 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 2020 fall, the Group has adopted a flexible order strategy, lowered the order proportion in trade fairs, and replenished orders quickly based on items with satisfactory sales in the market, as to prevent any risks resiliently in advance.

4 SOCIAL

4.1 Employment

A decent working environment is the basis for an enterprise to fulfill its internal social responsibilities. The Group highly values diversified development and strives to provide our staff with equal opportunities. Meanwhile, we put a great effort in creating comfortable and safe working conditions to promote cultural diversity. We also implement dynamic management to ensure the physical and mental health of our staff.

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

As of 31 December 2022, the Group had 3,689 staff in total, which were all full-time employees. The gender, age group and employment type of the Group's employees are summarised as follows:

	Number of individuals in 2022	Turnover rate in 2022 ⁸
Total number of employees in the Group	3,689	16%
By gender		
Male	1,213	20%
Female	2,476	13%
By age		
Age 16 to 24	441	29%
Age 25 to 40	2,323	15%
Age 41 to 59	905	10%
Age 60 or above	20	25%
By geographical region		
Mainland China	3,687	16%
Hong Kong	2	0

4.2 Benefits and Welfares

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

We attached great importance to the rights and remuneration of our employees. We conducted regular inspection on the salary levels of employees at all levels internally and collected salary status data of the industry in the labour market externally, and adjusted the salary and welfare levels reasonably according to factors such as employees' positions, work ability, work performance, technical level and the Group's efficiency. Performance appraisals for employees will be conducted and specific measures will be implemented in accordance with the performance appraisal measures of the departments to which various positions belong to. 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 provided a share option scheme to recognise the contribution of its key employees to the growth and development of the Group. Employees are entitled to maternity leave, marriage leave and other leaves, as well as the rights to apply for other casual leaves in accordance with the Labour Law in the PRC.

⁸ Turnover rate was calculated based on "number of turnovers of the category/total number of employees of the category", excluding outsourcing staff.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In order to enhance employees' sense of belonging and enthusiasm for work, we have enriched their spare time by carrying out outstanding staff activities, staff birthday parties, festival activities, season's greetings and other cultural and recreational activities. We prioritised the physical and mental health of our employees and built staff canteens and offered mutual medical assistance for staff and condolences for serious illnesses. The Group has built the Lilang Creative Park in our Headquarters, which provides our employees with a superior leisure environment, equipped with gym, swimming pool, venues for snooker, table tennis, spa treatment, reading room and coffee bar, etc. Various free fitness courses (such as yoga, swimming coaching and table tennis) are offered regularly. The Wuli Plant also held tug-of-war, karaoke prized-competitions and annual meetings regularly, and provided venues for square dancing, fitness, badminton, chess room, and reading room. In addition, we have provided a series of benefits, such as local education for our employees' children in Jinjiang, hotel-style apartment accommodation, housing subsidies, wedding subsidies and transport subsidies for travelling to and from home and the plants for our employees.

4.3 Labour Standards

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

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

4.4 Health and Safety

The Group adheres to a people-oriented approach and is committed to creating a safe and healthy working environment. We have established an occupational health and safety management system according to ISO45001, obtained a system certificate, and implemented an occupational health and safety management system. The Group has appointed the vice president as the representative of the Company's environmental management and occupational health and safety management, who is fully responsible for the establishment and operation of the safety and environmental system, and regular meetings are held regularly with the persons in charge of the relevant departments to review the operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

For the safety management of laboratory, the Group has formulated internal rules and regulations such as Laboratory Safety Assurance and On-site Management Procedures and Chemical Safety Protection and Rescue Operation Instructions to ensure our laboratories comply with the relevant policy requirements in respect of safety. In addition, we organise annual fire safety drills, fire safety knowledge training for employees, and deploy fire fighting equipment in factories and office buildings. We require both front-line staff of production lines and staff in office buildings to be acquainted with fire safety knowledge and proper way to use fire protection equipment to enhance their emergency response capabilities. As for accident investigation and management, the Group conducts accident cause analysis, rectification and closed-loop management in a timely manner. Meanwhile, the risk and level of accidents are controlled to the lowest possible level by encouraging the reporting and improvement of near-misses to prevent serious accidents.

In addition, the Group provides free medical examinations for workshop staff, as we always concern about the health conditions and safety of our staff. We adhere to the idea of putting health as our top-priority by adopting reasonable pandemic control measures and providing psychological counselling services during the pandemic, in order to safeguard the physical and mental health of our staff comprehensively.

	2022
Number of work-related fatalities	0
Total number of work injuries	0
Lost days due to work injury	0
Number of penalties or prosecutions for non-compliance with health and safety related laws and regulations	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.5 Staff Development and Training

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

In addition, the Group keeps on providing annual training to the management team of its distributors, covering areas relevant to retail management, such as retail services, retail data management, industry development and order-placing skills.

	2022
Total training hours of employees	28,006
The percentage of employees trained by employment type	
Top management	12.5%
Senior management	50.0%
Middle Management	68.9%
General staff	16.1%
Average training hours by employment type	
Top management	12.5
Senior management	29.0
Middle Management	61.6
General staff	1.8
The percentage of employees trained by gender	
Male	27.5%
Female	18.1%
Average training hours by gender	
Male	12.5
Female	5.2

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.6 Supply Chain Management

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

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

As for communication with suppliers, the Group holds supplier meetings and invites supplier representatives to participate in the technical improvement and innovation conference to share production experience, and provide incentives to technicians who propose efficient solutions⁹.

During the Reporting Period, the Group had approximately 273 OEM product suppliers, raw material suppliers and sub-contracted processing suppliers, and approximately 8 of them were overseas suppliers.

4.7 Product Responsibility

Over the past few years, the Group adhered to the strategy of "improving product quality without raising the price" by doing research on products diligently and improving self quality. The Group also 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. We obtained 18 patents for new products and technologies in 2022. We value the protection of intellectual property rights. For matters involving existing intellectual property rights, we clarify the responsibilities of all parties and adopt licensing methods. From project initiation to listing, we monitor related technologies on a real-time basis to avoid the violation of intellectual property rights.

⁹ It was not convened in 2022 due to the pandemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

In accordance with the requirements of the Trademark Law of the PRC, all products bear labels specifying details such as fibre content of the fabrics and its washing method, as well as the national and enterprise product execution standards being adopted. Advertising campaigns in relation to the brand and products are conducted in accordance with the requirements of the new Advertising Law of the PRC. In the event of any counterfeit products with LILANZ trademark being found available in the wholesale market or online, the Group will report to relevant authorities promptly.

During the Reporting Period, the Group had not received any complaints from the regulatory body or consumers regarding product safety, nor had it recalled any product due to product safety or health issues.

4.8 Customer Privacy and Information Security

The Group is determined to protect customer privacy. We have formulated management requirements related to data protection of our headquarters. The vice chairman of the Board of the Group is the highest person in charge to lead the protection of information security, and the information management centre is the executive department. The information of VIP customers in the database of retail distributors will only be used for sales and promotion of the Group's products, and only relevant personnel of the Group and the relevant stores can access such information. Store managers can only see the membership data of their own stores and export member information in batches within restricted areas as required. The Group will regularly review the restriction technology of information security.

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

4.9 Customer Services

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

4.10 Anti-corruption

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

In addition, the Group has formulated the Whistleblowing System and Procedures requiring employees of the Group to report to the Audit Committee by reporting channels such as phone or email when aware of or encounter any illegal, fraudulent or suspected illegal or fraudulent incidents. Upon receiving the report, the Audit Committee will organize an investigation of the reported incident within one week after receiving the report. In order to protect whistleblowers from unreasonable attacks and retaliation, the investigation reports will be kept confidential, and the names of whistleblowers will not be disclosed during the investigation.

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

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

4.11 Community Investment

The operation of the Group has increased tax revenues and employment opportunities of the local community, and brought about peripheral business booms. At the same time, the Group proactively cares about the need of the community and supports and promotes the education, medical care and elderly care of local community through organising donation activities. During the Reporting Period, the charitable donations of the Group amounted to RMB2.139 million in total, of which:

- 1) RMB1.634 million was donated to Shanghai Adream Charitable Foundation;
- 2) RMB0.50 million was donated to Jinjiang Charitable Foundation for its “Handover of Love and Fighting the Pandemic Together” program for the caring of Jinjiang newcomers;
- 3) RMB5,000 was sponsored to the welcome party of Quanzhou College of Technology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Donating cash and materials to support Quanzhou's anti-pandemic frontline

On 18 March 2022, as the pandemic has continued to grow in Quanzhou districts, the daily lives and health of Quanzhou citizens were impacted. The Board and all employees of the Group were committed to the community and the people, and has decided to donate cash and materials to Quanzhou's anti-pandemic front-line.

Youth aesthetic campus education program by Lilang Group

On 14 June 2022, we organised the youth aesthetic education programme in campus charitable activities in Nanyang Central Elementary School of Shanghang County, Longyan City, in cooperation with Shanghai Adream Charitable Foundation, during which we introduced the concept of "aesthetics" to the campus as we witnessed the learning process and daily lives of students from rural areas from aside. 2022 marked the fifth year of the cooperation of Lilang and Adream in supporting the literacy education of children in China. Lilang also welcomed its second Charity Month following the introduction of the paternal-love-themed charitable concept for the first time in 2021.

Commencement of 9 September charitable salon campaign by Lilang Group

In the morning of the charitable day on 9 September 2022, Lilang has convened a vivid charitable class around the youth aesthetic education program for the better understanding of and participation in charitable activities of Lilang's staff. The staff of the Company has proactively engaged in the experience through painting, discussion and interaction on site, which deepened their feelings on the power of charity and corporate culture, as well as a better understanding and experience on "aesthetic education".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

Subject Areas		Chapter	Note
A Environmental			
Aspect A1: Emissions	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes.</p>	3.1	
KPI A1.1	The types of emissions and respective emissions data.	3.1	
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	—	Greenhouse gas emissions generated by the Group's operating activities are limited.
KPI A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	—	A very limited number of chemicals in the Group's fabric testing laboratory are used for inspection, where relevant hazardous wastes are collected and handled by qualified third parties. We will continue to observe regulatory changes to update any disclosures needed in the future.
KPI A1.4	Total non-hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas	Chapter	Note	
B Social			
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	4.6	
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	4.6	
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	4.6	
Aspect B6: Product Responsibility	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	4.7	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.7	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	4.7	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.7	
KPI B6.4	Description of quality assurance process and recall procedures.	4.9	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Subject Areas		Chapter	Note
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.8	
Aspect B7: Anti-corruption	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.</p>	4.10	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	4.10	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	4.10	
KPI B7.3	Description of anti-corruption training provided to directors and staff.	4.10	
Aspect B8: Community Investment	<p>General Disclosure</p> <p>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</p>	4.11	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	4.11	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	4.11	

CORPORATE GOVERNANCE REPORT

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

The Company complied with all code provisions of the Corporate Governance Code (the “Code Provisions”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the year ended 31 December 2022.

VISION AND MISSIONS

The Company has the vision to excel in the menswear business in PRC market, and is dedicated to the missions of enhancing shareholder value, and cultivating a competent and committed team.

Under the leadership of the Board, the Company achieves the visions and missions in our daily operations. Information on the Company’s performance and the basis on which the Company generate the above vision and missions are set out in the Chairman’s Statement on pages 4 to 7 of the Annual Report.

(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
 Mr. Zhang Shengman (appointed on 17 March 2023)

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 64 to 69 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.

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 2022.

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.

The Board continues to consider these Directors to be independent.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. In 2022, 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 2022 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, B

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 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.

Dr. Lu Hong Te ("Dr. Lu"), Mr. Nie Xing ("Mr. Nie") and Mr. Lai Shixian ("Mr. Lai") have been serving for more than nine years on the Board as Independent Non-executive Directors. The length of tenure of Dr. Lu, Mr. Nie and Mr. Lai with the Company as at the date of this Annual Report was more than 14 years, 14 years and 10 years, respectively. Mr. Zhang Shengman was appointed as an Independent Non-executive Director with effect from 17 March 2023. Each Independent Non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the Independent Non-executive Directors are independent.

When nominating an Independent Non-executive Director who has served the Company for more than nine years, the Board will propose shareholders' vote by way of a separate resolution on any decision to re-elect such Independent Non-executive Director and include in the circular and/or explanatory statement accompanying the notice of the relevant general meeting to shareholders the reasons why the Board still considers such Director as independent and shall be re-elected. Dr. Lu and Mr. Nie who have served as Independent Non-executive Directors of the Company for over nine years, will retire from office and being eligible for re-election at the forthcoming annual general meeting of the Company to be held on 28 April 2023. Dr. Lu and Mr. Nie have thorough understanding of the Company's operations and business. As an Independent Non-executive Director, each of Dr. Lu and Mr. Nie has always contributed objectively in advising the Board and the senior management, expressing objective views, and giving valuable independent guidance to the Company in their capacity as Independent Non-executive Director over the years. Dr. Lu is currently a member of the Audit Committee and Nomination Committee. Mr. Nie is currently the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee. Dr. Lu and Mr. Nie have been continuously demonstrating firm commitments to their roles. Dr. Lu and Mr. Nie always place great importance on high standards of corporate governance. Due to the extensive experience in the consumer market and financial management, Dr. Lu and Mr. Nie are able to provide valuable and useful advices and guidance to the Company in the relevant industry. Dr. Lu and Mr. Nie have never been engaged in any executive management of the Group. Dr. Lu and Mr. Nie have provided confirmation of their independence according to Rule 3.13 of the Listing Rules. The Board, with the recommendation of the Nomination Committee of the Company, considers that Dr. Lu and Mr. Nie remain independent for the purpose of the Listing Rules despite the fact that they have served the Board for over nine years. In accordance with Code Provision A.4.3 of the CG Code, the Company will include in the notice and the circular of the forthcoming annual general meeting of the Company the reasons why the Board still considers Dr. Lu and Mr. Nie as independent and shall be re-elected.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Time Commitment of Directors

The Directors have demonstrated a strong commitment to the Board affairs and they are well aware that they are expected to have a sufficient time commitment to the Board. Directors have given certain confirmations and made disclosures about their other commitments.

(i) Sufficient time and attention

Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year ended 31 December 2022.

(ii) Other offices and commitments

Directors disclose to the Company annually the number, identity and nature of offices held in Hong Kong or overseas listed public companies and organisations and other significant commitments.

Board Evaluation

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which is completed by all directors. The objectives of the evaluation are to assess whether the Board and the Board committees, as well as the Directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and the Board committees continue to operate effectively and that the performance of the Directors and the time commitment in discharging their duties as Directors of the Company for the year 31 December 2022 were satisfactory.

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 four Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te, Mr. Lai Shixian and Mr. Zhang Shengman. 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 2022. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2021 and the interim report of the Group for the six months ended 30 June 2022, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

(ii) Remuneration Committee

The Remuneration Committee currently comprises three Independent Non-executive Directors and one Executive Director, namely Mr. Lai Shixian, Mr. Nie Xing, Mr. Zhang Shengman 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 2022, 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 2021 and salary adjustments (if any) for the year ended 31 December 2022 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 three Independent Non-executive Directors, namely Mr. Wang Dong Xing, Dr. Lu Hong Te, Mr. Nie Xing and Mr. Zhang Shengman. 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, experience and gender appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board. The Nomination Committee will use its best effort and will identify and recommend at least one female Director to our Board on suitable basis within the next 2 years.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year ended 31 December 2022, 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 2022 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 2022, 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 25 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 2022 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Risk Management Committee Meeting	2022 Annual General Meeting
No. of meetings held during the year ended 31 December 2022	10	2	1	1	1	1
Executive Directors						
Mr. Wang Dong Xing	10	N/A	N/A	1	1	1
Mr. Wang Liang Xing	7	N/A	N/A	N/A	N/A	1
Mr. Wang Cong Xing	10	N/A	1	N/A	1	—
Mr. Cai Rong Hua	7	N/A	N/A	N/A	N/A	—
Mr. Hu Cheng Chu	7	N/A	N/A	N/A	N/A	1
Mr. Pan Rong Bin	7	N/A	N/A	N/A	1	—
Independent Non-executive Directors						
Dr. Lu Hong Te	4	2	N/A	1	N/A	1
Mr. Nie Xing	4	2	1	1	N/A	—
Mr. Lai Shixian	4	2	1	N/A	N/A	1

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

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

Appointment and Re-election of Directors

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

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

Company Secretary

Mr. Shum Chi Chung, 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, Mr. Shum has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Mr. Shum is set out in the section headed "Biographical Details of Directors and Senior Management" on page 68 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 page 24 of this Annual Report.

(ii) Internal Controls

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

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

External Auditor

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

During the year, the fees payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB3,450,000. Fees payable to KPMG for non-audit services in respect of internal control review, tax and ESG report advisory services for the year amounted to RMB636,000.

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

(C) NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

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

(D) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

Investors Relations

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

Shareholders' Rights

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

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

A special resolution has been passed at the annual general meeting held at 29 April 2022 to amend and adopt the amended and restated Memorandum and Articles of Association of the Company in order to comply with the recent amendments to the Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 62, 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). He was also accredited as the "16th session of Excellent Entrepreneur of Fujian Province 2015" (2015第十六屆福建省優秀企業家) and "Excellent Entrepreneur of Lhasa Economic and Technological Development Zone 2020" (2020年拉薩經濟技術開發區優秀企業家).

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 60, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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) and the “16th session of Excellent Entrepreneur of Fujian Province 2015” (2015第十六屆福建省優秀企業家).

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

Mr. Wang Cong Xing (王聰星先生), aged 54, 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. He is a committee member of the Political Consultative Conference of Quanzhou City (泉州市政協委員).

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 54, 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 is the president of the Jinjiang Qingyang Chamber of Commerce (晉江市青陽商會). 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 78, 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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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—人物獎之功勳獎);
- 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 49, 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 62, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Dr. Lu is an independent non-executive director of two companies in Taiwan, namely Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076) and Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245) and the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of two other companies, namely, China SCE Property Holdings Limited (中駿置業控股有限公司) (stock code: 1966) and Cosmo Lady (China) Holdings Company Limited (都市麗人(中國)控股有限公司) (stock code: 2298), the shares of which are listed on the Stock Exchange. During the last three years, Dr. Lu was also an independent non-executive director of two other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), the shares of which is listed on the Stock Exchange, 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 resigned as independent non-executive director of these two companies on 23 October 2020 and 31 May 2022, respectively.

Mr. Nie Xing (聶星先生), aged 58, 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.

Mr. Lai Shixian (賴世賢先生), aged 48, is an independent non-executive Director of the Company. He joined the Board on 13 December 2012. Mr. Lai is the Co-Chief Executive Officer and an 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, 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.

Mr. Zhang Shengman (章晟曼先生), aged 65, has over 30 years of experience in corporate and financial matters. From May 1981 to October 1992, Mr. Zhang served various positions in the Ministry of Finance of the People's Republic of China, with his last position as the Deputy Director. In November 1992, Mr. Zhang joined the World Bank Group as the country representative for China. From November 1992 to October 2005, Mr. Zhang took up various roles in the World Bank Group, with his last position as the Managing Director in charge of world-wide operations and the chairman of several committees. Subsequently, Mr. Zhang joined Citigroup Inc. ("Citigroup"), a company listed on the New York Stock Exchange (Stock Code: C), in February 2006 as the chairman of the Global Public Sector Group. From February 2006 to May 2016, Mr. Zhang has taken up various roles in Citigroup with his last position as the Chairman of Citigroup's Asia Pacific Region. Mr. Zhang is currently and has been a director of several companies listed on the Stock Exchange, including a non-executive director of Seazen Group Limited (stock code: 1030) since 21 March 2018, and an independent non-executive director of Fosun International Limited (stock code: 656) since 1 December 2006 and Green Economy Development Limited (stock code: 1315) since 28 February 2023.

Mr. Zhang obtained a bachelor's degree in English literature from Fudan University in 1978 and a master's degree in public administration from University of the District of Columbia in 1986. Mr. Zhang completed the Harvard Advanced Management Program from Harvard University in June 1997.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Mr. Shum Chi Chung (岑嗣宗先生), aged 48, is the chief financial officer and company secretary of the Company. He joined the Group in August 2021. Mr. Shum graduated from the Hong Kong University of Science and Technology with a bachelor's degree in Business and Administration (Accountancy). He has over 20 years of extensive experience in audit, financial management, corporate finance and compliance. Prior to joining the Group, he had worked in an international accounting firm and other companies listed on the Main Board of the Stock Exchange. Mr. Shum is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Shi Mei Ya (施美芽女士), aged 46, 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 52, 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 53, is the financial controller of the Group. He graduated from Faculty of Accountancy from East China Technology University (華東工業大學) with a bachelor's degree in economics major in accounting in 1994. He obtained an EMBA degree from Xiamen University (廈門大學) in December 2012. Prior to joining the Group, he worked in Xiixin Electronic Stock Company Limited (夏新電子股份有限公司), responsible for the overall financial affairs. He joined the Group on 1 September 2008.

Mr. Chen Wei Jin (陳維進先生), aged 53, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Huang Ming Hai (黃明海先生), aged 47, 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.

Mr. Liang Chao (梁超先生), aged 60, is the vice president of Lilang (China) Co., Ltd. ("Lilang China"). He graduated from Sichuan University (四川大學) with a master's degree in business administration in 2003. He joined the Group in 2004 and is responsible for human resources management of design and retailing operations.

Mr. Chen Hong Sheng (陳宏勝先生), aged 48, is the vice president of Lilang China. He graduated from Anhui University (安徽大學) with a bachelor's degree in law in 1995. He joined the Group in 2001 and is responsible for human resources management of design and retailing operations.

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 2022.

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 25 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:

	2022		2021	
	Percentage of the Group's Total Sales	Percentage of the Group's Total Purchases	Percentage of the Group's Total Sales	Percentage of the Group's Total Purchases
The largest customer	4.5%		3.7%	
Five largest customers in aggregate	14.4%		13.9%	
The largest supplier		5.3%		5.7%
Five largest suppliers in aggregate		21.1%		19.3%

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 140 of the Annual Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2022 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 86 to 139 of the Annual Report.

REPORT OF THE DIRECTORS (CONTINUED)

TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB448,061,000 (2021: RMB468,127,000) has been transferred to reserves. Other movements in reserves of the Group are set out in the consolidated statement of changes in equity.

An interim dividend of HK13 cents (2021: HK13 cents) per ordinary share and a special interim dividend of HK5 cents (2021: HK5 cents) per ordinary share were paid on 22 September 2022. The Directors now recommend the payment of a final dividend of HK9 cents (2021: HK11 cents) per ordinary share and a special final dividend of HK5 cents (2021: HK5 cents) per ordinary share in respect of the year ended 31 December 2022.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB2,139,000 (2021: RMB3,970,000).

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 2022 are set out in note 20 to the consolidated financial statements.

SHARE CAPITAL

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2022 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 2022.

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

Mr. Zhang Shengman (appointed on 17 March 2023)

Details of the Directors' biographies are set out on pages 64 to 69 of the Annual Report.

In accordance with article 105(a) of the Company's articles of association, Mr. Wang Liang Xing, Mr. Cai Rong Hua and Dr. Lu Hong Te will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 109 of the Company's articles of association, Mr. Zhang Shengman will retire from the Board at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

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

CONFIRMATION OF INDEPENDENCE

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

REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2022, 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%
	The Company	Interest of spouse	1,448,000 shares (L)	—	0.121%
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%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	—	0.376%
	Xiao Sheng International (Note 3)	Beneficial owner	500 shares of US\$1.00 each (L)	—	5.155%

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. Pan Rong Bin	The Company	Beneficial owner	3,171,000 shares (L)	—	0.264%
	The Company	Interest of spouse	—	150,000 shares (L)	0.013%
	Xiao Sheng International (Note 3)	Beneficial owner	300 shares of US\$1.00 each (L)	—	3.093%

Notes:

- The letter “L” denotes the Directors’ long position in the shares and underlying shares of the Company or the relevant associated corporation.
- The interests in underlying shares represent the interests in share options granted pursuant to the Company’s share option scheme, details of which are set out in the paragraph headed “Equity-Settled Share-Based Payments” in this report.
- Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 4), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong, 0.412% by each of Mr. Wang Ming Hong and Mr. Wang Ming Jie and 0.206% by Mr. Wang Qiao Xing.
- 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.

Save as disclosed above, as at 31 December 2022, 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.

REPORT OF THE DIRECTORS (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, 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 Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong, 0.412% by each of Mr. Wang Ming Hong and Mr. Wang Ming Jie and 0.206% by Mr. Wang Qiao Xing.
- (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 Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong, 0.412% by each of Mr. Wang Ming Hong and Mr. Wang Ming Jie and 0.206% by Mr. Wang Qiao Xing.
- (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.

Save as disclosed above, as at 31 December 2022, 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.

REPORT OF THE DIRECTORS (CONTINUED)

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 2022.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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

Name or category of participants	Number of options					As at 31 December 2022	Exercise price	Exercise period
	As at 1 January 2022	Granted	Exercised	Cancelled	Lapsed			
Mr. Chen Wei Jin (note 1(a))	433,000	—	—	—	—	433,000	HK\$4.31	Note 2(a)
Mr. Wang Jun Hong (note 1(b))	350,000	—	—	—	—	350,000	HK\$4.31	Note 2(b)
Mr. Wang Zhi Yong (note 1(c))	350,000	—	—	—	—	350,000	HK\$4.31	Note 2(b)
Ms. Chen Zhi Mei (note 1(d))	150,000	—	—	—	—	150,000	HK\$4.31	Note 2(b)
Employees	10,217,000	—	—	—	548,000	9,669,000	HK\$4.31	Note 2(c)
	11,500,000				548,000	10,952,000		

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 130,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

REPORT OF THE DIRECTORS (CONTINUED)

- b. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 30% of the options granted may be exercised on or prior to the end of the third year after the date of grant; (ii) subject to (i), up to 60% of the options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.
- c. The options are exercisable by the grantees during the period commencing from the day immediately following the expiry of the two year period after the date of grant, and ending on the day falling ten years after the date of grant, during which, (i) up to 2,934,000 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 2,979,000 options granted may be exercised on or prior to the end of the fourth year after the date of grant; and (iii) subject to (i) and (ii), all outstanding options may be exercised prior to the expiry of the said exercise period, failing which the options will lapse and no longer be exercisable.

Information on the accounting policy for share options granted is provided in note 1(o)(ii). As at 31 December 2022, 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 RMB9,544,000. Assuming that all the options outstanding as at 31 December 2022 are exercised, the Company will receive proceeds of HK\$47,203,000.

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, 17 March 2023

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 86 to 139, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (“the Code”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Revenue recognition	
<i>Refer to note 3 to the consolidated financial statements and the accounting policy note 1(r) .</i>	
The key audit matter	How the matter was addressed in our audit
<p>Revenue of sales to distributors and consignees principally comprises sales of menswear goods, including tops, pants and accessories.</p> <p>Every year, the Group enters into a framework distribution agreement with each distributor and a consignment agreement with each consignee and manufactures or sources its products in accordance with the terms of separate purchase orders.</p> <p>For sales to distributors, once the products are delivered to the location designated by the distributor which is the point at which the control of the menswear goods is considered to have been transferred to the distributor and the point at which revenue is recognised.</p> <p>For sales through consignees, once the products are sold to end users by the consignee, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point. The Group receives confirmations of the transaction amounts from the consignees on a monthly basis.</p> <p>We identified the recognition of revenue of sales to distributors and consignees as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of management's key internal controls over revenue recognition; • inspecting agreements with distributors and consignees, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, rebate and sales return to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards; • inspecting, on a sample basis, whether revenue transactions around the financial year end had been recognised in the appropriate financial period by comparing the transactions selected with relevant underlying documents, including goods delivery notes or monthly confirmations from consignees; • identifying significant credit notes issued and sales returns from the sales ledger after the year end and inspecting relevant underlying documents 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 2022 and outstanding trade receivable balances as at that date directly from distributors and consignees, on a sample basis; • inspecting sales journals during the financial year that met certain risk-based criteria and comparing details of these journals with the relevant underlying documents; and • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

The engagement partner on the audit resulting in this independent auditor's report is Guen Kin Shing.

KPMG

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

17 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022
(Expressed in Renminbi)

	Note	2022 RMB'000	2021 RMB'000
Revenue	3	3,086,190	3,379,480
Cost of sales		(1,665,975)	(1,964,475)
Gross profit		1,420,215	1,415,005
Other net income	4	71,546	89,210
Selling and distribution expenses		(791,714)	(795,311)
Administrative expenses		(178,850)	(171,335)
Other operating expenses		(2,139)	(4,816)
Profit from operations		519,058	532,753
Net finance income	5	27,728	28,464
Profit before taxation	6	546,786	561,217
Income tax	7(a)	(98,725)	(93,090)
Profit for the year		448,061	468,127
Other comprehensive income for the year			
Item that are or 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")		(622)	(5,092)
Total comprehensive income for the year		447,439	463,035
Earnings per share	11		
Basic (cents)		37.42	39.09
Diluted (cents)		37.42	39.04

The notes on pages 90 to 139 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 2022
(Expressed in Renminbi)

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	12	1,212,944	1,200,183
Investment properties	13	271,900	118,772
Right-of-use assets	14	250,147	289,437
Intangible assets	15	4,679	6,919
Deposits for purchases of plant and equipment		9,834	20,558
Lease rental deposits	14	41,625	44,296
Pledged bank deposits	18	200,000	—
Fixed deposits held at banks	19(a)	650,000	—
Deferred tax assets	24(b)	64,821	55,053
		2,705,950	1,735,218
Current assets			
Inventories	16	885,142	893,737
Trade and other receivables	17	842,625	795,076
Prepaid income tax	24(a)	2,643	—
Pledged bank deposits	18	81,227	12,104
Cash and cash equivalents	19(a)	960,114	1,571,619
		2,771,751	3,272,536
Current liabilities			
Bank loans	20	249,499	72,620
Trade and other payables	21	887,818	870,083
Lease liabilities	22	75,241	97,568
Contract liabilities	23	29,346	46,429
Current tax payable	24(a)	197,179	174,766
		1,439,083	1,261,466
Net current assets		1,332,668	2,011,070
Total assets less current liabilities		4,038,618	3,746,288
Non-current liabilities			
Bank loans	20	187,027	—
Deferred tax liabilities	24(b)	12,675	9,217
Lease liabilities	22	56,685	63,683
		256,387	72,900
Net assets		3,782,231	3,673,388
Capital and reserves			
Share capital	26(a)	105,517	105,517
Reserves		3,676,714	3,567,871
Total equity		3,782,231	3,673,388

Approved and authorised for issue by the board of directors on 17 March 2023.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

The notes on pages 90 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022
(Expressed in Renminbi)

	Note	Share capital (note 26(a)) RMB'000	Share premium (note 26(d)(ii)) 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 2021		105,517	31,411	266,037	24,941	(27,908)	3,253,527	3,653,525
Changes in equity for 2021:								
Profit for the year		—	—	—	—	—	468,127	468,127
Other comprehensive income for the year		—	—	—	—	(5,092)	—	(5,092)
Total comprehensive income for the year		—	—	—	—	(5,092)	468,127	463,035
Equity-settled share-based payment	26(d)(iii)	—	—	—	3,302	—	—	3,302
Dividends approved in respect of the previous year	26(c)	—	—	—	—	—	(267,936)	(267,936)
Dividends declared in respect of the current year	26(c)	—	—	—	—	—	(178,538)	(178,538)
Appropriation to statutory reserve		—	—	4,957	—	—	(4,957)	—
At 31 December 2021 and 1 January 2022		105,517	31,411	270,994	28,243	(33,000)	3,270,223	3,673,388
Changes in equity for 2022:								
Profit for the year		—	—	—	—	—	448,061	448,061
Other comprehensive income for the year		—	—	—	—	(622)	—	(622)
Total comprehensive income for the year		—	—	—	—	(622)	448,061	447,439
Equity-settled share-based payment	26(d)(iii)	—	—	—	2,313	—	—	2,313
Dividends approved in respect of the previous year	26(c)	—	—	—	—	—	(156,649)	(156,649)
Dividends declared in respect of the current year	26(c)	—	—	—	—	—	(184,260)	(184,260)
Appropriation to statutory reserve		—	—	832	—	—	(832)	—
At 31 December 2022		105,517	31,411	271,826	30,556	(33,622)	3,376,543	3,782,231

The notes on pages 90 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022
(Expressed in Renminbi)

	Note	2022 RMB'000	2021 RMB'000
Operating activities			
Cash generated from operations	19(b)	738,956	698,851
Tax paid	24(a)	(85,265)	(100,302)
Net cash generated from operating activities		653,691	598,549
Investing activities			
Payments for purchases of property, plant and equipment		(378,532)	(302,138)
Net proceeds from/(payments of) lease rental deposits		2,671	(11,427)
Payments for purchases of intangible assets		(1,776)	(2,514)
Proceeds from disposal of property, plant and equipment		353	1,623
Placement of fixed bank deposits with maturity over three months		(850,000)	—
Interest income received		52,216	34,411
Net cash used in investing activities		(1,175,068)	(280,045)
Financing activities			
Capital element of lease rentals paid	19(c)	(95,484)	(99,319)
Proceeds from bank loans	19(c)	632,290	72,620
Repayment of bank loans	19(c)	(271,120)	—
Interest element of lease rentals paid	19(c)	(7,456)	(8,146)
Interest expense paid on bank loans		(7,754)	(1,597)
Dividends paid	26(c)	(340,909)	(446,474)
Net cash used in financing activities		(90,433)	(482,916)
Net decrease in cash and cash equivalents		(611,810)	(164,412)
Cash and cash equivalents at 1 January		1,571,619	1,738,934
Effect of foreign exchange rate changes		305	(2,903)
Cash and cash equivalents at 31 December	19(a)	960,114	1,571,619

The notes on pages 90 to 139 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

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

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

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

(d) Property, plant and equipment

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

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

No depreciation is provided in respect of construction in progress.

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

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.
- Leasehold improvements shorter of 5 years or remaining term of the lease
- Plant and machinery 10 years
- Motor vehicles 8 years
- Office equipment 3 years
- Furniture and fixtures 3 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

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

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

(e) Investment properties

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

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

(f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leased assets (Continued)

(i) As a lessee (Continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leased assets (Continued)

(iii) 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, fixed deposits held at banks and trade and other receivables).

Measurement of ECLs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) Credit losses from financial assets (Continued)

Measurement of ECLs (Continued)

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

ECLs are measured on either of the following bases:

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

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

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

Significant increases in credit risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) Credit losses from financial assets (Continued)

Significant increases in credit risk (Continued)

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

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

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

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

Basis of calculation of interest income

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) Credit losses from financial assets (Continued)

Basis of calculation of interest income (Continued)

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

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

Write-off policy

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iii) 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
- investment in a subsidiary in the Company's statement of financial position.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

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

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

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

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

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

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 1(r).

(j) Contract liabilities

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

(k) Trade and other receivables

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

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

(l) Interest-bearing borrowings

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other payables

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

Refund liabilities arising from rights of returns are recognised in accordance with the policy set out in note 1(r).

(n) Cash and cash equivalents

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

(o) Employee benefits

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

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

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

(ii) *Share-based payments*

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (Continued)

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

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

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

(q) Provisions and contingent liabilities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income

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

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

The Group typically offers customers that are not made-to-order rights of return for a period of 7-20 days upon customer acceptance. Such rights of return give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of goods, the Group recognises revenue after taking into account adjustment to transaction price arising from returns as mentioned above. A refund liability is recognised for the expected returns, and is included in other payables. A right to recover returned goods (included in inventories) and corresponding adjustment to cost of sales are also recognised for the right to recover products from customers. This right to recover returned goods is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

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)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income (Continued)

(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 on a systematic basis over the useful life of the asset.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (a) has control or joint control over the Group;
- (b) has significant influence over the Group; or
- (c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

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

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

(w) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Segment reporting (Continued)

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

3 REVENUE

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

The Group's revenue, expenses, results, assets and liabilities are predominantly attributable to a single geographical region, which is mainland China. Therefore, no analysis by geographical regions is presented.

During the years ended 31 December 2022 and 2021, there was no customer with whom transactions exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from customers are set out in note 29(a).

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts that had an original expected duration of one year or less and does not disclose information about remaining performance obligations as at 31 December 2021 and 2022.

4 OTHER NET INCOME

	2022 RMB'000	2021 RMB'000
Government grants (Note)	57,900	75,034
Rental income from investment properties	3,638	3,300
Compensation income in respect of suppliers' fault	2,569	3,213
Others	7,439	7,663
	71,546	89,210

Note: Government grants included a total amount of RMB57,900,000 (2021: RMB75,034,000) received from several local government authorities in the PRC for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

5 NET FINANCE INCOME

	2022 RMB'000	2021 RMB'000
Interest income on financial assets measured at amortised cost	52,216	34,411
Net foreign exchange (loss)/gain	(6,542)	3,796
Interest on lease liabilities (Note 19(c))	(7,456)	(8,146)
Interest on bank loans (Note 19(c))	(10,490)	(1,597)
	27,728	28,464

6 PROFIT BEFORE TAXATION

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

	2022 RMB'000	2021 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	334,095	358,593
Contributions to defined contribution retirement plans (Note 27)	11,037	8,605
Equity-settled share-based payment expense (Note 28)	2,313	3,302
	347,445	370,500
(b) Other items:		
Amortisation of intangible assets (Note 15)	4,016	3,509
Depreciation		
— owned property, plant and equipment (Note 12)	111,269	96,814
— investment properties (Note 13)	4,037	3,426
— right-of-use assets (Note 14)	109,980	120,557
Short term lease rental expenses (Note 19(d))	9,773	3,180
Variable lease payments not included in the measurement of lease liabilities (Note 19(d))	14,191	8,732
Auditor's remuneration	3,450	3,300
Cost of inventories (Note (i))	1,665,975	1,964,475
Research and development costs	124,206	129,140
Subcontracting charges (Note (ii))	327,290	357,984
Gain on disposal of property, plant and equipment and right-of-use assets	(8,542)	(1,941)
Impairment losses/(reversal of impairment losses) on trade receivables (Note 17)	12,696	(5,958)
Impairment losses on right-of-use assets (Note 14)	4,243	8,042

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION (CONTINUED)

Notes:

- (i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, and depreciation totalling RMB568,796,000 (2021: RMB589,951,000) included in items disclosed above.
- (ii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:**

	2022 RMB'000	2021 RMB'000
Current tax — PRC Corporate Income Tax (Note 24(a))	105,035	122,579
Deferred tax	(6,310)	(29,489)
	98,725	93,090

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 2022 and 2021.
- (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 2021 and 2022. 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 2021 and 2022.
- (iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group’s PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

Deferred tax included PRC dividend withholding tax of RMB15,750,000 provided for the year (2021: RMB15,995,000).

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:

	2022 RMB'000	2021 RMB'000
Profit before taxation	546,786	561,217
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	130,756	131,030
Tax effect of non-deductible expenses	5,248	6,061
Tax effect of non-taxable income	(12)	(17)
Tax effect of tax concessions (Note 7(a)(iii))	(49,637)	(57,251)
Over-provision in prior year	(3,380)	(2,728)
Withholding tax effect of undistributed profits retained by PRC subsidiaries (Note 24(b))	15,750	15,995
Actual tax expense	98,725	93,090

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	2022 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	—	1,053
Independent Non-executive Directors					
Lu Hong Te	199	—	—	—	199
Nie Xing	199	—	—	—	199
Lai Shixian	199	—	—	—	199
Total	597	5,330	65	—	5,992

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

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

During the year, no amount was paid or payable by the Group to the directors of the Company ("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 (2021: four) are Directors whose emoluments are disclosed in note 8. The emoluments in respect of the remaining one (2021: one) individual are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	890	1,034
Discretionary bonuses	191	—
Contributions to retirement benefit schemes	16	15
Share-based compensation	—	43
	1,097	1,092

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:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	2,708	2,763
Discretionary bonuses	191	658
Contributions to retirement benefit schemes	60	40
Share-based compensation	385	308
	3,344	3,769

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

	2022 Number of individuals	2021 Number of individuals
Nil to HK\$1,000,000 (Nil to RMB887,000)	7	6
HK\$1,000,001 to HK\$1,500,000 (RMB887,000 to RMB1,330,000)	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 RMB448,061,000 (2021: RMB468,127,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2021: 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 RMB448,061,000 (2021: RMB468,127,000) 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):

	2022 '000	2021 '000
Weighted average number of ordinary shares	1,197,485	1,197,485
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	—	1,471
Weighted average number of ordinary shares (diluted)	1,197,485	1,198,956

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2021	228,642	99,967	101,382	12,713	48,430	8,718	640,695	1,140,547
Additions	16,426	42,328	7,861	671	10,599	4,367	292,689	374,941
Transfer from construction in progress	574,552	—	50,884	29	566	4,361	(630,392)	—
Disposals	(20)	(3,260)	(13,998)	—	(8,793)	(8,299)	—	(34,370)
Exchange adjustment	—	(19)	—	—	(9)	(2)	—	(30)
At 31 December 2021 and 1 January 2022	819,600	139,016	146,129	13,413	50,793	9,145	302,992	1,481,088
Additions	208,972	43,262	3,759	984	3,939	1,333	19,527	281,776
Transfer from construction in progress	257,958	141	7,687	—	13,981	1,084	(280,851)	—
Transfer to investment properties (Note 13)	(159,625)	—	—	—	—	—	—	(159,625)
Disposals	—	—	(706)	(553)	(1,357)	(711)	—	(3,327)
Exchange adjustment	—	61	—	—	30	8	—	99
At 31 December 2022	1,126,905	182,480	156,869	13,844	67,386	10,859	41,668	1,600,011
Accumulated depreciation:								
At 1 January 2021	43,186	61,229	57,146	7,322	39,631	8,306	—	216,820
Charge for the year	28,453	33,758	12,489	1,030	14,097	6,987	—	96,814
Written back on disposals	(19)	(3,207)	(13,072)	—	(8,406)	(7,996)	—	(32,700)
Exchange adjustment	—	(19)	—	—	(8)	(2)	—	(29)
At 31 December 2021 and 1 January 2022	71,620	91,761	56,563	8,352	45,314	7,295	—	280,905
Transfer to investment properties (Note 13)	(2,460)	—	—	—	—	—	—	(2,460)
Charge for the year	43,629	40,565	15,335	1,064	8,414	2,262	—	111,269
Written back on disposals	—	—	(545)	(525)	(1,202)	(473)	—	(2,745)
Exchange adjustment	—	61	—	—	29	8	—	98
At 31 December 2022	112,789	132,387	71,353	8,891	52,555	9,092	—	387,067
Net book value:								
At 31 December 2022	1,014,116	50,093	85,516	4,953	14,831	1,767	41,668	1,212,944
At 31 December 2021	747,980	47,255	89,566	5,061	5,479	1,850	302,992	1,200,183

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

	2022 RMB'000	2021 RMB'000
Cost:		
At 1 January	147,993	147,993
Transfer from property, plant and equipment (Note 12)	159,625	—
At 31 December	307,618	147,993
Accumulated depreciation:		
At 1 January	29,221	25,795
Transfer from property, plant and equipment (Note 12)	2,460	—
Charge for the year	4,037	3,426
At 31 December	35,718	29,221
Net book value:		
At 31 December	271,900	118,772

Investment properties represent retail outlets and office premises that are leased to distributors and a property management company. As at 31 December 2022, the fair value of the investment properties as determined by the Directors of the Company by reference to the market price of similar properties in the respective area amounted to RMB369,064,000 (2021: RMB201,249,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

14 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Properties leased for own use RMB'000	Total RMB'000
Cost:			
At 1 January 2021	143,659	204,479	348,138
Additions	—	156,683	156,683
Disposals	—	(70,115)	(70,115)
Exchange adjustment	—	(100)	(100)
At 31 December 2021 and 1 January 2022	143,659	290,947	434,606
Additions	—	106,784	106,784
Disposals	—	(130,891)	(130,891)
Exchange adjustment	—	262	262
At 31 December 2022	143,659	267,102	410,761
Accumulated depreciation:			
At 1 January 2021	17,437	51,294	68,731
Charge for the year	2,721	117,836	120,557
Impairment loss	—	8,042	8,042
Disposals	—	(52,081)	(52,081)
Exchange adjustment	—	(80)	(80)
At 31 December 2021 and 1 January 2022	20,158	125,011	145,169
Charge for the year	3,557	106,423	109,980
Impairment loss	—	4,243	4,243
Disposals	—	(98,990)	(98,990)
Exchange adjustment	—	212	212
At 31 December 2022	23,715	136,899	160,614
Net book value:			
At 31 December 2022	119,944	130,203	250,147
At 31 December 2021	123,501	165,936	289,437

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

14 RIGHT-OF-USE ASSETS (CONTINUED)

The Group's right-of-use assets contain land use rights and properties leased for own use. The interest of land use rights in the PRC are prepaid upon acquisition. The leases related to properties are typically run for an initial period of one to five years. Some leases include an option to renew the lease upon expiry when all terms are renegotiated. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and restrictions. As at 31 December 2022, rental deposits of RMB41,625,000 (2021: RMB44,296,000) were paid for the leases, which will be held by the lessors throughout the respective lease terms.

15 INTANGIBLE ASSETS

	2022 RMB'000	2021 RMB'000
Cost:		
At 1 January	37,687	35,173
Additions	1,776	2,514
At 31 December	39,463	37,687
Accumulated amortisation:		
At 1 January	30,768	27,259
Charge for the year	4,016	3,509
At 31 December	34,784	30,768
Net book value:		
At 31 December	4,679	6,919

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

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

	2022 RMB'000	2021 RMB'000
Raw materials	154,582	147,510
Work-in-progress	44,697	93,213
Finished goods	685,863	653,014
	885,142	893,737

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

	2022 RMB'000	2021 RMB'000
Cost of inventories sold	1,588,216	1,842,319
Write-down of inventories	77,759	122,156
	1,665,975	1,964,475

17 TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	551,927	494,712
Less: Loss allowance	(23,335)	(10,639)
Trade receivables, net of loss allowance	528,592	484,073
Prepayments to suppliers	2,161	2,927
Prepaid advertising expenses	2,233	1,144
VAT deductible	236,747	226,569
Other deposits, prepayments and receivables	72,892	80,363
	842,625	795,076

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Within 3 months	453,887	389,034
Over 3 months but within 6 months	62,891	86,724
Over 6 months but within 1 year	11,814	8,315
	528,592	484,073

Trade receivables are due within 30-240 days (2021: 30-240 days) from the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 29(a).

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

	2022 RMB'000	2021 RMB'000
At 1 January	10,639	16,597
Impairment losses/ (reversal of impairment losses) for the year	12,696	(5,958)
At 31 December	23,335	10,639

18 PLEDGED BANK DEPOSITS

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

19 CASH AND CASH EQUIVALENTS, FIXED DEPOSITS HELD AT BANKS, PLEDGED DEPOSITS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents, fixed deposits held at banks and pledged deposits comprise:

	2022 RMB'000	2021 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	960,114	1,571,619
Fixed deposits held at banks	650,000	—
Pledged bank deposits (Note 18)	281,227	12,104
Total cash at bank and in hand	1,891,341	1,583,723

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS, FIXED DEPOSITS HELD AT BANKS, PLEDGED DEPOSITS AND OTHER CASH FLOW INFORMATION (CONTINUED)**(a) Cash and cash equivalents, fixed deposits held at banks and pledged deposits comprise: (Continued)**

At 31 December 2022, cash and cash equivalents, fixed deposits held at banks and pledged deposits held in the mainland China amounted to RMB1,888,823,000 (2021: RMB1,557,589,000). Remittance of funds out of the mainland China is subject to exchange restrictions imposed by the PRC government.

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

	Note	2022 RMB'000	2021 RMB'000
Profit before taxation		546,786	561,217
Adjustments for:			
— Depreciation	6(b)	225,286	220,797
— Amortisation of intangible assets	6(b)	4,016	3,509
— Equity-settled share-based payment expense	6(a)	2,313	3,302
— Impairment losses on right-of-use assets		4,243	8,042
— Gain on disposal of property, plant and equipment and right-of-use assets		(8,542)	(1,941)
— Interest on bank loans	5	10,490	1,597
— Interest on lease liabilities	5	7,456	8,146
— Interest income	5	(52,216)	(34,411)
— Unrealised foreign exchange gain		(930)	(2,188)
Changes in working capital:			
— Decrease/(increase) in inventories		8,595	(226,683)
— (Increase)/decrease in trade and other receivables		(47,549)	415,092
— Increase in pledged bank deposits		(69,123)	(10,394)
— Increase/(decrease) in trade and other payables		125,214	(256,200)
— (Decrease)/increase in contract liabilities		(17,083)	8,966
Cash generated from operations		738,956	698,851

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS, FIXED DEPOSITS HELD AT BANKS, PLEDGED DEPOSITS 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.

	2022			2021		
	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	72,620	161,251	233,871	—	123,929	123,929
Changes from financing cash flows:						
Proceeds from new bank loans	632,290	—	632,290	72,620	—	72,620
Repayment of bank loans	(271,120)	—	(271,120)	—	—	—
Capital element of lease rentals paid	—	(95,484)	(95,484)	—	(99,319)	(99,319)
Interest element of lease rentals paid	—	(7,456)	(7,456)	—	(8,146)	(8,146)
Interest paid	(7,754)	—	(7,754)	—	—	—
Total changes from financing cash flows	353,416	(102,940)	250,476	72,620	(107,465)	(34,845)
Other changes:						
Increase in lease liabilities from entering into new leases during the financial year	—	106,784	106,784	—	156,683	156,683
Early termination of lease contracts	—	(40,672)	(40,672)	—	(20,022)	(20,022)
Interest expenses (Note 5)	10,490	7,456	17,946	—	8,146	8,146
Exchange adjustments	—	47	47	—	(20)	(20)
Total other changes	10,490	73,615	84,105	—	144,787	144,787
At 31 December	436,526	131,926	568,452	72,620	161,251	233,871

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 CASH AND CASH EQUIVALENTS, FIXED DEPOSITS HELD AT BANKS, PLEDGED DEPOSITS 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:

	2022 RMB'000	2021 RMB'000
Within operating cash flows (Note 6(b))	23,964	11,912
Within investing cash flows	(2,671)	11,427
Within financing cash flows	102,940	107,465
	124,233	130,804

These amounts relate to the following:

	2022 RMB'000	2021 RMB'000
Leases rentals paid	126,904	119,377
(Net proceeds from)/payment of lease rental deposits	(2,671)	11,427
	124,233	130,804

20 BANK LOANS AND FACILITIES

The analysis of the repayment schedule of bank loans is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year or repayable on demand	249,499	72,620
Over 1 year but within 2 years	1,000	—
Over 2 years but within 3 years	186,027	—
	436,526	72,620

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

20 BANK LOANS AND FACILITIES (CONTINUED)

As at 31 December 2022, bank loans of RMB188,027,000 (2021: Nil) were secured by the bank deposit of RMB200,000,000 (2021:Nil) .

As at 31 December 2022, bank loans of RMB248,499,000 (2021: RMB72,620,000), which were discounted bank acceptance bills (financing in nature) ,were secured by the bank deposit of RMB42,040,000 (2021: RMB7,262,000) . Discounted bank acceptance bills (financing in nature) were bills of exchange which were denominated at Renminbi, measured at amortised cost and repayable within one year.

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

	2022	2021
	RMB'000	RMB'000
Facility amount	2,254,645	1,817,540
Utilised facility amount in respect of:		
— Bills payable (Note 21)	161,450	8,140
— Bank Loans	341,079	72,620

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

21 TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	418,351	427,283
Bills payable (Note ii)	161,450	8,140
Trade and bills payables (Note iii)	579,801	435,423
Accrued salaries and wages	38,812	42,096
Payables for purchase of property, plant and equipment	49,345	156,824
Retirement benefit contribution payable	25,524	25,524
Other payables and accruals	194,336	210,216
	887,818	870,083

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:

	2022 RMB'000	2021 RMB'000
Within 3 months	475,792	399,050
Over 3 months but within 6 months	93,718	33,454
Over 6 months but within 1 year	6,349	1,710
Over 1 year	3,942	1,209
	579,801	435,423

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

22 LEASE LIABILITIES

As at 31 December 2022, the lease liabilities were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year (current)	75,241	97,568
After 1 year but within 2 years	40,872	49,960
After 2 years but within 5 years	15,813	13,723
Sub-total (non-current)	56,685	63,683
Total	131,926	161,251

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 2022 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:

	2022 RMB'000	2021 RMB'000
At 1 January	174,766	152,489
Provision for PRC Corporate Income Tax (Note 7(a))	105,035	122,579
PRC Corporate Income Tax paid	(85,265)	(100,302)
At 31 December	194,536	174,766
Reconciliation to the consolidated statements of financial position:		
Current tax payable	197,179	174,766
Prepaid income tax	(2,643)	—
	194,536	174,766

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

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

(b) Deferred tax assets and liabilities recognised:

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

	Deferred tax assets/(liabilities) arising from					Total RMB'000
	Accrued expenses and others RMB'000	Impairment of trade receivables, right-of- use asset, and inventories RMB'000	Tax losses of PRC subsidiaries RMB'000	Other deferred tax liabilities RMB'000	Undistributed profits of PRC subsidiaries RMB'000	
At 1 January 2021	18,603	5,707	—	—	(7,963)	16,347
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	(6,538)	23,525	13,756	(949)	(15,995)	13,799
Released upon distribution of dividends	—	—	—	—	15,690	15,690
At 31 December 2021 and 1 January 2022	12,065	29,232	13,756	(949)	(8,268)	45,836
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	8,798	(3,476)	4,446	—	(15,750)	(5,982)
Released upon distribution of dividends	—	—	—	—	12,292	12,292
At 31 December 2022	20,863	25,756	18,202	(949)	(11,726)	52,146

Reconciliation to the consolidated statement of financial position:

	2022 RMB'000	2021 RMB'000
Deferred tax assets	64,821	55,053
Deferred tax liabilities	(12,675)	(9,217)
	52,146	45,836

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

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

(c) Deferred tax liabilities not recognised

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 31 December 2022, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB2,936,432,000 (2021: RMB2,730,622,000) 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 2022 and 2021.

25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Note	2022 RMB'000	2021 RMB'000
Non-current asset		
Investment in a subsidiary	140,913	129,951
Current assets		
Amount due from a subsidiary	242,627	234,137
Prepayments and other receivables	210	191
Cash and cash equivalents	142	292
	242,979	234,620
Current liabilities		
Amount due to a subsidiary	2,250	2,075
Other payables and accruals	82	77
	2,332	2,152
Net current assets	240,647	232,468
Net assets	381,560	362,419
Capital and reserves	26(b)	
Share capital	26(a)	
Reserves		
	105,517	105,517
	276,043	256,902
Total equity	381,560	362,419

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS**(a) Share capital**

	2022 HK\$'000	2021 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 2022 and 2021	1,197,485	119,748	105,517

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Movements in components of equity

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

The Company

	Note	Share capital (note 26(a)) RMB'000	Share premium (note 26(d)(i)) RMB'000	Capital reserve (note 26(d)(iii)) RMB'000	Exchange reserve (note 26(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021		105,517	31,411	2,761	(18,859)	120,348	241,178
Changes in equity for 2021:							
Total comprehensive income for the year		—	—	—	(8,445)	572,858	564,413
Equity-settled share-based payment	26(d)(iii)	—	—	3,302	—	—	3,302
Dividends approved in respect of the previous year	26(c)	—	—	—	—	(267,936)	(267,936)
Dividends declared in respect of the current year	26(c)	—	—	—	—	(178,538)	(178,538)
At 31 December 2021 and 1 January 2022		105,517	31,411	6,063	(27,304)	246,732	362,419
Changes in equity for 2022:							
Total comprehensive income for the year		—	—	—	19,997	337,740	357,737
Equity-settled share-based payment	26(d)(iii)	—	—	2,313	—	—	2,313
Dividends approved in respect of the previous year	26(c)	—	—	—	—	(156,649)	(156,649)
Dividends declared in respect of the current year	26(c)	—	—	—	—	(184,260)	(184,260)
At 31 December 2022		105,517	31,411	8,376	(7,307)	243,563	381,560

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:**

	2022 RMB'000	2021 RMB'000
Interim dividend declared and paid of HK13 cents (2021: HK13 cents) per share	133,077	128,944
Special interim dividend declared and paid of HK5 cents (2021: HK5 cents) per share	51,183	49,594
Final dividend proposed after the end of the reporting period of HK9 cents (2021: HK11 cents) per share	95,548	107,696
Special final dividend proposed after the end of the reporting period of HK5 cents (2021: HK5 cents) per share	53,082	48,953
	332,890	335,187

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:

	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year of HK11 cents (2021: HK19 cents) per share	107,696	188,548
Special final dividend in respect of the previous financial year of HK5 cents (2021: HK8 cents) per share	48,953	79,388
	156,649	267,936

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserve

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

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

(iii) Capital reserve

The capital reserve comprises the following:

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

(iv) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2022, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB274,974,000 (2021: RMB278,143,000).

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 may invite, at their discretion, eligible participants, including employees and directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 119,748,491 shares.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) The terms and conditions of the grant are as follows:

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

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

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

	Weighted average exercise price	Number of options
Outstanding at 1 January 2021	HK\$4.31	11,500,000
Granted during the year	—	—
Exercised during the year	—	—
Lapsed during the year	—	—
Outstanding at 31 December 2021	HK\$4.31	11,500,000
Exercisable at 31 December 2021	—	—
Granted during the year	—	—
Exercised during the year	—	—
Lapsed during the year	HK\$4.31	(548,000)
Outstanding at 31 December 2022	HK\$4.31	10,952,000
Exercisable at 31 December 2022	HK\$4.31	3,257,000

The share options outstanding at 31 December 2022 had a weighted average remaining contractual life of 7.5 years (2021: 8.5 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

(a) Credit risk

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

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

Trade receivables

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1.4% (2021: 2.2%) and 12.9% (2021: 5.6%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

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

	Expected loss rate %	2022 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	446,267	2,696
Less than 3 months or equal to 3 months past due	10.0%	85,513	8,551
Past due over 3 months	60.0%	20,147	12,088
		551,927	23,335
	Expected loss rate %	2021 Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	456,749	2,947
Less than 3 months or equal to 3 months past due	15.0%	34,633	5,195
Past due over 3 months	75.0%	3,330	2,497
		494,712	10,639

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

At 31 December 2022, the Group had endorsed bank acceptance bills to its suppliers totalling RMB3,735,000 (2021: RMB329,054,000), 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 RMB3,735,000 (2021: RMB329,054,000) before these bills mature by 30 June 2023.

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 2022				Carrying Amount RMB'000
	Contractual Undiscounted Cash Outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	
Bank loans	249,499	1,000	197,498	447,997	436,526
Trade and other payables	887,818	—	—	887,818	887,818
Lease liabilities	79,301	42,074	16,257	137,632	131,926
	1,216,618	43,074	213,755	1,473,447	1,456,270

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk (Continued)

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

(c) Interest rate risk

(i) Interest rate risk profile

The Group's interest rate risk arises primarily from bank loans issued at fixed rates and variable rates, and lease liabilities that expose the Group to cash flow interest rate risk.

The following table details the interest rate profile of the Group's bank loans at the end of the reporting period:

	Notional amount	
	2022 RMB'000	2021 RMB'000
Fixed rate liabilities:		
Lease liabilities	131,926	161,251
Bank loans	433,790	72,620
Net exposure	565,716	233,871

(ii) Sensitivity analysis

At 31 December 2022, there is no exposure to cash flow interest rate risk as all the liabilities bearing interest at fixed rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(d) 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.

(e) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2022 and 2021.

30 COMMITMENTS

Capital commitments of the Group in respect of property, plant and equipment outstanding at 31 December 2022 not provided for in the financial statements were as follows:

	2022 RMB'000	2021 RMB'000
Contracted for	13,971	108,760
Authorised but not contracted for	31,881	63,112
	45,852	171,872

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 21 February 2022, the Group entered into a sales and purchase agreement ("Agreement") with a vendor for the acquisition of properties located at Lilang Creative Park at a consideration of RMB205,000,000. The vendor is effectively 23.22% and 6.78% owned by Mr. Wang Cong Xing and Mr. Cai Rong Hua respectively. Both are executive directors of the Group and shareholders of Xiao Sheng International Limited, the Controlling Shareholder. Mr. Cai Rong Hua is also the brother-in-law of Mr. Wang Liang Xing, a shareholder of Xiao Sheng International Limited, an executive director and the brother of Mr. Wang Cong Xing and therefore is considered a related party of the Group. The Directors are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

The Agreement was executed in the year ended 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

32 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 2022

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current</i>	1 January 2023
Amendments to IAS 1, <i>Presentation of financial statements</i> and IFRS Practice Statement 2, <i>Making materiality judgements: Disclosure of accounting policies</i>	1 January 2023
Amendments to IAS 8, <i>Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates</i>	1 January 2023
Amendments to IAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i>	1 January 2023

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

34 SUBSIDIARIES

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

Notes:

- (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, of which RMB20,000,000, HK\$11,847,180 and HK\$6,519,660 were yet to be contributed by the Group at 31 December 2022.
- (b) These entities are wholly foreign owned enterprises established in the PRC.
- (c) These entities are limited liability companies established in the PRC.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2022, 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)

	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	3,167,872	3,658,471	2,680,835	3,379,480	3,086,190
Profit from operations	881,863	979,795	651,385	532,753	519,058
Net finance income	63,376	44,168	43,401	28,464	27,728
Profit before taxation	945,239	1,023,963	694,786	561,217	546,786
Income tax	(194,045)	(211,783)	(137,544)	(93,090)	(98,725)
Profit for the year	751,194	812,180	557,242	468,127	448,061
Earnings per share					
Basic (cents)	62.74	67.82	46.53	39.09	37.42
Diluted (cents)	62.74	67.82	46.51	39.04	37.42
Assets and liabilities					
Non-current assets	925,329	1,032,680	1,393,525	1,735,218	2,705,950
Net current assets	2,494,452	2,595,402	2,329,889	2,011,070	1,332,668
Total assets less current liabilities	3,419,781	3,628,082	3,723,414	3,746,288	4,038,618
Non-current liabilities	19,922	21,803	69,889	72,900	256,387
Net assets	3,399,859	3,606,279	3,653,525	3,673,388	3,782,231
Capital and reserves					
Share capital	105,517	105,517	105,517	105,517	105,517
Reserves	3,294,342	3,500,762	3,548,008	3,567,871	3,676,714
Total equity	3,399,859	3,606,279	3,653,525	3,673,388	3,782,231