Narnia (Hong Kong) Group Company Limited
納尼亞(香港)集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 8607

ANNUAL REPORT 2018

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NARNIA GROUP

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Dai Shunhua *(Chairman)*
Ms. Song Xiaoying
Mr. Wang Yongkang

Independent Non-executive Directors
Mr. Leung Ka Tin
Dr. Liu Bo
Mr. Yu Chung Leung

AUDIT COMMITTEE MEMBERS
Mr. Yu Chung Leung *(Chairman)*
Dr. Liu Bo
Mr. Leung Ka Tin

NOMINATION COMMITTEE MEMBERS
Dr. Liu Bo *(Chairman)*
Mr. Leung Ka Tin
Mr. Mr. Yu Chung Leung

REMUNERATION COMMITTEE MEMBERS
Mr. Mr. Leung Ka Tin *(Chairman)*
Dr. Liu Bo
Mr. Yu Chung Leung

COMPANY SECRETARY
Mr. Chan Hon Wan *(HKICPA)*

COMPLIANCE OFFICER
Mr. Dai Shunhua

AUTHORISED REPRESENTATIVES
Mr. Chan Hon Wan *(HKICPA)*
Mr. Dai Shunhua

REGISTERED OFFICE
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC
Jiapu Economic Development Area
Changxing County
Huzhou City
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISER
ONC Lawyers
19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISER
Cinda International Capital Limited
45th Floor
COSCO Tower
183 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS
Zhejiang Changxing Rural Commercial Bank
Company Limited
No. 1298 Mingzhu Road
Taihu Street
Changxing County
Zhejiang Province
PRC

Industrial and Commercial Bank of China Limited
Changxing Branch
No. 218 Jinling Middle Road
Zhicheng Town
Changxing County
Zhejiang Province
PRC

COMPANY'S WEBSITE
www.narnia.hk

STOCK CODE
8607

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Changes
	2018	2017	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Revenue	**332,336**	238,309	39.5%
Cost of sales	**(265,826)**	(192,247)	38.3%
Gross profit	**66,510**	46,062	44.4%
Profit before taxation	**51,369**	20,532	150.2%
Profit for the year	**46,082**	17,773	159.3%
Profit attributable to owners of the Company	**39,293**	13,947	181.7%
Basic earnings per share (RMB cents)	**6.60**	1.94	240.2%
Proposed final dividend per share (HK cents)	**Nil**	Nil	0.0%

	As at 31 December		Changes Increase/
	2018	2017	(decrease)
Liquidity and Gearing			
Current ratio (Note 1)	**0.95**	0.66	43.9%
Quick ratio (Note 2)	**0.41**	0.19	115.8%
Asset-liability ratio (Note 3)	**44.9%**	51.7%	(6.8)%pts

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total borrowings divided by total assets and multiplied by 100%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I hereby take pride and pleasure in presenting the first annual report of Narnia (Hong Kong) Group Company Limited for the year ended 31 December 2018 (the "**Year Under Review**") since its listing on the GEM of the Stock Exchange on 26 February 2019 to our shareholders (the "**Shareholders**") and potential investors.

The year of 2018 was a remarkable year of the Group where we have seen growth and steady transition while maintaining stability for the Group. Notwithstanding the domestic and international economic situations continued to be complex and volatile, and there were still prominent problems arising from the instability and uncertainties about global economy, leveraging on years of successful business achievement, the Company was successfully listed on GEM (the "**Listing**") and gained a platform for further sustainable expansion. The Listing enhances the Group's corporate image and reputation and strengthens our capital resources and shareholding structure.

IMPROVED RESULTS OF OPERATION WHILE MAINTAINING STABILITY

During the Year Under Review, with its sound business development strategies and effective implementation, the Group recorded a revenue of approximately RMB332.3 million for the year ended 31 December 2018, representing an increase of 39.5% as compared to the previous year. Profit attributable to shareholders was approximately RMB39.3 million, representing an increase of 181.7% as compared to the previous year. The overall gross profit margin up by 0.7% points from 19.3% for the year ended 31 December 2017 to 20.0%. Earnings per share was RMB6.60 cents, representing an increase of 240.2% as compared to the previous year. The Board believes that the strong financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

IMPROVING CORPORATE GOVERNANCE LEVEL

We firmly believe that maintaining a high level of internal control is crucial to the long-term development of the Group. While the Board strives to maintain a high level of corporate governance, we also work hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the measures and quality of corporate governance practices with reference to local and international standards. Following the successful listing of the shares of the Company on 26 February 2019 on GEM of the Stock Exchange, the Group will continue to improve the level of its corporate governance, so as to reinforce risk prevention and profit-making capabilities of the Group.

FUTURE OUTLOOK

Although competition in the market will still be very keen in the future, domestic and international economic situations remained to be complex and volatile, the Group will continue to strive for the development of its core business with an aim to increasing the market share of its products.

In 2019, we will be facing both opportunities and risks. Nevertheless, despite the potential turbulence in the macroeconomic environment, the Group considers the current situation as a good opportunity to further its business development. The prime tasks of the Group in 2019 will be focusing on strengthening its production capabilities, sales capabilities and brand capabilities in order to reinforce its core competitiveness of the Group.

Following our successful listing on GEM of the Stock Exchange on 26 February 2019, we benefited from a strong capital platform which will be conducive to taking our business to the next level. We are positive of the market outlook and our outstanding capability and competitive edge to capitalize growth opportunities ahead.

APPRECIATION

Here, on behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support to the Company from all the Shareholders. We will adhere to advanced development concept, follow development trend, grasp market opportunities, and make continuous efforts to create greater value for our Shareholders and make new contributions to the community.

Mr. Dai Shunhua
Chairman of the Board

Zhejiang, the PRC, 25 March 2019

INDUSTRY REVIEW

2018 was full of excitement and pride for us as Chinese people, but it was also a challenging year. We celebrated the 40th anniversary of China's reform and opening-up. The progress of the past four decades bears strong testimony to China's rapid development in the realms of military power, economic vitality, scientific research and infrastructure. At present, China is the world's second largest economy and one of the most influential countries.

On the other hand, in 2018, the rising trade frictions between China and the United States and the shifts in their trade relations caused severe challenges to the Chinese economy. During 2018, the Renminbi depreciated against the United States Dollar, the People's Bank of China lowered the deposit reserve ratio four times and a series of policies had been enacted by the Chinese government to lower fees and reduce taxes. These policies, however, had facilitated the development of enterprises and strengthened the national consumption power significantly.

In review, the textile industry was stable in 2018, as domestic demand continued to grow. As a populous country, the PRC has demonstrated growing demand for textile products and such trend is likely to continue in the future. Benefiting from the diversity of textile products, textile products can be applied in various fields in addition to the traditional apparel market and home textile market. Strong domestic demand spurs the overall textile industry in the PRC.

Through continuous technological innovation, and with the advancement of technology, players in the textile fabric production industry are actively developing new materials that can be applied in different sectors, ranging from aerospace and infrastructure construction to leisure and sports. Continuous technological innovation stimulates further development of textile fabric production industry.

The textile industry has formed industrial clusters. In order to promote industrial advancement, players in the textile fabric production industry forge mutual connections through the formation of intraregional industrial clusters. By leveraging shared resources of various enterprises, an industrial cluster serves as a platform where information relating to latest market trends, significant events in the industry, variations in upstream raw materials, etc. are gathered and consolidated, keeping companies informed of market dynamics so as to work out timely strategies. Such industrial clusters provide advantages for companies, allowing them to form economies of scale, thus driving the sustainable development of overall textile fabric production industry. It is certainly an opportunity for the Group.

BUSINESS REVIEW

During the Year Under Review, the Group focused on developing market promotion and applications of functional fabric products, selectively participating in relevant expositions and actively engaging with domestic and overseas customers to promote the Group's latest products. Meanwhile, the Group doubled promotional efforts for its new products. A primitive market has formed for eco-friendly functional fabric products, as domestic and overseas customers have started application with positive response. The Group continued to focus on the development of domestic and overseas markets. During the Year Under Review, business volume for the domestic printing and dyeing and processing sectors have begun to reach scale.

BUSINESS REVIEW (CONTINUED)

The Group strongly values investment in research and development of new products. During the Year Under Review, the Group continued to collaborate with Zhejiang Sci-Tech University (浙江理工大學) to develop new products. It has established the Zhejiang Provincial Industrial Design Center (浙江省工業設計中心), the Zhejiang Provincial Enterprise Technology Center (浙江省企業技術中心) and the Zhejiang Postdoc Workstation (浙江省博士後工作站). It has been awarded the 2018 Provincial Manufacturing "Shuangchuang" Platform Pilot Demonstration Enterprise and the inaugural batch of Huzhou's Four-starred Eco-friendly Factory.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group derived our revenue from the sales of fabric and provision of printing and dyeing service. The following table sets out our revenue by type for the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Sales of fabrics	**219,473**	**66.0**	166,735	70.0
Service revenue from processing, printing and dyeing service	**112,863**	**34.0**	71,574	30.0
Total	**332,336**	**100.0**	238,309	100.0

Our total revenue was approximately RMB332.3 million for the year ended 31 December 2018 (2017: approximately RMB238.3 million), representing an increase of 39.5% as comparing the revenue of the Year Under Review with that of last year. We develop polyester fabrics with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our PRC and overseas customers. Our fabric products included but not limited to brushed fabric, decorative fabric, imitation silk, sateen, pongee, polyester shirt fabric, taffeta, bed fabric, washed cashmere and oxford fabric.

Revenue from the sales of fabrics increased by approximately 31.6% from approximately RMB166.7 million for the year ended 31 December 2017 to approximately RMB219.5 million for the year ended 31 December 2018, reflecting the increase of total volume of fabrics sold from approximately 38.3 million metres for the year ended 31 December 2017 to approximately 48.8 million metres for the year ended 31 December 2018, primarily as a result of (i) the increased sales orders for fabric products from our customers and (ii) our increased capacity to accept more sales orders after the completion of our technical upgrade. In 2017, the technical upgrade temporarily affected the printing and dyeing process of fabrics sold by us. The effect of production disruption was more significant during the commencement of technical upgrade in the first half of 2017. This resulted in a lower level of revenue for the year ended 31 December 2017. On the other hand, for the year ended 31 December 2018, the increased capacity in printing and dyeing production facilities after the completion of technical upgrade allowed us to take in more orders for fabrics manufacturing. It provided the basis for the increase in revenue from sales of fabrics for the Year Under Review as compared to last year.

FINANCIAL REVIEW (Continued)

Revenue (Continued)

With a view to diversifying our source of revenue, we also engage in the provision of printing and dyeing services in the PRC. The increase of approximately RMB41.3 million or 57.7% from approximately RMB71.6 million for the year ended 31 December 2017 to approximately RMB112.9 million for the year ended 31 December 2018, was primarily attributable to (i) our continuation of focus on services revenue from printing and dyeing after the completion of the technical upgrade based on the relatively higher gross profit margin of approximately 33.3% for the service revenue from printing and dyeing compared to approximately 12.8% for the sales of fabrics; and (ii) the increased sales orders for printing and dyeing services from our existing customers for the year ended 31 December 2018. As a result of the technical upgrade, the total number of our dyeing and setting machines increased from 24 to 62 and from five to 13 respectively. Most of them were acquired during the second half of 2017.

Going forward, our Directors believe that demand for our fabric products from customers will remain stable while our service revenue from printing and dyeing will be on an increasing trend. With our close business relationship with the existing customers and with our increasing focus on the provision of high profit-margin printing and dyeing services, we hope to translate these advantages to a revenue growth, which in turn would increase our market share and result in better financial performance.

The following table sets out our sales volume and average unit selling price of our revenue by types for the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	Sales Volume million metres	**Average Unit Selling Price RMB per metre**	Sales Volume million metres	Average Unit Selling Price RMB per metre
Sales of fabrics	**48.8**	**4.50**	38.3	4.35
Service revenue from processing, printing and dyeing service	**188.1**	**0.60**	121.8	0.59
Total	**236.9**	**1.40**	160.1	1.49

The selling prices of our products primarily depend on the raw material prices, production costs, market conditions including the supply and demand, inventory level and the quality and features of the fabrics required by the customers. As set out above, the average unit selling price of our fabric products remained stable at approximately RMB4.50 per metre for the year ended 31 December 2018 (2017: approximately RMB4.35 per metre). For the printing and dyeing service, the average unit selling price were maintained at a level of RMB0.60 per metres for the year ended 31 December 2018 (2017: approximately RMB0.59 per metre).

FINANCIAL REVIEW (Continued)

Cost of sales and services

Cost of sales and services primarily comprises (i) raw materials and other inventory costs, (ii) utility costs, (iii) direct labour costs; and (iv) depreciation. The following table sets out our cost of sales and services by type for the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Raw materials	**192,458**	**72.4**	136,792	71.2
Utility costs	**48,912**	**18.4**	36,746	19.1
Direct labour costs	**9,038**	**3.4**	7,764	4.0
Depreciation	**10,633**	**4.0**	7,757	4.0
Others (Note)	**4,785**	**1.8**	3,188	1.7
Total	**265,826**	**100.0**	192,247	100.0

Note: Others mainly include maintenance costs and machinery consumables.

Raw materials was the major component of our cost of sales and services, which accounted for approximately 72.4% of our total cost of sales and services for the year ended 31 December 2018 (2017: approximately 71.2%). Raw materials consumed included raw materials used in the production of our printed and dyed fabric products, such as grey fabrics, dyes and other additives for fabrics. The principal raw material used in our production of grey fabrics (i.e. weaving process) is chemical fibre. Our raw materials recognised in cost of sales and services amounted to approximately RMB192.5 million for the year ended 31 December 2018 (2017: approximately RMB136.8 million). The increase of approximately RMB55.7 million in our raw materials consumed was generally in line with the increase in the units of fabric products sold and the increase in the purchase costs of chemical fibres in 2018.

Utility costs, which mainly comprise costs of electricity, coal and gas, steam, and water treatment was the second largest component of our cost of sales and services. Utility costs represented approximately 18.4% of our total cost of sales and services for the year ended 31 December 2018 (2017: approximately 19.1%). Utility costs increased approximately RMB12.2 million or 33.1% for the year ended 31 December 2018 compared to that of 2017, mainly due to the increase in electricity and gas consumption for the higher production activities taken place for printing and dyeing process.

Direct labour costs, which comprise wages and benefits for personnel directly involved in our production processes was the third largest component of our cost of sales and services, accounting for approximately 3.4% of our total cost of sales and services for the year ended 31 December 2018 (2017: approximately 4.0%). The direct labour cost recognised in cost of sales and services increased by approximately 16.4% from approximately RMB7.8million for the year ended 31 December 2017 to approximately RMB9.0 million for the year ended 31 December 2018, primarily as a result of hiring more production staff from 288 production staff members as at 31 December 2017 to 312 production staff members as at 31 December 2018, and with an increased average wages per headcount.

FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin

Our gross profit was approximately RMB66.5 million for the year ended 31 December 2018 (2017: approximately RMB46.1 million). The table below sets out our gross profit and gross profit margin by sales category during the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Sales of fabrics	**28,531**	**13.0**	22,159	13.3
Service revenue from processing, printing and dyeing service	**37,979**	**33.7**	23,903	33.4
Total/overall	**66,510**	**20.0**	46,062	19.3

For the year ended 31 December 2018, the gross profit margin of our sales of fabrics was approximately 13.0% (2017: approximately 13.3%). The gross profit margin of our sales of fabrics decreased by approximately 0.3% from approximately 13.3% for the year ended 31 December 2017 to approximately 13.0% for the year ended 31 December 2018. Such decrease was mainly due to the change in product mix of the purchase orders from our customers as well as the management's strategic sales and production of fabric products involving simpler production process, cheaper selling price and lower gross profit margin. In view of the expansion of our Group's printing and dyeing services, we intended to allocate more resources for our provision of printing and dyeing services. Therefore, it is our strategy to produce and sell fabrics involving simpler production process (i.e. less printing and dyeing steps).

For the year ended 31 December 2018, the gross profit margin of our processing, printing and dyeing service was quite stable and kept at approximately 33.7% (2017: approximately 33.4%).

FINANCIAL REVIEW (Continued)

Other income

The following table sets out the breakdown of our other income for the Year Under Review:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income	**17**	16
Net gain on sales of scraps	**1,937**	–
Government subsidies	**4,525**	2,076
Net gain on sales of raw materials	**3,611**	295
Dividend received from available-for-sale investment	**–**	984
Dividend received from financial asset mandatorily measured at FVTPL	**1,059**	–
Rental income	**166**	54
Others	**105**	19
Total	**11,420**	3,444

Our other income was approximately RMB11.4 million for the year ended 31 December 2018 (2017: approximately RMB3.4 million). The increase of approximately RMB8.0 million for the year ended 31 December 2018 compared to that for the year ended 31 December 2017 was mainly due to the increase in net gain on sales of scraps and sales of raw materials and the increase in government subsidies.

Government subsidies represented the subsidies received from local government in connection with the enterprise development support, innovation capabilities incentives and various tax refund during the Year Under Review. The government subsidies were in general discretionary with varying amounts depending on each of the subsidy programmes.

For the year ended 31 December 2018, our customers requested more raw materials from us for urgent use, we thereby sold them the raw materials in stock result in a net gain on sales of raw materials of approximately RMB3.6 million which caused an increase income derived from sales of raw materials of approximately RMB3.3 million for the Year Under Review compared to approximately RMB0.3 million for the year ended 31 December 2017.

Sales of scraps for the year ended 31 December 2018 represented the one-off sales of obsolete production machinery after the technical upgrade of production facilities in 2017. There was no sales of scraps recorded for the year ended 31 December 2017.

FINANCIAL REVIEW (Continued)

Other income (Continued)

Dividend received from financial asset mandatorily measured at FVTPL and available-for-sale investment represented the dividend received from the equity investment in Changxing Rural Commercial Bank owned by our Group for the two years ended 31 December 2018. The dividend received were relatively stable.

Other gains and losses

The following table sets out the breakdown of our other gains and losses for the Year Under Review:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	**(3,052)**	(5,231)
Gain on change in fair value of financial assets mandatorily measured at FVTPL	**1,672**	–
Gain on disposal of an associate	**23,003**	–
Net exchange losses	**(1,394)**	(476)
(Recognition)/reversal of loss allowances on trade receivables	**(448)**	1,220
Reversal of loss allowances on other receivables	**1**	772
Total	**19,782**	(3,715)

Loss on disposal of property, plant and equipment primary represented the loss incurred through disposing old or low-tech machinery and production equipment with minimal disposal proceeds during the Year Under Review. The significant loss on disposal of property, plant and equipment for the year ended 31 December 2017 was mainly due to the disposal of a large batch of 10 low-tech machinery with net book value of approximately RMB5.6 million during the technical upgrade process of our fabric production facilities.

Gain on disposal in the equity interest in an associate held by the Group for the year ended 31 December 2018 represented the gain recognised in respect of the disposal of equity interest of Changxing Hengli Financing to an Independent Third Party namely Changxing Transport Investment Group Co., Ltd. (長興交通投資集團有限公司) for a consideration of approximately RMB35.0 million on 30 March 2018.

The net exchange losses during the Year Under Review mainly caused by currency depreciation of RMB against United States Dollar.

Recognition or reversal of loss allowances on trade and other receivables were provided based on the management's assessment at each of the reporting date whether there is objective evidence that trade and other receivables are impaired.

FINANCIAL REVIEW (Continued)

Selling and distribution expenses

Our selling and distribution expenses principally comprise (i) transportation expenses charged by logistics companies for delivery of our products from warehouse to our customers' designated point; (ii) packaging expenses; (iii) exhibition expenses; and (iv) export fees. The following table sets out a breakdown of our selling and distribution expenses during the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Transportation expenses	725	32.5	751	39.1
Packaging expenses	710	31.9	394	20.5
Exhibition expenses	227	10.2	343	17.9
Export fees	543	24.4	243	12.7
Others (Note)	22	1.0	188	9.8
Total	2,227	100.0	1,919	100.0

Note: Others mainly include advertising fees and business trip expenses.

Our selling and distribution expenses increased by approximately RMB0.3 million or approximately 16.1% from approximately RMB1.9 million for the year ended 31 December 2017 to approximately RMB2.2 million for the year ended 31 December 2018. The increase was mainly due to an increase in export fees of approximately RMB0.3 million.

FINANCIAL REVIEW (Continued)

Administrative expenses

Our administrative expenses primarily consist of (i) staff costs; (ii) professional service fee; (iii) entertainment expenses; (iv) depreciation of property, plant and equipment and amortisation of intangible assets; and (v) travelling expenses. The following table sets out a breakdown of our administrative expenses for the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Staff costs	8,173	53.4	4,282	50.7
Entertainment expenses	1,255	8.2	685	8.1
Travelling expenses	459	3.0	275	3.3
Office expenses	444	2.9	164	1.9
Professional service fee	1,515	9.9	1,181	14.0
Utility expenses	184	1.2	312	3.7
Depreciation and amortisation	1,362	8.9	855	10.1
Insurance expenses	306	2.0	112	1.3
Others (Note)	1,607	10.5	583	6.9
Total	15,305	100.0	8,449	100.0

Note: Others mainly include other taxes, environmental protection costs and postal fee.

Our administrative expenses increased by approximately RMB6.9 million or approximately 81.1% from approximately RMB8.4 million for the year ended 31 December 2017 to approximately RMB15.3 million for the year ended 31 December 2018. The increase was mainly a result of an increase in staff costs of approximately RMB3.9 million due to increase in headcount of 98 staff members with an increase of approximately 21% in their average salary. The increase in staff costs were mainly due to (i) the increase in headcount which was in line with the increase in designed annual capacity of the Huzhou Production Facilities. As the capacity of printing and dyeing increased, we would also need additional staff for carrying out the other indirect production steps of our printing and dyeing process, including preparatory work such as decoiling and pre-setting, dyeing and finishing work such as coiling and packing; and (ii) the increase in average salary of our staff as a strategy to retain and attract staff. Our employees of the production department and the research and development department have approximately 18% and 39% increase in their average salary for the Year Under Review.

FINANCIAL REVIEW (Continued)

Research expenditure

Our Group has been focusing on research and development of efficient and environmental-friendly technology for textile printing and dyeing. We carry out our research and development projects at our laboratory in our Huzhou Production Facilities. Our research expenditure was approximately RMB9.1 million for the year ended 31 December 2018 (2017: approximately RMB6.4 million). The expenditure comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment.

The increase of approximately RMB2.7 million in research expenditure for the year ended 31 December 2018 compared to that for the year ended 31 December 2017 was mainly due to the increase in direct usage of different materials during the testing and analysing process and increase in staff costs resulting from an additional manpower devoted in our research and development projects.

Other expenses

The following table sets out a breakdown of our other expenses for the Year Under Review:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Donations	500	99.0	271	82.4
Others	5	1.0	58	17.6
Total	505	100.0	329	100.0

Our other expenses amounted to approximately RMB0.5 million for the year ended 31 December 2018 (2017: approximately RMB0.3 million), which were relatively stable as comparing to that of last year.

Finance costs

For the year ended 31 December 2018, our finance costs amounted to approximately RMB7.2 million (2017: approximately RMB8.2 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB1.0 million or 12.2% as comparing to that of last year, mainly as a result of the reduction in total bank borrowings.

FINANCIAL REVIEW (Continued)

Income tax expense

Income tax expenses represent our total current and deferred tax expenses. The current taxes are calculated based on taxable profits at the applicable tax rates for the relevant years or periods. Deferred tax is recognised based on temporary differences mainly arising from fair value changes on financial assets mandatorily measured at FVTPL and allowance for bad and doubtful debts.

No provision for Hong Kong profits tax was made during the Year Under Review as our Group had no assessable profit subject to Hong Kong profits tax during the Year Under Review.

Under the Law of the PRC Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Huzhou Narnia is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% from 1 January 2017 to 31 December 2019.

Our Group's effective tax rate was approximately 10.3% for the two year ended 31 December 2018 (2017: approximately 13.4%). The relatively low effective tax rate of approximately 10.3% for the year ended 31 December 2018 was mainly resulting from the utilization of deductible temporary difference previously not recognized of approximately RMB5.8 million.

Profit and other total comprehensive income for the year

As a result of the foregoing, our profit and other total comprehensive income for the year of our Group has increased by approximately 159.3% from approximately RMB17.8 million for the year ended 31 December 2017 to approximately RMB46.1 million for the year ended 31 December 2018. Excluding the expenses incurred in connection with the Listing, profit would be approximately RMB58.8 million for the year ended 31 December 2018.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Property, plant and equipment

During the Year Under Review, our property, plant and equipment mainly represented buildings, furniture, fixtures and equipment, machinery, motor vehicles as well as construction in progress and assets under installation. As at 31 December 2018, our property, plant and equipment amounted to approximately RMB105.4 million (2017: approximately RMB104.0 million). The carrying amount of our property, plant and equipment increased significantly during the year ended 31 December 2017 was mainly as the results of the replacement of obsolete production facilities during the technical upgrade took place in 2017 and the continuous improvement of our production lines with new equipment and machinery.

During the year ended 31 December 2018, we have construction in progress transferred to buildings amounted to approximately RMB8.4 million representing the completion of our factory expansion which we engaged independent third party construction companies to build these infrastructures.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Inventories

Our inventories primarily consist of raw materials, including grey fabrics, chemical fibres, dyes and other additives for fabrics, work in progress and finished goods, which mainly comprise fabrics products.

During the Year Under Review, no allowance for inventory provision was provided against obsolete inventory. The following table sets out the summary of our inventories balances as of the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**47,918**	26,138
Work in progress	**5,291**	5,196
Finished goods	**19,316**	46,678
Total	**72,525**	78,012

We generally speed up our production schedule and produce more finished goods in December each year in preparation for the sales orders after the temporarily halted production during Chinese New Year in the following year. This results in a higher inventory level in general as at 31 December each year. Our inventories decreased from approximately RMB78.0 million as at 31 December 2017 to approximately RMB72.5 million as at 31 December 2018, which was mainly due to the decrease of finished goods resulting from the sales recorded for the year ended 31 December 2018, and partially offset by the increase in raw materials purchased by our Group.

Provision for impairment of inventories

The Group has established policies to evaluate the amount of provision required for impairment of inventories. The Group inspects and reviews the aging and conditions of inventories on a regular basis. If the Group considers that the inventories have become obsolete or damaged, provision for impairment of inventories will be provided against these inventories to reflect the net realisable value of these inventories.

No allowance for inventory provision was provided during the years ended 31 December 2017 and 2018.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Inventories (Continued)

Inventory turnover

The following table sets out the average inventory turnover days for the year indicated:

	Year ended 31 December	
	2018	2017
Average inventory turnover days (Note)	**103**	140

Note:

Average inventory turnover days are equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the financial year plus inventory at the end of the financial year and divided by 2.

The average inventory turnover days decreased from 140 days for the year ended 31 December 2017 to 103 days for the year ended 31 December 2018. The decrease in average inventory turnover days in 2018 was primarily due to the increase in sales and reduction in inventory.

Trade, bills and other receivables

The following table sets out our trade, bills and other receivables as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**22,938**	15,027
Less: doubtful debt allowance of trade receivables	**(1,465)**	(922)
Trade receivables, net	**21,473**	14,105
Bills receivables	**–**	220
Prepayments	**1,463**	7,910
Value added tax ("**VAT**") recoverable	**1,186**	3,555
Deferred issue costs	**4,071**	–
Other receivables		
– Amounts due from related companies	**–**	325
– Others	**1,265**	460
Less: doubtful debt allowance of other receivables	**(2)**	(1)
Other receivables, net	**1,263**	784
Total	**29,456**	26,574

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade, bills and other receivables (Continued)

Trade receivables

Our trade receivables primarily consist of trade receivables arising from sales of products and services rendered to our customers. We generally grant a credit period between 30 to 90 days to our customers which are all independent third parties.

The increase in gross amount of trade receivables from approximately RMB15.0 million as at 31 December 2017 to approximately RMB22.9 million as at 31 December 2018 was mainly due to our higher total sales for the last three months of the year ended 31 December 2018 when compared to the last year, which resulted in a more trade receivables aged within 3 months as at 31 December 2018.

The following table sets out an ageing analysis of our trade receivables, net of allowance of doubtful debts, presented based on the dates of goods sold or rendering of services at the end of the reporting period, which approximated the respective revenue recognition dates:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**19,090**	11,510
Over 3 months but within 6 months	**2,113**	904
Over 6 months but within 1 year	**192**	1,113
Over 1 year but within 2 years	**78**	578
Total	**21,473**	14,105

Provision for impairment of trade receivables

During the Year Under Review, our management assessed impairments according to their ageing and historical default rates. Our Group would provide allowance for individual receivable that were considered to be impaired based on management assessment performed at the end of each reporting period.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade, bills and other receivables (Continued)

Trade receivable turnover days

The following table sets out the Group's trade receivables turnover days for the year indicated:

	Year ended 31 December	
	2018	2017
Average trade receivables turnover days (Note)	**21**	47

Note:

The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year plus trade receivables at the end of the year then divided by 2) divided by total revenue for the year multiplied by 365.

The Group's trade receivables turnover days for the year ended 31 December 2018 was approximately 21 days (2017: approximately 47 days). The decrease of turnover days was mainly due to the increase in revenue.

Bills and other receivables

Bills and other receivables mainly include bills receivables, prepayment paid for purchases of ancillary materials, transportation expenses and other miscellaneous prepayments, value added tax (the "**VAT**") recoverable, deferred expenses related to the professional fees in respect of the listing, other sundry receivables, and amounts due from related companies which were non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 December 2018, such amounts due from related companies have been settled.

Our bills and other receivables decreased by approximately RMB4.5 million or approximately 36.0% from approximately RMB12.5 million as at 31 December 2017 to approximately RMB8.0 million as at 31 December 2018, the decrease of which was mainly attributable to the combined effect of (i) a decrease of prepayment of approximately RMB6.4 million; (ii) a decrease of the VAT recoverable of approximately RMB2.4 million as a result of the settlement during the year ended 31 December 2018; (iii) the increase of deferred issue costs of approximately RMB4.1 million for the qualifying portion of the listing expenses incurred for the year ended 31 December 2018 which was debited to equity upon Listing.

Restricted bank balances

Our pledged bank balances primarily consist of deposits placed to a licenced bank in the PRC and are pledged for issuing bills payables.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables

The following table sets out our trade and other payables as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables		
– Due to third parties	**18,643**	23,603
– Due to related parties	**–**	197
Trade payables, net	**18,643**	23,800
Other payables		
– Other tax payables	**1,052**	1,366
– Payroll payables	**2,425**	3,827
– Interest payables	**198**	521
– Deferred income	**7,000**	–
– Payable for acquire property, plant and equipment	**4,878**	5,515
– Due to related parties	**553**	–
– Accrued issue cost and listing expenses	**764**	–
– Others (Note)	**1,282**	378
Total	**36,795**	35,407

Note: Others mainly include purchases of fixed assets.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables (Continued)

Trade payables

Our trade payables primarily consist of trade payables to our suppliers of raw materials. Our suppliers generally grant us a credit period with a maximum of 90 days upon receipts of the raw materials and the relevant VAT invoices during the Year Under Review. Our trade payables was remained stable as at 31 December 2018 as comparing to that of as at 31 December 2017.

The following table sets out an ageing analysis of our trade payables presented based on the materials receipt date, as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**9,689**	11,891
Over 3 months but within 6 months	**5,204**	4,773
Over 6 months but within 1 year	**1,885**	2,424
Over 1 year but within 2 years	**1,479**	4,256
Over 2 years	**386**	456
Total	**18,643**	23,800

Trade payables turnover days

The following table sets out the Group's trade payables turnover days for the year indicated:

	Year ended 31 December	
	2018	2017
Average trade payables turnover days (Note)	**29**	65

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365.

The trade payables turnover days decreased from 65 days for the year ended 31 December 2017 to 29 days for the year ended 31 December 2018, which was due to the increase in payment to our suppliers during the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables (Continued)

Other payables

Other payables mainly represent of other tax payables, payroll payables, interest payables for the bank borrowings and finance lease borrowing, deferred income, accrued issue cost and listing expenses, payable for acquire property, plant and equipment, and amounts due to related parties which was non-trade in nature.

Our other payables increased from approximately RMB11.6 million as at 31 December 2017 to approximately RMB18.2 million as at 31 December 2018 mainly due to (i) the increase in deferred income of approximately RMB7.0 million which represented a conditional government grant received in relation to the Listing and will be credited to profit or loss once our Company is successfully listed; and (ii) the increase in accrued issue cost and listing expenses of approximately RMB0.8 million.

Contract liabilities

Our contract liabilities primarily related to amounts received in advance from customers, for which revenue is not recognised when the legal title of the finished good is not transferred or when the service is not rendered. Contract liabilities are obligations to transfer goods or services to a customer for which our Group has received consideration in advance. The following table sets out the contract liabilities of our Group as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Amounts received in advance of:		
– sales of fabrics	**392**	2,112
– printing and dyeing services	**1,226**	365
Total	**1,618**	2,477

As at 31 December 2018, all of our contract liabilities were due within 12 months. The decrease in contract liabilities from approximately RMB2.5 million as at 31 December 2017 to approximately RMB1.6 million as at 31 December 2018 was mainly due to our decreased receipt of sales deposits from customers.

LIQUIDITY AND CAPITAL RESOURCES

Our Group's liquidity and working capital requirements primarily relate to our operating costs and capital expenditures on property, plant and equipment. During the Year Under Review, we have funded our liquidity and working capital requirements through a combination of shareholders' equity, cash generated from operations, bank borrowings. Going forward, we expect to fund our working capital, capital expenditures, and other liquidity requirements with a combination of sources, including but not limited to cash generated from our operations, banking facilities, net proceeds from the share offer as well as other external equity and debt financing. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2018, our Group had cash and cash equivalents amounting to approximately RMB5.6 million (2017: approximately RMB5.1 million).

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

Net cash generated from operating activities

For the year ended 31 December 2017, our net cash generated from operating activities amounted to approximately RMB57.8 million, which primarily reflected our profit before tax of approximately RMB20.5 million, as adjusted by (i) the decrease in trade, bills and other receivables of approximately RMB30.6 million; (ii) adding back the non-cash depreciation of property, plant and equipment and investment properties of approximately RMB4.8 million, finance cost of approximately RMB8.2 million and loss on disposal of property, plant and equipment of approximately RMB5.2 million, and offset by (i) reversal of allowance on financial assets recognised of approximately RMB2.0 million; (ii) the increase of inventories of approximately RMB2.5 million resulting from the production of more finished goods; and (iii) the income tax paid of approximately RMB2.6 million.

The net cash inflows from operating activities for the year ended 31 December 2018 of approximately RMB53.9 million primarily reflected our profit before tax of approximately RMB51.4 million, as adjusted by (i) the decrease in inventories of approximately RMB9.9 million; (ii) the decrease of contract liabilities of approximately RMB0.9 million as the customers had placed less deposits ahead for the sales orders; (iii) adding back the non-cash depreciation of property, plant and equipment and investment properties of approximately RMB8.1 million; (iv) finance cost of approximately RMB7.2 million; (v) loss on disposal of property, plant and equipment of approximately RMB3.1 million; and (vi) the increase of trade and other payables for approximately RMB1.6 million. Such effect was partially offset by (i) dividends received from the financial asset at FVTPL of approximately RMB1.7 million, (ii) gain on disposal of the equity interest in an associated company of approximately RMB23.0 million; (iii) the income tax paid of approximately RMB2.1 million; and (iv) the increase in trade, bills and other receivables for approximately RMB1.0 million.

CASH FLOW (Continued)

Net cash generated from/(used in) investing activities

For the year ended 31 December 2017, our net cash used in investing activities amounted to approximately RMB20.4 million, which was mainly attributable to cash used for purchase of property, plant and equipment of approximately RMB21.7 million.

For the year ended 31 December 2018, our net cash generated from investing activities amounted to approximately RMB15.0 million, which was mainly attributable to proceeds from disposal of the equity interest in an associated company of approximately RMB35.0 million, and partially offset by cash used for purchases of property, plant and equipment of approximately RMB19.6 million.

Net cash used in financing activities

For the year ended 31 December 2017, our net cash used in financing activities of approximately RMB41.5 million, which was mainly attributable to (i) the proceeds received from bank borrowings of approximately RMB170.8 million, and offset by (i) the repayment of bank borrowings and finance lease borrowing of approximately RMB161.4 million and RMB2.9 million, respectively, (ii) the payment of interest of approximately RMB7.6 million for the borrowings, (iii) payment for purchase of bank acceptance bills of approximately RMB14.7 million, and (iv) the payment of dividend of approximately RMB25.7 million.

For the year ended 31 December 2018, our net cash used in financing activities of approximately RMB68.4 million, which was mainly attributable to (i) the proceeds received from bank borrowings of approximately RMB194.6 million, and offset by the repayment of bank borrowings approximately RMB214.5 million, (ii) the deferred issue cost paid of approximately RMB3.9 million in relation to our Group's Listing, (iii) the payment of interest of approximately RMB7.3 million for the borrowings, and (iv) the capital reduction of approximately RMB35.0 million of Huzhou Narnia in March 2018.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2018 was approximately RMB113.8 million (2017: approximately RMB133.3 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 31 December 2018, the Group's asset-liability ratio was approximately 44.9% (2017: 51.7%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to a decrease in bank borrowings.

CAPITAL STRUCTURE (Continued)

Pledge of assets

As at 31 December 2018, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB83.3 million (2017: approximately RMB95.5 million).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB16.6 million for the year ended 31 December 2018 (2017: approximately RMB29.6 million).

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2018, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings (2017: Nil).

CAPITAL COMMITMENT

As at 31 December 2018, the Group did not have any capital commitment (2017: approximately RMB1.2 million).

SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of fabric products and service income from printing and dyeing service. Therefore, management considers there is only one operating segment, under the requirements of Rule 18.41(6) of GEM Listing Rules. In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2018, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2018.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the relevant disclosure in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 13 February 2019 (the "**Prospectus**").

FUTURE OUTLOOK

In 2018, despite the intricate international and domestic environment, the overall economic development in China remained relatively stable. Looking ahead to 2019, it is expected that China's economic development will be interwoven in a dual state of "changes within stabilities and uncertainties within changes". The most significant change will be the shift in the external environment, including the volatility of the global financial market, escalating global trade protectionism and prevalence of unilateralism. At the same time, China's domestic environment will also be changing. Its economy is undergoing transformation and upgrading while the instability of external factors may also have considerable impact on its economic growth.

In 2018, as the textile industry experienced stable and promising development, demand for printing and dyeing continued to remain stable, and the textile industry grew steadily, the combined effect of reforms and environmental protection eliminated scores of small and medium enterprises. The emerging pattern of the survival for the fittest forces existing enterprises to transform and upgrade, accelerating the pace of industrial product restructuring and upgrading, gradually raising industrial concentration.

In 2019, market competition will be even more intense and will feature more challenges and uncertainties. Facing a new landscape, the Group will remain steadfast in being market-oriented, united and industrious; building risk awareness, innovative mindset and esprit de corps, in order to take the Company's business to the next level.

The Group's general work approach is: centered on profit, driven by innovation, oriented towards the market, and led by sales, increasing its ability to rapidly respond to the market. To this end, the Group will develop and execute the following strategies:

(1) Greater expansion of the Group's textiles and printing and dyeing capacity, further meeting market demand for textiles and printing and dyeing products, increasing the company's sources of profit;

(2) The Group will further increase research and development on eco-friendly functional fabrics, developing markets with new products, raising product market share, and improving product gross margins; and

(3) Moving further towards an energy-saving and environmentally friendly orientation, increasing elimination of high consumption, low efficiency production facilities, introducing new facilities with lower consumption and higher production efficiency.

HUMAN RESOURCES AND TRAINING

As at 31 December 2018, the Group had a total of 393 employees, total staff cost for the Year Under Review amounted to RMB22.0 million (2017: approximately RMB13.0 million). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

During the Year Under Review, the Group adhered to the "human-oriented" management concept to have its staff closely involved in the development of the Group and provided them with skills training. The Group formulates workflow and service specifications for its employees, conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly.

DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS OF THE COMPANY

The Group's objective is to enhance our market position in the textile industry in the PRC and continue to strengthen our competitive strengths. By leveraging on the Group's current sales network, its products, technology and production knowhow, as well as the customers recognition, the Group intends to launch the following plans in 2019. These plans, which are expected to be implemented by stages, include:

1/ Expand the Group's production capacity and upgrade the existing machinery, equipment and ancillary facilities at our Huzhou production center by (i) construction of a new weaving factory; (ii) renovation of our existing weaving factory; and (iii) acquisition of new setting machines, printing machines, water-jet looms and a power transformer;

2/ Continuously dedicate to our research and development projects. The Group will focus on the research and development of chemical fibre for high temperature and eco-friendly dyeing process (化纖織物高溫環保染色工藝). We will also have collaboration with Zhejiang Sci-Tech University (浙江理工大學) to develop fabrics with medical functions. We will also start research and development of other projects on production techniques and new products; and

3/ Enhance the Group's environmental protection and quality control systems by (i) installation of a sewage processing system at the existing weaving factory; (ii) installation of an intelligence control management system at our printing and dyeing factory; and (iii) installation of a "zero-emission" polluted management system.

ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the placing of the shares were approximately RMB48.8 million (equivalent to approximately HK$57.6 million), after deduction of the underwriting commission and relevant expenses. The Company will launch the plans mentioned above in 2019 and intends to apply such net proceeds from the placing of the shares as follows:

1/ Approximately 22.4% or approximately RMB10.9 million of the net proceeds will be used to construct a new weaving factory;

2/ Approximately 13.7% or approximately RMB6.7 million of the net proceeds will be used to renovate the existing weaving factory;

3/ Approximately 27.6% or approximately RMB13.5 million of the net proceeds will be used to acquire machinery, equipment and ancillary facilities for weaving;

4/ Approximately 12.1% or approximately RMB5.9 million of the net proceeds will be used to acquire machinery, equipment and ancillary facilities for printing and dyeing;

5/ Approximately 14.3% or approximately RMB6.9 million of the net proceeds will be used to enhance environmental protection infrastructure; and

6/ Approximately 9.9% or approximately RMB4.9 million of the net proceeds will be used as general working capital.

DIRECTORS

Executive Directors

Mr. Dai Shunhua (戴順華先生), aged 46, is one of the founders of Huzhou Narnia and one of our Controlling Shareholders. He is the spouse of Ms. Song, our executive Director (the "**Executive Director**"), and the uncle of Mr. Chen Zhong, one of our senior management members. He was appointed as our Director on 1 September 2017 and was re-designated as our Executive Director on 23 July 2018. He also serves as the chairman of our Board, chief executive officer of our Group and the general manager of Huzhou Narnia. He is responsible for overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation.

Mr. Dai has over 25 years of experience in the textile manufacturing, printing and dyeing industry. Prior to the establishment of Huzhou Narnia, Mr. Dai worked for Changxing Hangxing Silk Printing and Dyeing Factory* (長興杭興絲綢印染廠) from July 1991 to December 1998, with his last position held as factory manager. From December 1998 to August 2002, he was a director and deputy general manager of Huzhou Zhixin Textile Printing and Dyeing Ltd.* (湖州志鑫紡織印染有限公司), during which he was responsible for the overall management and strategic development of the company. Since the establishment of Huzhou Narnia in August 2002, Mr. Dai has been the director and general manager of Huzhou Narnia and has been participating in the day-to-day management of Huzhou Narnia. Mr. Dai currently serves as a director of all the subsidiaries of our Company, being Autumn Sky, Hengye Development, Huzhou Narnia, Narnia International and Changxing Seashore.

Mr. Dai was a representative of the 7th session of People's Congress of Huzhou City (湖州市第七屆人民代表大會) and a member of the 11th session of Zhejiang Province Committee of the Chinese People's Political Consultation Conference (中國人民政治協商會議第十一屆浙江省委員會).

Mr. Dai completed the Fudan-Citi Small and Medium Enterprises Senior Management Training Programme (復旦一花旗中小企業高層管理者高級研修班) at Fudan University in March 2008 and completed the Entrepreneurial Finance & Strategy Programme at Babson College in October 2008. He was accredited as an economist in the PRC in June 2005.

Ms. Song Xiaoying (宋曉英女士), aged 46, is one of our Controlling Shareholders and was appointed as our Executive Director on 23 July 2018. She is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operation. She is the spouse of Mr. Dai, our Executive Director, and the aunt of Mr. Chen Zhong, one of our senior management members. Ms. Song currently serves as a director of Huzhou Narnia, a subsidiary of our Company.

Ms. Song has over 20 years of experience in the textile manufacturing, printing and dyeing industry. Prior to joining our Group, Ms. Song worked for Yuliang Textile* (玉良紡織) as cashier from October 1996 to December 1998 and Changan Dyeing Factory* (長安印染廠) as a checker and merchandiser from January 1999 to March 2001. From April 2001 to July 2002, she was a factory manager and deputy general manager of Hengye Textile Factory* (恒燁紡織廠). Ms. Song joined our Group in August 2002 as the deputy general manager of Huzhou Narnia.

Ms. Song graduated from the Correspondence College of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院) majoring in economics management in June 1998.

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Wang Yongkang (王永康先生), aged 45, was appointed as our Executive Director on 23 July 2018. He is responsible for overseeing the overall corporate development of our Group, including the manufacturing operations of our production facilities, quality control and safety matters. Mr. Wang currently serves as a director of a subsidiary of our Company, being Huzhou Narnia.

Mr. Wang has over 19 years of experience in the textile printing and dyeing industry. Prior to joining our Group, he worked for Changxing Lock Factory* (長興制鎖廠) as technician from October 1994 to June 1998. From August 1998 to July 2002, he worked as branch factory printing technician manager of Huzhou Zhixin Textile Printing and Dyeing Ltd.* (湖州志鑫紡織印染有限公司). He joined Huzhou Narnia as printing engineer and printing department manager in August 2002. From August 2011 to March 2018, he was the factory manager of Huzhou Narnia. Mr. Wang has been a director of Huzhou Narnia since November 2015 and has been primarily responsible for managing the production line operation at Huzhou Narnia since April 2018. Mr. Wang graduated from Jiaxing City Secondary Vocational School* (嘉興市中等專業學校) in July 1994 majoring in mechanical engineering.

Independent Non-executive Directors

Dr. Liu Bo (劉波博士), aged 39, was appointed as our independent non-executive Director (the "**Independent Non-executive Director**") on 29 January 2019. He is the chairman of our nomination committee (the "**Nomination Committee**") and a member of our audit committee (the "**Audit Committee**") and remuneration committee (the "**Remuneration Committee**").

Dr. Liu was appointed as a lecturer of University of Electronic Science and Technology of China (電子科技大學) in June 2009. He became an associate professor and a professor of the School of Management and Economics of University of Electronic Science and Technology of China in August 2011 and August 2017, respectively.

Dr. Liu obtained a bachelor's degree in business administration, a master's degree in quantitative economics, and a doctoral degree in management science and engineering from University of Electronic Science and Technology of China in July 2002, March 2005 and June 2009, respectively.

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Yu Chung Leung (余仲良先生), aged 48, was appointed as our Independent Non-executive Director on 29 January 2019. He is the chairman of our Audit Committee and a member of our Remuneration Committee and Nomination Committee.

Mr. Yu has over 25 years of experience in auditing and accounting. From July 1993 to February 2003, Mr. Yu worked for an international accounting firm, with his last position as audit manager. He is currently a partner of Lee & Yu Certified Public Accountants, which Mr. Yu has been working since March 2003. He was also an independent director and an audit committee member of Pacific CMA Incorporated, a listed company in the United States, for the period from June 2005 to July 2009. From June 2008 to June 2017, he was also the independent non-executive director of China Kangda Food Company Limited, a company listed on the Stock Exchange (stock code: 0834).

Mr. Yu obtained a Master of Arts in international accounting from the City University of Hong Kong in November 2006. Mr. Yu has been a member of the Hong Kong Institute of Certified Public Accountants since April 2001. He became a member and a fellow of the Association of Chartered Certified Accountants in April 2001 and March 2006, respectively. He became an authorised supervisor to train prospective members of the Hong Kong Institute of Certified Public Accountants in June 2004. Mr. Yu was admitted as an associate of the Taxation Institute of Hong Kong in June 2010.

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Leung Ka Tin (梁家鈿先生), aged 65, was appointed as our Independent Non-executive Director on 29 January 2019. He is the chairman of our Remuneration Committee and a member of our Audit Committee and Nomination Committee.

Mr. Leung has over 35 years of management experience in banking, treasury operation, project finance, telecommunication, corporate finance, logistics and human resource management. He was a member of the senior management team in different financial institutions in Hong Kong, including FPB Asia Limited, NedFinance (Asia) Limited, BfG: Finance Asia Limited, and Delta Asia Financial Group, as well as companies in the logistics and telecommunication sectors including EAS Da Tong International Enterprise (Group) Company Limited and Trident Telecom Ventures Limited. Mr. Leung's experience covers both professional management and entrepreneurship. Mr. Leung joined SSC Mandarin Group Limited in March 2010, a corporate financial advisory firm, as a project director. From January 2012 to May 2013, Mr. Leung joined Chun On Management Limited as a consultant. Mr. Leung then became a consultant of Galaxy Master Fund SPC in September 2012. Mr. Leung has been/was a director of the following companies:

From	To	Company	Position
23 July 2014	3 August 2016	Wealth Glory Holdings Limited, a company listed on the Stock Exchange (stock code: 8269)	Independent non-executive director
21 September 2015	23 December 2015	Chanco International Group Limited, (currently known as Ascent International Holdings Limited), a company listed on the Stock Exchange (stock code: 0264)	Independent non-executive director
16 July 2015	23 December 2015	China Kingstone Mining Holdings Limited, a company listed on the Stock Exchange (stock code: 1380)	Executive director
17 February 2016	Current	KEE Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2011)	Independent non-executive director
24 February 2017	Current	PanAsialum Holdings Company Limited, a company listed on the Stock Exchange (stock code: 2078)	Independent non-executive director

Mr. Leung completed a programme jointly held by the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and the Hong Kong Management Association in September 1988 and obtained a diploma in management studies.

SENIOR MANAGEMENT

Mr. Liu Xiaohua (劉曉華先生), aged 34, is the secretary to the board of directors of Huzhou Narnia since January 2014, responsible for overseeing the day-to-day business operation of our Group. Mr. Liu has over 11 years of experience in accounting. He joined Huzhou Narnia as accounting assistant in June 2006. He was promoted to account manager in January 2008 and was further promoted to finance manager in January 2011. He studied at the Jiangxi University of Science and Technology (江西理工大學) majoring in accounting from September 2002 to July 2006 and graduated with a bachelor's degree in management in July 2006.

Mr. Zhang Ping (張平先生), aged 36, is the head of the supply and marketing center of Huzhou Narnia since April 2018 and is primarily responsible for implementation of our Group's strategic plans and coordinating the supplies.

Mr. Zhang has over 13 years of experience in textile trading. He joined Huzhou Narnia as merchandiser and foreign trade sales representative in July 2004. He was then promoted to foreign trade manager in September 2007. Mr. Zhang was the chairman of the supervisory board of Huzhou Narnia from August 2011 to March 2018 and has been the chairman of the labour union of Huzhou Narnia since August 2011. He graduated from Zhejiang Normal University (浙江師範大學) with a bachelor's degree of engineering majoring in computer science and technology in June 2004 and completed an advanced training course on entrepreneur management held by Zhejiang University (浙江大學) in July 2008. He was accredited as an assistant economist in the PRC in June 2005.

Mr. Chen Zhong (陳忠先生), aged 28, is the head of the technical center of Huzhou Narnia since April 2018 and is primarily responsible for product development, overseeing the operation of our production facilities and providing technical support and training to our technicians. Mr. Chen is the nephew of Mr. Dai and Ms. Song, our Executive Directors.

Mr. Chen has over six years of experience in textile printing and dyeing. He joined Huzhou Narnia as sampler in July 2011. He was then promoted to dyeing workshop manager in October 2013 and was further promoted to head of the dyeing workshop in August 2016. He graduated from Ningbo City College of Vocational Technology (寧波城市職業技術學院) majoring in applied computer technology in June 2011.

Ms. Wang Jingjing (汪晶晶女士), aged 35, is the head of the production center of Huzhou Narnia since January 2018 and is primarily responsible for overseeing the production process.

Ms. Wang has 11 years of experience in administration of textile printing and dyeing factory. She joined our Group in December 2006 and served as an administrative assistant of Huzhou Narnia from December 2006 to December 2007. From May 2008, she was the audit assistant of Huzhou Narnia and was further promoted to warehouse manager in May 2013. She graduated from the Ningbo Polytechnic (寧波職業技術學院) in network technology in June 2006 and the China Central Radio and TV University (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) in administrative management in January 2010.

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲先生), aged 58, was appointed as our company secretary (the "**Company Secretary**") on 23 July 2018. He is responsible for company secretarial matters of our Group.

Mr. Chan has over 27 years of extensive experience in accounting and money market fields, gaining from an international accounting firm and various listed corporations. From July 1991 to May 1995, Mr. Chan worked for Culturecom Limited, a company listed on the Stock Exchange (stock code: 0343) and his last position held was the finance manager. He served as the financial controller of Fairwood Fast Food Limited, a company listed on the Stock Exchange (stock code: 052) from May 1995 to April 1998. He worked as the corporate finance director of Texwood Limited from April 2000 to July 2005 and a business director of Texwood Group from October 2006 to February 2008. Mr. Chan was the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (currently known as Freeman FinTech Corporation Limited), a company listed on the Stock Exchange (stock code: 0279), from September 2008 to April 2009.

Mr. Chan graduated with a bachelor's degree in economics from Macquarie University in Australia in April 1986 and a master's degree in accountancy from the Hong Kong Polytechnic University in December 2005. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since June 1991 and an associate member of the Institute of Chartered Accountants in Australia since November 1990.

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules, and adopted various measures to enhance the internal control system, the Directors' continuous professional development and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

As at the end of the reporting period, the shares of the Company were not yet listed on GEM of the Stock exchange as the shares of the Company were listed on 26 February 2019 (the "**Listing Date**"). The code provisions were not applicable to the Company during the Year under Review. Throughout the period since the Listing Date and up to the date of this report, the Company has complied with the code provisions, other than code provisions A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Dai Shunhua is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Dai to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and Independent Non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities transactions by Directors of listed Issuers on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. As the shares of the Company were not yet listed on the GEM Board of the Stock exchange until 26 February 2019, the Model Code was not applicable to the Company during the Year under Review. However, specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this report.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. Board should include a balanced composition of Executive Directors and Independent Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Board currently comprises a total of six Directors, being three Executive Directors and three Independent Non-executive Directors. Mr. Dai Shunhua, Ms. Song Xiaoying and Mr. Wang Yongkang, served as Executive Directors, and Mr. Leung Ka Tin, Dr. Liu Bo and Mr. Yu Chung Leung served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors is a qualified accountant who has appropriate professional quantifications or accounting or related financial management expertise.

There is no financial, business, family or other material/relevant relationship amongst Directors and senior management members, except (i) Mr. Dai Shunhua is the spouse of Ms. Song, our Executive Director, and the uncle of Mr. Chen Zhong, one of our senior management members; and (ii) Ms. Song Xiaoying is the spouse of Mr. Dai, our Executive Director, and the aunt of Mr. Chen Zhong, one of our senior management members.

Biographical details of and the relationship between the Directors are set out in the section headed "Directors' and Senior Management's Biographies" of this report.

Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to article 112 of the Articles of Association of the Company, the Board shall have power to appoint a Director whose appointment shall only be until the first general meeting after his/her appointment and be subject to re-election at the next general meeting but eligible for re-election. Accordingly, Mr. Dai Shunhua, Ms. Song Xiaoying, Mr. Wang Yongkang, Dr. Liu Bo, Mr. Leung Ka Tin and Mr. Yu Chung Leung shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the Independent Non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 29 January 2019 in compliance with provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board is going to perform the abovementioned corporate governance functions starting from the year of 2019 as the Company only became listed on the GEM of the Stock exchange on 26 February 2019.

COMPLIANCE OFFICER

Mr. Dai Shunhua is the compliance officer of our Company. For details of his background and experience, please refer to the section headed "Directors' and Senior Management's Biographies" of this report.

APPOINTMENT AND RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association. Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company. Specific enquiry has been made to each of the Independent Non-executive Director to confirm their independence under Rule 5.09 of the GEM Listing Rules, and each of them confirms that he is independent and there has been no circumstances which would render them not to be independent as contemplated under the GEM Listing Rules. Up to the date of this report, no Independent Non-executive Director has served the Company more than 9 years.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy on 29 January 2019 which sets out the approach of which our Board could achieve a higher level of diversity. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. A balanced composition of skill, experience and expertise offered by different Directors enables the Board to discharge its duties effectively and support the sustainable growth of the Company in the long run.

As at the date of this report, the Board comprises six Directors. one of them is a woman, three of the Directors are Independent Non-executive Directors and independent of management. Thereby promoting critical review and control of the management process. the Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In January 2019, a training session was provided to each of the Directors with topics of legal and regulatory duties of directors and the GEM Listing Rules.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with Appendix 15 to the GEM Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

BOARD COMMITTEES (Continued)

Members, duties and responsibilities of the committees are as follows:

Audit Committee

We established an Audit Committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C.3.3 of the Corporate Governance Code pursuant to a resolution of our Directors passed on 29 January 2019. The primary duties of our Audit Committee are, among others, to make recommendation to our Board on the appointment, reappointment and removal of external auditor, monitor integrity of our financial statements, review significant financial reporting judgements contained in them, oversee our financial reporting, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by our Board.

At present, our Audit Committee comprises of Mr. Yu Chung Leung, Mr. Leung Ka Tin and Dr. Liu Bo, all being our Independent Non-executive Directors. Mr. Yu Chung Leung, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

No meeting was held by the Audit Committee during the year ended 31 December 2018 because the Company only became listed on GEM on 26 February 2019. Pursuant to the meeting of the Audit Committee held in March 2019 attended by all the members of the Audit Committee, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2018, the results announcement, this 2018 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

Remuneration Committee

We established a Remuneration Committee on 29 January 2019 with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of our Remuneration Committee are, among others, to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors or their associates is involved in deciding their own remuneration.

At present, our Remuneration Committee comprises Mr. Leung Ka Tin, Dr. Liu Bo and Mr. Yu Chung Leung, all being our Independent Non-executive Directors. Mr. Leung Ka Tin is the chairman of our Remuneration Committee.

No meeting was held by the Remuneration Committee during the year ended 31 December 2018 and up to the date of this report since the Company only became listed on GEM on 26 February 2019.

BOARD COMMITTEES (Continued)

Nomination Committee

We established a Nomination Committee on 29 January 2019 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of our Nomination Committee are, among others, to review the structure, size and composition of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our Nomination Committee comprises Dr. Liu Bo, Mr. Leung Ka Tin and Mr. Yu Chung Leung, all being our Independent Non-executive Directors. Dr. Liu Bo is the chairman of our Nomination Committee.

No meeting was held by the Nomination Committee during the year ended 31 December 2018 and up to the date of this report since the Company only became listed on GEM on 26 February 2019.

Nomination criteria

Pursuant to the mandatory disclosure requirements effective in 2019, the Company should disclose its policy for nomination of directors in the summary of work performed by the Nomination Committee in its corporate governance report. In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

(i) character and integrity;

(ii) qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;

(iii) any measurable objectives adopted for achieving diversity on the Board;

(iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;

(v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

(vi) willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

(vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

(i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

(ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

(i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the GEM Listing Rules.

(ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the GEM Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

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 quarterly, 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.

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE (Continued)

Minutes of meetings of the Board and board committees are kept by the Company Secretary in sufficient details of 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.

As the Company only became listed on GEM of the Stock Exchange on 26 February 2019, there was no board committee meeting held during the year ended 31 December 2018. Details of the attendance records of Directors on Board meetings and general meeting for the Year under Review are as follows:

	Attendance/Number of meetings	
Name of Directors	**Board Meeting**	**General Meeting**
Executive Directors		
Mr. Dai Shunhua *(Chairman)*	1/1	1/1
Ms. Song Xiaoying	1/1	1/1
Mr. Wang Yongkang	1/1	1/1

Subsequent to the year ended 31 December 2018 and up to date of this report, the Board held another Board meeting in March 2019 for the main purposes of approving the annual results of the Group for the year ended 31 December 2018 for publication, this annual report and formulating business development strategies. All Directors attended such meeting.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary of the Company on 23 July 2018. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

Mr. Chan is required to comply with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules starting from the year 2019, as the Company only became listed on GEM of the Stock Exchange on 26 February 2019. His biographical details are set out in the paragraph headed “Directors’ and Senior Management’s Biographies” in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

The Board acknowledges its responsibility, as set out in the Independent Auditor's Report, to prepare the Company's financial statements 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, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of Deloitte Touche Tohmatsu, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. 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 basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment.

Audit Committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (the "**SFO**") (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including: (i) promoting the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees before the commencement of blackout or other trade restriction period; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

EXTERNAL AUDITOR

Deloitte Touche Tohmatsu 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 Deloitte Touche Tohmatsu and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2018, the total remuneration paid to the external auditors for audit services amounted to approximately RMB1.0 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right to convene extraordinary general meeting

According to the Articles of Association, any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business in Hong Kong at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

SHAREHOLDERS' RIGHTS (Continued)

Right to convene extraordinary general meeting (Continued)

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

DIVIDEND POLICY

Pursuant to the amended CG Code, the Company should have a dividend policy and disclose such policy in its annual report. The Company has on 29 January 2019 adopted a divided policy (the "**Dividend Policy**"), and the summary of which is set out below:

(i) In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

   a. the general financial condition of the Group;

   b. capital and debt level of the Group;

   c. future cash requirements and availability for business operations, business strategies and future development needs;

   d. any restrictions on payment of dividends that may be imposed by the Group's lenders;

   e. the general market conditions; and

   f. any other factors that the Board considers appropriate.

DIVIDEND POLICY (Continued)

(ii) The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.

(iii) The Board endeavours to strike a balance between the Shareholders' interests and prudent capital management with a sustainable Dividend Policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there had been no significant change in the Company's constitutional documents. In preparation of the Listing, the new Articles of Association of the Company was adopted on 29 January 2019 and effective on 26 February 2019, a copy of which is available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.narnia.hk to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Narnia (Hong Kong) Group Company Limited
Mr. Dai Shunhua
Chairman of the Board

Zhejiang, PRC, 25 March 2019

The Directors are pleased in presenting the Directors' report together with the audited consolidated financial statements of the Company for the year ended 31 December 2018 (the "**Financial Statements**").

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 1 September 2017. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the Listing of the Company's shares (the "**Shares**") on GEM of the Stock Exchange, the Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests of five subsidiaries, namely, Autumn Sky, Hengye Development, Huzhou Narnia, Narnia International and Changxing Seashore. The Company's shares were listed on the GEM of the Stock Exchange on 26 February 2019.

Details of the group reorganisation are set out in the paragraph headed "Reorganisation" in the section "History, Development and Reorganisation" in the Prospectus.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of fabrics and the provision of printing and dyeing services.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 69 to 149.

The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Tuesday, 7 May 2019 to Saturday, 11 May 2019 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all Share transfer documents must be lodged with Tricor Investor Services Limited, the Company's share registrar in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Monday, 6 May 2019.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 29. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Highlights" on page 4. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. For details of the risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus, in addition, the followings are the other key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The Group's principal business is located in the PRC and its major transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2018, the Group did not have any material contingent liabilities, on-going legal proceedings or potential proceedings threatened to be brought against the Group.

GOING CONCERN

In light of the fact that the Group had current liabilities exceeded its current assets by RMB6,368,000 as at 31 December 2018, the Directors of the Company have given careful consideration to the going concern of the Group.

In respect of the bank borrowings with carrying amount of RMB113,751,000 as at 31 December 2018, of which RMB91,959,000 will be matured in the coming next 12 months after 31 December 2018 in accordance with the repayment schedule of the respective agreements, the Directors of the Company are of the view that the Group would be able to renew the majority of these borrowings upon their maturity or extend their maturity date, based on the relationship and successful renewal history with the banks.

Furthermore, as at 31 December 2018, the Group has available unutilised banking facilities amounted to RMB33,800,000.

Taking into account the above factors, the Directors of the Company are of the opinion that, together with the presently available facilities and probable renewal of existing facilities, the internal financial resources of the Group and cash flow from operating activities, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months at the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, upon the Listing on GEM on 26 February 2019 and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders as required under the GEM Listing Rules.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 33 to the Financial Statements.

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

Upon the Listing on GEM on 26 February 2019 and up to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 72 of the "Consolidated Statement of Changes in Equity" of this report.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2018, calculated in accordance with PRC rules and regulation, was retained profits of approximately RMB14.0 million. Detail of movements in reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" on page 72 of this report.

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last three financial years is set out on page 150.

CHARITY DONATIONS

During the Year Under Review, the Group had charity donations of approximately RMB0.5 million (2017: RMB0.3 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2018 are set out in Note 16 to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Island which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2018 are set out in Note 42 to the Financial Statements.

SHARE OPTION SCHEME

On 29 January 2019, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**"), which became effective on 26 February 2019 (the "**Effective Date**"). Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing from the Effective Date offer to grant to any Eligible Persons (as defined herein below), including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares.

The principal terms of the Share Option Scheme are summarised as follows:

1. The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees;

2. Our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

   (i) any employee (whether full time or part time, including our Directors (including any Executive Director and Independent Non-executive Director)) of our Company, any of our subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an "**eligible employee**");

   (ii) any supplier of goods or services to any member of our Group or any Invested Entity;

   (iii) any customer of any member of our Group or any Invested Entity;

   (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

   (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

   (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and

   (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 our Group.

3. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time.

4. An offer under the Share Option Scheme shall remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

SHARE OPTION SCHEME (Continued)

5. The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

   (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;

   (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

   (iii) the nominal value of a Share.

6. Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised.

7. In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

8. Subject to the provisions in the Share Option Scheme and the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

9. Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

10. An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

DIRECTORS

The Directors of the Company as at the date of this report have been:

Executive Directors

Mr. Dai Shunhua *(Chairman)* (appointed on 1 September 2017)
Ms. Song Xiaoying (appointed on 23 July 2018)
Mr. Wang Yongkang (appointed on 23 July 2018)

Independent Non-executive Directors

Mr. Leung Ka Tin (appointed on 29 January 2019)
Dr. Liu Bo (appointed on 29 January 2019)
Mr. Yu Chung Leung (appointed on 29 January 2019)

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 31 to 36 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Director and the Company considers such Directors to be independent from their date of appointment and up to the date of this report.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

the Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

the Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 13 to the Financial Statements.

The five highest paid individuals of the Group in the Year under Review include 3 Directors (2017: 1 Director). Details of the five highest paid individuals are set out in Note 13 to the Financial Statements.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for a term of three years. No Director has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in the paragraph headed "Related Party Transactions" below in this report, none of the Directors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year Under Review.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at the date of Listing, the interests and short positions held by the Directors and the chief executive 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 (the "**SFO**")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in the shares in the Company

Name of Director/	Capacity/ nature of interest	Relevant company	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Dai Shunhua (Note 2 and 3)	Interest in controlled corporation (Note 2) Interest of spouse/interest held jointly with another person (Note 3)	Spring Sea	472,848,000 (L)	59.11%
Ms. Song Xiaoying (Note 2 and 3)	Interest in controlled corporation (Note 2) Interest of spouse/interest held jointly with another person (Note 3)	Spring Sea	472,848,000 (L)	59.11%

DISCLOSURE OF INTERESTS (Continued)

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations (Continued)

(i) Interest in the shares in the Company (Continued)

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

2. Our Company is directly owned as to approximately 59.11% by Spring Sea Star Investment Limited ("**Spring Sea**"). Spring Sea is owned as to approximately 53.98% by Mr. Dai Shunhua ("**Mr. Dai**") and approximately 46.02% by Ms. Song Xiaoying ("**Ms. Song**"). Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.

3. Ms. Song is the spouse of Mr. Dai. Under the SFO, Ms. Song is deemed to be interested in the same number of Shares in which Mr. Dai is interested. In addition, by virtue of the Acting in Concert Undertaking, Mr. Dai and Ms. Song are persons acting in concert and each of them is deemed to be interested in the Shares in which each other is interested.

(ii) Interests in the shares of the associated corporations of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Percentage of shareholding
Mr. Dai Shunhua	Spring Sea	Beneficial owner	53.98%
Ms. Song Xiaoying	Spring Sea	Beneficial owner	46.02%

As at the date of Listing, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the date of Listing, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DISCLOSURE OF INTERESTS (Continued)

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at the date of Listing, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Person/corporation	Capacity/ nature of interest	Number of shares in the Company held (Note 1)	Approximate percentage of the Company's total issued share capital
Spring Sea (Note 2)	Beneficial owner	472,848,000 (L)	59.11%
Mr. Dai Shunhua (Note 2 and 3)	Interest in controlled corporation (Note 2)	472,848,000 (L)	59.11%
	Interest of spouse/interest held jointly with another person (Note 3)		
Ms. Song Xiaoying (Note 2 and 3)	Interest in controlled corporation (Note 2)	472,848,000 (L)	59.11%
	Interest of spouse/interest held jointly with another person (Note 3)		
Summer Land Star Investment Limited	Beneficial owner	127,152,000 (L)	15.89%

Notes:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in the Shares.

2. Our Company is owned as to approximately 59.11% by Spring Sea. Spring Sea is owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song. Under the SFO, Mr. Dai and Ms. Song are deemed to be interested in the same number of Shares held by Spring Sea.

3. Ms. Song is the spouse of Mr. Dai. Under the SFO, Ms. Song is deemed to be interested in the same number of Shares in which Mr. Dai is interested. In addition, by virtue of the Acting in Concert Undertaking, Mr. Dai and Ms. Song are persons acting in concert and each of them is deemed to be interested in the Shares in which each other is interested.

DISCLOSURE OF INTERESTS (Continued)

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company (Continued)

Save as disclosed above, to the best knowledge of the Directors of the Company, as at the date of Listing, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's Prospectus, Mr. Dai Shunhua and Ms. Song Xiaoying (the "**Controlling Shareholders**"), have executed a deed of non-competition through which they have undertaken and procure that none of their associates will (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the Group's existing business activity or any principal business activity of any member of the Group or be in competition with the Group in any business activities which the Group may undertake in the future (the "**Restricted Business**"); or (b) take any direct or indirect action which constitutes an interference with or a disruption to the Group's business activities including, but not limited to, solicitation of the Group's customers, suppliers or staff. They have warranted that neither they nor any of their associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with the Group's business. The Controlling Shareholders also undertake and covenant to the Group that, if any new business opportunity relating to any Restricted Business is made available to them, they shall direct the Restricted Business to the Group with such required information to enable the Group to evaluate the merits of the Restricted Business.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the Year Under Review.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into various transactions with certain entities that are regarded as connected persons of the Company (as defined under the GEM Listing Rules). Details of these individuals and entities are set out in Note 41 to the Financial Statements.

Save for the transactions between our Group and Zhejiang Senlaite mentioned in Note 41 to the Financial Statements, none of the related party transactions would continue after the Listing.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

INTEREST OF COMPLIANCE ADVISER

As notified by Cinda International Capital Limited ("**Cinda**"), the Company's compliance adviser, neither Cinda nor any of its directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Year Under Review pursuant to Rule 6A.32 of the GEM Listing Rules.

PLEDGE OF ASSETS

As at 31 December 2018, the Group had pledged certain buildings, fixtures and facilities, land use right, unlisted equity investment and time deposits with aggregate carrying amount of approximately RMB83.3 million (2017: approximately RMB95.5 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate borrowings was from 4.33% to 7.00%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2018, the Group had cash and cash equivalents of RMB5.6 million (2017: approximately RMB5.1 million) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 45.4% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 25.0% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 44.9% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 15.4% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The Shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the placing of the shares were approximately RMB48.8 million (equivalent to approximately HK$57.6 million), after deduction of the underwriting commission and relevant expenses. As at the date of this report, no net proceeds from listing of Shares had been utilized. Details of the expected usage of proceeds from the placing of the shares are set forth in the section headed "Future Plans and Use of Proceeds" of the Company's Prospectus.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2018 are set out in Note 4 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

At no time during the Year Under Review and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

COMPANY SECRETARY

Mr. Chan Hon Wan is our Company Secretary. Please refer to Mr. Chan's biographies in the section headed "Directors' and Senior Management's Biographies" of this report for details.

COMPLIANCE OFFICER

Mr. Dai Shunhua is the compliance officer of our Company. For details of his background and experience, please refer to the section headed "Directors' and Senior Management's Biographies".

EVENTS AFTER THE REPORTING PERIOD

On 26 February 2019, the Shares of the Company became listed on GEM of the Stock Exchange, pursuant to which 200,000,000 Shares were issued by the Company at the offer price of HK$0.40 per share. Number of total issued Shares of the Company was increased to 800,000,000 shares upon completion of the Listing.

AUDITOR

The Financial Statements for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Narnia (Hong Kong) Group Company Limited
Mr. Dai Shunhua
Chairman of the Board

Zhejiang, PRC, 25 March 2019

Deloitte. 德勤

TO THE SHAREHOLDERS OF NARNIA (HONG KONG) GROUP COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statement of Narina (Hong Kong) Group Company limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 69 to 149, which comprise the consolidated statement of financial position as at 31 December 2018 and 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 statement, 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 2018, 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 (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted audit in accordance with International Standards on Auditing ("**ISAs**"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on the sale of fabric products	
We identified the recognition of the Group's revenue on sale of fabric products as a key audit matter because the amount was significant and as revenue is one of the Group's key performance indicators, there is inherent risk that the management of the Group may manipulate revenue recognition in order to achieve specific goals or expectations. Revenue is recognised at a point in time when the legal title of the finished good is transferred, since only by that time the Group passes control of the fabric products to its customers. For the year ended 31 December 2018, the Group revenue on the sale of fabrics products amounted to RMB219,473,000.	Our procedures in relation to revenue recognition included: • Understanding, evaluating and testing management's key controls in respect of revenue recognition on the sale of fabric products; • Testing on sample basis for the transactions records of sale of fabric products during the year by checking the invoices, customs declaration and delivery orders, and evaluating whether the relevant revenue recognition is correct; • Performing journal entry testing to inspect any indication which may lead to concern on management override on revenue recognition; • On sample basis, sending confirmation to customers to confirm closing balance of trade receivables and transaction amounts as at and for the year ended 31 December 2018 and interviewing with those customers having significant transactions or new customers to confirm the transaction nature, cooperation history and amount of their transactions with the Group.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 ISAs 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 of the Company.

- Conclude on the appropriateness of the directors of the Company's 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with those charged with governance, 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 the independent auditor's report is Tse Ming Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	332,336	238,309
Cost of sales and services		(265,826)	(192,247)
Gross profit		66,510	46,062
Other income	8	11,420	3,444
Other gains and losses	9	19,782	(3,715)
Selling and distribution expenses		(2,227)	(1,919)
Administrative expenses		(15,305)	(8,449)
Research expenditure		(9,141)	(6,446)
Listing expenses		(12,680)	–
Other expenses		(505)	(329)
Share of result of an associate		724	86
Finance costs	10	(7,209)	(8,202)
Profit before tax	11	51,369	20,532
Income tax expense	12	(5,287)	(2,759)
Profit and total comprehensive income for the year		46,082	17,773
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		39,293	13,947
– Non-controlling interests		6,789	3,826
		46,082	17,773
Earnings per share			
– Basic (RMB cents)	15	6.60	1.94

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	16	105,422	103,981
Deposit on acquisition of property plant and equipment		2,744	410
Prepaid lease payments	17	6,679	6,849
Investment properties	18	9,174	9,677
Intangible assets	19	792	338
Interest in an associate	20	–	12,922
Available-for-sale investment	21	–	13,064
Deferred tax assets	32	917	664
		125,728	147,905
Current assets			
Inventories	23	72,525	78,012
Prepaid lease payments	17	170	170
Trade and other receivables	24	29,456	26,574
Receivables at fair value through other comprehensive income ("**FVTOCI**")	25	100	–
Tax recoverable		–	301
Financial asset mandatorily measured at fair value through profit or loss ("**FVTPL**")	22	20,000	–
Bank balances and cash	27	5,611	5,062
		127,862	110,119
Current liabilities			
Trade and other payables	28	36,795	35,407
Contract liabilities	29	1,618	2,477
Bank borrowings	30	91,959	126,720
Tax payable		3,858	–
Dividends payable		–	92
Finance lease obligations	31	–	2,616
		134,230	167,312
Net current liabilities		(6,368)	(57,193)
Total assets less current liabilities		119,360	90,712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
Capital and reserves			
Paid in/share capital	33	325	79,572
Reserves		97,243	(14,133)
Equity attributable to owners of the Company		97,568	65,439
Non-controlling interests		–	18,666
Total Equity		97,568	84,105
Non-current liability			
Bank borrowings	30	21,792	6,607
		119,360	90,712

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Paid-in/ share capital RMB'000	Statutory reserve RMB'000 (note a)	Other reserve RMB'000 (note g)	(Accumulated losses) retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	80,265	3,345	7,558	(18,843)	72,325	19,450	91,775
Profit and total comprehensive income for the year	–	–	–	13,947	13,947	3,826	17,773
Appropriation for statutory reserves	–	727	–	(727)	–	–	–
Dividends (note 14)	–	–	–	(20,205)	(20,205)	(5,563)	(25,768)
Issue of shares by the Company (note 2)	325	–	–	–	325	–	325
Partial disposal of equity interests held by the Controlling Shareholders (as defined in note 1) in Huzhou Narnia (as defined in note b) without losing control	(1,018)	(42)	(96)	203	(953)	953	–
At 31 December 2017	79,572	4,030	7,462	(25,625)	65,439	18,666	84,105
Effect arising from adoption of IFRS 9 (note c)	–	–	–	2,105	2,105	601	2,706
Adjusted balance at 1 January 2018	79,572	4,030	7,462	(23,520)	67,544	19,267	86,811
Profit and total comprehensive income for the year	–	–	–	39,293	39,293	6,789	46,082
Appropriation for statutory reserves	–	1,925	–	(1,925)	–	–	–
Capital reduction of Huzhou Narnia (note d)	(27,232)	–	–	–	(27,232)	(7,768)	(35,000)
Capital contribution by the Controlling Shareholders (note e)	–	–	83,552	–	83,552	–	83,552
Effect arising from Group Reorganisation (as defined in note 2) (note f)	(52,015)	1,150	(14,898)	174	(65,589)	(18,288)	(83,877)
At 31 December 2018	325	7,105	76,116	14,022	97,568	–	97,568

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Notes:

a: In accordance with the Articles of Association of the subsidiaries established in the People's Republic of China (the "**PRC**"), the subsidiaries are required to transfer at least 10% of their profit after tax in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC before any distribution of dividends to owner each year to statutory surplus reserve until the reserve reaches 50% of their registered capital. The statutory surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

b: During the year ended 31 December 2017, the Controlling Shareholders (as defined in Note 1) and Changxing Hengli Investment Company Limited# (長興恒力投資有限公司) ("**Changxing Hengli**"), which were 100% held by the Controlling Shareholders, had transferred their 1.0% equity interests of Huzhou Narnia industry Co., Ltd.# (湖州納尼亞實業有限公司) ("**Huzhou Narnia**") in aggregate to a number of independent third parties without losing control. This transaction resulted in the recognition of non-controlling interests of Huzhou Narnia with corresponding debit to paid-in capital, statutory reserve and other reserve and credit to accumulated losses.

c: Upon the adoption of IFRS 9 "*Financial Instruments*" on 1 January 2018, the cumulative impact of RMB2,706,000 was recorded as an adjustment to the accumulated losses and non-controlling interests as at 1 January 2018, including additional loss allowance recognised under IFRS 9 of RMB1,796,000 and gain from fair value remeasurement of an investment in an unlisted company of RMB5,264,000 and their corresponding deferred tax impact of RMB762,000. Further details are set out in note 3.

d: On 6 March 2018, pursuant to an extraordinary general meeting of Huzhou Narnia, it was resolved and approved Huzhou Narnia to reduce its paid-in capital from RMB101,850,000 to RMB66,850,000, and to resulting in return the amount of RMB35,000,000 to its shareholders, of which was completed during the year ended 31 December 2018.

e: In May and June 2018, shareholders of the Company contributed RMB83,552,000 in aggregate to the Company to complete the Group Reorganisation and had been credited to other reserve.

f: This represents the effects of the acquisition of the entire registered capital of Huzhou Narnia by Hengye Development Limited ("**Hengye Development**"), a subsidiary of the Company, from the Controlling Shareholders as to 77.81% and the non-controlling shareholders as to 22.19% for an aggregate cash consideration of RMB83,877,000 as part of the Group Reorganisation as detailed in the prospectus of the Company dated 13 February 2019 (the "**Prospectus**"). Upon completion of the above transactions, the balance of share capital, retained profits, statutory reserve and other reserve of Huzhou Narnia attributable to the non-controlling interests amounting to RMB14,835,000, RMB174,000, RMB1,150,000 and RMB2,129,000, respectively, was reclassified to the owners of the Company. The transaction was completed on 10 May 2018, and since then the Group Reorganisation was completed and there was no longer any non-controlling interests to the Group.

g: The opening balance of other reserve as at 1 January 2017 comprises (1) the deemed contribution by the Controlling Shareholders to the Group, (2) capitalisation of retained profit and statutory reserve of Huzhou Narnia upon conversion into a joint stock company in 2011 as other reserve and (3) the impact to other reserve in respect of partial disposal of equity interests held by the controlling shareholders in Huzhou Narnia without losing control.

English name is for identification purpose only.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	51,369	20,532
Adjustments for:		
Depreciation of property, plant and equipment	7,623	4,320
Depreciation of investment properties	503	503
Amortisation of prepaid lease payments	126	126
Amortisation of intangible asset	78	3
Bank interest income	(17)	(16)
Finance costs	7,209	8,202
Total loss allowance on financial assets recognised (reversed)	447	(1,992)
Loss on disposal of property, plant and equipment	3,052	5,231
Share of result of an associate	(724)	(86)
Dividend received from available-for-sale investment	–	(984)
Gain on change in fair value of financial asset mandatorily measured at FVTPL	(1,672)	–
Gain on disposal of an associate	(23,003)	–
Net exchange loss	1,394	476
Operating cash flows before movements in working capital	46,385	36,315
Decrease (increase) in inventories	9,856	(2,516)
(Increase) decrease in trade and other receivables	(1,041)	30,589
Decrease in receivables at FVTOCI	120	–
Increase (decrease) in trade and other payables	1,604	(3,936)
(Decrease) increase in contract liabilities	(859)	158
Decrease in bills payables	–	(192)
Cash generated from operations	56,065	60,418
PRC Enterprise Income Tax paid	(2,143)	(2,584)
NET CASH FROM OPERATING ACTIVITIES	53,922	57,834

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Purchase of and deposits placed for property, plant and equipment	(19,604)	(21,719)
Proceeds from disposal of property, plant and equipment	192	488
Purchase of intangible asset	(532)	(341)
Interest received	17	16
Dividend received from available-for-sale investment	–	984
Withdrawal of restricted bank deposits	–	202
Proceeds from disposal of an associate (note 20)	34,950	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	15,023	(20,370)
FINANCING ACTIVITIES		
New bank borrowings raised	194,616	170,834
Repayments of bank borrowings	(214,450)	(161,435)
Repayment of finance lease obligations	(2,800)	(2,880)
Payment for purchase of bank acceptance bills	–	(14,720)
Deferred issue cost paid	(3,880)	–
Interest paid	(7,348)	(7,576)
Dividends paid	(92)	(25,676)
Capital reduction of Huzhou Narnia	(35,000)	–
Proceeds from issue of shares	325	–
Advance from related parties	553	–
Capital injection by the Controlling Shareholders	83,552	–
Consideration paid for acquisition of subsidiary under common control	(83,877)	–
NET CASH USED IN FINANCING ACTIVITIES	(68,401)	(41,453)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	544	(3,989)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	5,062	9,439
EFFECT OF EXCHANGE RATE CHANGE	5	(388)
CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		
Represented by:		
Bank balances and cash	5,611	5,062

1. GENERAL INFORMATION

Narnia (Hong Kong) Group Company Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 1 September 2017. The Company's immediate and ultimate parent is Spring Sea Star Investment Limited ("**Spring Sea**") and its ultimate controlling parties are Mr. Dai Shunhua ("**Mr. Dai**") and Ms. Song Xiaoying, the spouse of Mr. Dai ("**Ms. Song**") (collectively the "**Controlling Shareholders**"). Mr. Dai is the General Manager of the Group and assumed the role of Chief Executive Officer of the Company. The addresses of the Company's registered office and the principal place of business are 19th Floor, Three Exchange Square 8 Connaught Place, Central, Hong Kong. The Company and its subsidiaries (collectively referred to as the "**Group**") is principally engaged in the manufacture and sale of fabric products and the provision of printing and dyeing services.

The immediate holding company of the Company is Spring Sea, an investment holding company incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 14 June 2017, and was owned as to approximately 53.98% by Mr. Dai and approximately 46.02% by Ms. Song.

The Company's shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 26 February 2019 (the "**Listing**").

These consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017 are prepared including the results, changes in equity and cash flows of the companies comprising the Group, on the basis of Group Reorganisation as detailed in the Prospectus, as if the Company had always been the holding company of the Group and the group structure upon completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2017, or since their respective incorporation, unless there is a shorter period.

The consolidated statements of financial position of our Group as at 31 December 2017 have been prepared to present the assets and liabilities of the companies comprising the Group, as if the Company had always been the holding company of the Group and the group structure upon completion of the Group Reorganisation had been in existence at that date.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Application of new and amendments to IFRSs

For the purpose of preparing and presenting the consolidated financial statements of the Group for the year ended 31 December 2018, the Group has consistently adopted all the IFRSs that are effective for the financial year beginning on 1 January 2018 for both the current and prior years, except that the Group adopted IFRS 9 "*Financial Instruments*" for the first time in the current year and applied IAS 39 "*Financial Instruments: Recognition and Measurement*" for the year end 31 December 2017. The accounting policies for financial instruments under IFRS 9 are set out in note 4 below.

IFRS 9 Financial Instruments

Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments"

For the year ended 31 December 2018, the Group has applied IFRS 9 "*Financial Instruments*", and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and other items subject to ECL assessment, and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity as at 1 January 2018, without restating the financial information for the year ended 31 December 2017.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities, other items subject to ECL and impact upon adoption of IFRS 9, at the date of initial application on 1 January 2018.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

Application of new and amendments to IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

		Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 RMB'000	Fair value remeasurement under IFRS 9 RMB'000	Additional loss allowance recognised under IFRS 9 RMB'000 (Note)	New carrying amount under IFRS 9 RMB'000
1.	Investment in unlisted company	Available-for-sale Investment	Financial asset at FVTPL	13,064	5,264	–	18,328
2.	Trade receivables	Loans and receivables	Financial assets at amortised cost	14,105	–	(95)	14,010
3.	Bill receivables	Loans and receivables	Receivables at FVTOCI	220	–	–	220
4.	Other receivables	Loans and receivables	Financial assets at amortised cost	784	–	(2)	782
5.	Bank balances and cash	Loans and receivables	Financial assets at amortised cost	5,062	–	–	5,062
6.	Bank borrowings	Financial liabilities at amortised cost	Financial liabilities at amortised cost	133,327	–	–	133,327
7.	Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	30,214	–	–	30,214
8.	Dividends payable	Financial liabilities at amortised cost	Financial liabilities at amortised cost	92	–	–	92
	Recognition of deferred tax assets				–	27	
	Recognition of deferred tax liabilities				(789)	–	
					4,475	(70)	
9.	Interest in an associate			12,922	–	(1,699)	11,223
					4,475	(1,769)	

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

Application of new and amendments to IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

Note: The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and general approach to measure ECL for all other financial assets. As at 1 January 2018, the additional credit loss allowance of RMB97,000, share of loss of an associate of RMB1,699,000 together with the recognition of the corresponding deferred tax assets of RMB27,000, totaling RMB1,769,000 has been recognised against accumulated losses as at 1 January 2018. The additional loss allowances are charged against the respective assets.

The tables below show information relating to financial assets that are measured differently (other than due to change in impairment calculation) as a result of transition to IFRS 9:

	(i) IAS 39 carrying amount 31 December 2017 RMB'000	(ii) Reclassification RMB'000	(iii) Remeasurements RMB'000	(iv) = (i) + (ii) + (iii) IFRS 9 carrying amount 1 January 2018 RMB'000	(v) = (iii) Accumulated losses effect on 1 January 2018 RMB'000
Financial asset mandatorily measured at FVTPL					
Additions:					
From available-for-sale investment (IAS 39)	13,064	–	5,264	18,328	5,264
Receivables at FVTOCI					
Reclassification:					
From loans and receivables (IAS 39)	–	220	–	220	–

Available-for-sale financial assets which the Group had previously measured at cost under IAS 39 has been classified as financial asset mandatorily measured at FVTPL at the date of initial application of IFRS 9.

As part of the Group's cash flow management, the Group has the practice of endorsing substantial part of the bills received from its customers to suppliers before the bills are due for payment and derecognises the bills endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB220,000 were considered as within the business model both to hold to collect contractual cash flows and to sell business model and reclassified to receivables at FVTOCI.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

Application of new and amendments to IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

All loss allowances for financial assets including trade and other receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade Receivables RMB'000	Other receivables RMB'000
At 31 December 2017 – IAS 39	922	1
Amounts remeasured through opening accumulated losses	95	2
At 1 January 2018	1,017	3

New and amendments to IFRSs issued but not yet effective

The Group has not early adopted the following new and amendments to IFRSs that have been issued but not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycles[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "*Leases*" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS16 requires sales and leaseback transactions to be determined based on the requirements of IFRS15 as to weather the transfer of the relevant asset should be as a sale. IFRS16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for owned use while other operating lease payment are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principle and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,290,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group recognises a right-of-use asset and a corresponding liability in respect of all these leases unless they quality for low value or short-term leases.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs (Continued)

IFRS 16 Leases (Continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "*Determining whether an Arrangement contains a Lease*" and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained profits without restating comparative information.

Except as disclosed above, the directors of the Company anticipate that the application of other new and amendments to IFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "*Leases*", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "*Inventories*" or value in use in IAS 36 "*Impairment of Assets*".

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

The Group assesses whether there is objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control of the goods or services is recognised over time by reference to the progress forwards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Revenue from sales of fabric products is recognised at a point in time when the legal title of the finished goods is transferred, since only by that time the Group passes control of the fabric products to the customer.

Revenue from printing and dyeing service is recognised over time (i.e. the processing period) because the Group's performance enhances an asset that its customer controls as the asset is enhanced.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to government managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary and interest in an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress/assets under installation) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction/assets under installation for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress/assets under installation less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and impairment losses, if any. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of and any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Research expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated in equity. Impairment allowance are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets and other assets subject to ECL (including trade and other receivables, receivables at FVTOCI and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Receivables classified as at FVTOCI (Continued)

Impairment under ECL model (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed on an individual basis for customers with credit-impaired balance and/or assessed collectively for remaining debtors, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast of conditions at the reporting date.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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. Forward-looking information includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations, namely sales of fabric products, and printing and dyeing service.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Receivables classified as at FVTOCI (Continued)

Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Receivables classified as at FVTOCI (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Receivables classified as at FVTOCI (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a deregistration event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and bank balances and cash are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the management of the Group to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income 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 amortised cost of the financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (under IFRS 9) (Continued)

Receivables classified as at FVTOCI (Continued)

Measurement and recognition of ECL (Continued)

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in equity without reducing the carrying amounts of these receivables.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables and available-for-sale investment based on the nature, purpose of the financial assets and are determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Available-for-sale investment

Available-for-sale investment are non-derivatives that are either designated as available-for-sale investment or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on available-for-sale equity investment are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For available-for-sale investment carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When a trade and other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts considered previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bank borrowings and dividends payable are subsequently measured at amortised costs using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying accounting policies

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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 further periods.

Judgements in determining the classification of bills receivables

As part of the Group's cash flow management, the Group has the practice of endorsing substantial part of bills receivables to suppliers before the bills are due for payment. Upon the initial application of IFRS 9 on 1 January 2018, the management of the Group considered that the Group's business model over bills receivables is hold to collect contractual cash flows and selling them. Therefore, the management of the Group has satisfied that bills receivables are classified as receivables at FVTOCI.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Estimated impairment of financial assets

The Group reviews its financial assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Since the adoption of IFRS 9 on 1 January 2018, the directors of the Company estimate the amount of loss allowance for ECL on trade and other receivables, receivables at FVTOCI and bank balances based on the credit risk of the financial assets. The estimation of the credit risk of the financial assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Recognition of deferred tax assets

The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted accordingly and recognised the corresponding amount in the consolidated statement of profit or loss and other comprehensive income in the periods in which such a situation takes place.

As at 31 December 2018, the carrying amount of deferred tax assets was RMB917,000 (31 December 2017: RMB664,000).

6. REVENUE

Revenue represents the amounts received and receivable from the sale of fabric products, service revenue from printing and dyeing, net of sales related taxes.

The following is an analysis of the Group's revenue from its major products and services:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sale of fabric products, recognised at a point in time	**219,473**	166,735
Service revenue from printing and dyeing, recognised over time	**112,863**	71,574
Total	**332,336**	238,309

Sales of fabric products

The Group sells fabric products directly to customers. The Group offers different series of polyester fabrics to its customers, including but not limited to brushed fabric, imitation silk, sateen, polyester shirt fabric, pongee, imitation printed cotton, to meet the various demands of its customers.

Revenue is recognised at a point in time when the legal title of the finished goods is transferred, since only by that time the Group passes control of the fabric products to its customers. The normal credit term is 30 to 90 days (2017: 30 to 90 days) upon delivery of corresponding service.

6. REVENUE (CONTINUED)

Printing and dyeing service

Revenue relating to the printing and dyeing service is recognised over time throughout the processing period because the Group's performance enhances an asset that its customer controls as the asset is enhanced. The normal credit term is 30 to 90 days (2017: 30 to 90 days) upon the completion of services.

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied as the Group's contract period between payment and transfer of the associated service is less than one year.

7. SEGMENT INFORMATION

Information reported to the General Manager of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of fabric products and service income from printing and dyeing service.

The management of the Group considers that the Group has one reportable operating segment. No operating segment information is presented other than the entity-wide disclosures.

Geographical information

The following table sets out information about the geographical location of the Group's revenue determined based on geographical region of the customers.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Mainland China	240,510	173,844
Hong Kong	72,864	45,176
Others regions	18,962	19,289
Total	332,336	238,309

The Group's operations are in the PRC and all its non-current assets excluding deferred tax assets (31 December 2017: excluding available-for-sale investment and deferred tax assets) are located in the PRC.

Information about major customers

The following table sets out the revenue from customers contributing over 10% of the total sales of the Group.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Customer A	84,128	75,626

8. OTHER INCOME

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Interest income	17	16
Net gain on sales of raw materials	3,611	295
Net gain on sales of scraps	1,937	–
Government subsidies (note)	4,525	2,076
Dividend received from available-for-sale investment	–	984
Dividend received from financial asset mandatorily measured at FVTPL	1,059	–
Rental income	166	54
Others	105	19
	11,420	3,444

Note: The amount represents unconditional government subsidies received from local government in connection with the enterprise development support, innovation capabilities incentives and others.

9. OTHER GAINS AND LOSSES

	Year ended 31 December 2018 RMB'000	2017 RMB'000
(Recognition) reversal of loss allowances on trade receivables	(448)	1,220
Reversal of loss allowances on other receivables	1	772
Total loss allowance on financial assets (recognised) reversed, net	(447)	1,992
Loss on disposal of property, plant and equipment	(3,052)	(5,231)
Gain on disposal of an associate (note 20)	23,003	–
Net exchange loss	(1,394)	(476)
Gain on change in fair value of financial asset mandatorily measured at FVTPL	1,672	–
	19,782	(3,715)

10. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest on bank borrowings	7,025	7,665
Interest on finance lease obligations	184	537
Total	7,209	8,202

11. PROFIT BEFORE TAX

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Depreciation of property plant and equipment	11,948	9,999
Depreciation of investment properties	503	503
Amortisation of prepaid lease payments	170	170
Amortisation of intangible asset	78	3
Total depreciation and amortisation	12,699	10,675
Capitalised in inventories	(4,369)	(5,723)
Total depreciation and amortisation charged to profit or loss	8,330	4,952
Analysed as:		
Charged in cost of services	6,660	3,520
Charged in administrative expenses	1,238	855
Charged in research expenditure	432	577
	8,330	4,952
Auditor's remuneration	1,000	–
Directors' emoluments (note 13)		
– Salaries and other benefits	201	145
– Retirement benefit scheme contributions	60	56
– Discretionary performance related bonus	431	55
	692	256
Other staff costs		
– Salaries and other benefits	16,329	9,994
– Retirement benefit scheme contributions	3,378	1,997
– Discretionary performance related bonus	508	776
	20,215	12,767
Total staff costs	20,907	13,023
Capitalised in inventories	(4,679)	(4,084)

11. PROFIT BEFORE TAXATION (Continued)

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Total staff costs charged to profit or loss	**16,228**	8,939
Analysed as:		
Charged in cost of services	**8,046**	3,680
Charged in administrative expenses	**7,003**	4,282
Charged in research expenditure	**1,179**	977
	16,228	8,939
Cost of inventories recognised as cost of sales and services	**227,321**	159,399
Cost of inventories recognised as research expenditure	**7,298**	4,766
Depreciation and amortisation	**432**	577
Staff costs	**1,179**	977
Other expenses charged in research expenditure	**232**	126
Total research expenditure	**9,141**	6,446

12. INCOME TAX EXPENSE

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**6,302**	2,272
Deferred tax (credit) charge (note 32)	**(1,015)**	487
	5,287	2,759

No provision for Hong Kong Profits Tax was made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the years ended 31 December 2018 and 2017.

Provision for the EIT during the years ended 31 December 2018 and 2017 was made based on the estimated assessable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

12. INCOME TAX EXPENSE (Continued)

Under the Law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the statutory income tax rate for PRC entities is 25%, therefore, the tax rate of Changxing Seashore Industrial Co., Ltd.# 長興濱里實業有限公司 ("**Changxing Seashore**") is 25%.

Huzhou Narnia is recognised as "High and New Technology Enterprise" which is jointly verified by Zhejiang Science and Technology Department, Zhejiang Finance Department, the State Taxation Bureau of Zhejiang Province and Local Taxation Bureau of Zhejiang Province on 27 October 2014 and therefore entitled to a preferential tax rate of 15% from 1 January 2014 to 31 December 2016. The certificate was renewed on 13 November 2017 with an extension on preferential period of a term of further three years ending on 31 December 2019.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before tax	51,369	20,532
Tax at PRC EIT rate of 25%	12,842	5,133
Tax effect of expense not deductible for tax purpose	3,572	168
Effect of share of results of an associate	(181)	(22)
Tax effect of income not taxable for tax purpose	(265)	(246)
Utilisation of deductible temporary difference previously not recognised	(5,751)	–
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(1,714)	(806)
Income taxed at concessionary rate	(3,216)	(1,468)
Income tax expense	5,287	2,759

English name is for identification purpose only.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(A) Directors' and the chief executive's remuneration

Details of the emoluments paid to the individuals who were appointed as the directors of the Company (including emoluments for services as senior management of the group entities prior to becoming the directors of the Company, disclosed pursuant to the applicable GEM Listing Rules), are as follows:

	Date of appointment as a director of the Company	Fees RMB'000	Discretionary performance related bonus RMB'000	Salaries RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018						
Executive directors						
Mr. Dai (note)	1 September 2017	–	214	77	25	316
Ms. Song	23 July 2018	–	129	65	25	219
Mr. Wang Yongkang	23 July 2018	–	88	59	10	157
		–	431	201	60	692

	Date of appointment as a director of the Company	Fees RMB'000	Discretionary performance related bonus RMB'000	Salaries RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2017						
Executive directors						
Mr. Dai (note)	1 September 2017	–	20	55	24	99
Ms. Song	23 July 2018	–	18	43	24	85
Mr. Wang Yongkang	23 July 2018	–	17	47	8	72
		–	55	145	56	256

Note: Mr. Dai is General Manager of the Group and assumed the role of Chief Executive Officer of the Company during the years ended 31 December 2018 and 2017 whose emoluments has been included in the above.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company (after incorporation) and the Group.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

(B) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, 3 (2017: 1) were directors of the Company for the year ended 31 December 2018 whose emoluments are included in the disclosure above. The emoluments of the remaining 2 (2017: 4) individuals for the year were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other benefits	133	214
Retirement benefit scheme contributions	25	34
Discretionary performance related bonus	49	75
	207	323

The emoluments of each of the five highest paid employees above were less than HK$1,000,000 during each of the years ended 31 December 2018 and 2017.

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors of the Company or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or Chief Executive Officer of the Company waived any emoluments.

14. DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Declared by Huzhou Narnia	–	25,768

The rate of dividend and number of shares ranking for dividend in 2017 are not presented as such information is not considered meaningful having regards to the purpose of the consolidated financial statements. No dividend has been proposed by the Company for the period from 1 September 2017 (date of incorporation) to 31 December 2017 and the year ended 31 December 2018.

15. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**39,293**	13,947
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**595,796,054**	718,024,633

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Group Reorganisation, the share sub-division of 1 share into 1,000 shares and the capitalisation issue of the shares of the Company had been effective on 1 January 2017.

No diluted earnings per share was presented as there were no potential ordinary shares in issue throughout the both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Construction in Progress/ asset under installation RMB'000	Total RMB'000
COST						
At 1 January 2017	58,302	1,122	66,944	502	67	126,937
Additions	97	184	21,515	688	7,118	29,602
Disposals	(364)	(45)	(9,407)	(105)	–	(9,921)
Transfers	–	–	1,436	–	(1,436)	–
At 31 December 2017	58,035	1,261	80,488	1,085	5,749	146,618
Additions	1,341	216	7,675	367	7,034	16,633
Disposals	(1,310)	(58)	(7,934)	(33)	–	(9,335)
Transfers	8,350	–	3,314	–	(11,664)	–
At 31 December 2018	66,416	1,419	83,543	1,419	1,119	153,916
ACCUMULATED DEPRECIATION						
At 1 January 2017	12,635	513	23,411	281	–	36,840
Provided for the year	2,800	278	6,804	117	–	9,999
Eliminated on disposals	(213)	(40)	(3,849)	(100)	–	(4,202)
At 31 December 2017	15,222	751	26,366	298	–	42,637
Provided for the year	3,278	312	8,122	236	–	11,948
Eliminated on disposals	(855)	(49)	(5,174)	(13)	–	(6,091)
At 31 December 2018	17,645	1,014	29,314	521	–	48,494
CARRYING VALUES						
At 31 December 2018	48,771	405	54,229	898	1,119	105,422
At 31 December 2017	42,813	510	54,122	787	5,749	103,981

The above items of property, plant and equipment, other than construction in progress/asset under installation, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using straight-line method, as follows:

	Useful lives	Estimated residual values
Buildings	20 years	4.75%
Furniture, fixtures and equipment	3–5 years	19%–31.67%
Equipment and machinery	5–10 years	9.5%–19%
Motor vehicles	5 years	19.00%

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2017, the net book value for machinery of RMB5,632,000 as shown above was held under a finance lease as set out in note 31. The finance lease was fully repaid and no equipments was held under a finance lease as at 31 December 2018.

As at 31 December 2017, certain of Group's buildings and equipment and machinery totalling with the net book value of RMB55,789,000 were pledged to secure certain bank borrowings and Mr. Dai's personal borrowings. On 15 August 2018, Mr. Dai fully repaid his personal borrowings and the corresponding pledge granted by the Group has been released simultaneously.

As at 31 December 2018, certain of Group's buildings and equipment and machinery totaling with the net book value of RMB47,310,000 were pledged to secure Group's bank borrowings as set out in note 36.

17. PREPAID LEASE PAYMENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Analysed for reporting purpose as:		
Non-current portion	**6,679**	6,849
Current portion	**170**	170
	6,849	7,019

The Group's prepaid lease payments comprise land use rights over state-owned land in the PRC and are amortised on a straight-line basis over the lease terms of 50 years.

As at 31 December 2017, all of Group's prepaid lease payments were pledged to secure certain short-term bank borrowings and Mr. Dai's personal borrowings. On 15 August 2018, Mr. Dai fully repaid his personal borrowings and the corresponding pledge granted by the Group has been released simultaneously.

As at 31 December 2018, all of Group's prepaid lease payments were pledged to secure Group's certain short-term bank borrowings as set out in note 36.

18. INVESTMENT PROPERTIES

	Buildings RMB'000
COST	
At 1 January 2017, 31 December 2017 and 2018	13,319
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1 January 2017	3,139
Provided for the year	503
At 31 December 2017	3,642
Provided for the year	503
At 31 December 2018	**4,145**
CARRYING VALUES	
At 31 December 2018	**9,174**
At 31 December 2017	9,677

As at 31 December 2018, the fair value of the Group's investment properties was RMB17,097,000 (2017: RMB16,315,000). The fair value has been arrived at based on a valuation carried out by a firm of independent qualified professional valuers not connected with the Group who have appropriate qualifications and recent experience in the valuation of similar investment properties. The fair value is determined based on the direct comparison approach, reflecting recent transaction prices or current asking prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy are as follows:

	Level 2 RMB'000	**Fair value as at 31 December 2018 RMB'000**
Commercial properties located in Changxing, Zhejiang province, the PRC	**17,097**	**17,097**

	Level 2 RMB'000	Fair value as at 31 December 2017 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	16,315	16,315

18. INVESTMENT PROPERTIES (Continued)

The above investment properties are depreciated on a straight-line basis, taking into account their residual value, at the following rates per annum:

Buildings	4.75%

All the investment properties are located in the PRC.

As at 31 December 2017, certain of Group's investment properties with the net book value of RMB6,748,000 were pledged to secure short-term bank borrowings and Mr. Dai's personal borrowings. On 15 August 2018, Mr. Dai fully repaid his personal borrowings and the corresponding pledge granted by the Group has been released simultaneously.

As at 31 December 2018, certain of Group's investment properties with the net book value of RMB9,174,000 were pledged to secure Group's short-term bank borrowings as set out in note 36.

19. INTANGIBLE ASSET

	Software RMB'000
COST	
At 1 January 2017 and 31 December 2017	–
Additions	341
At 31 December 2017	341
Additions	532
At 31 December 2018	873
ACCUMULATED AMORTISATION	
At 1 January 2017 and 31 December 2017	–
Provided for the year	3
At 31 December 2017	3
Provided for the year	78
At 31 December 2018	81
CARRYING VALUE	
At 31 December 2018	792
At 31 December 2017	338

The above intangible asset is amortised on a straight-line basis based on its estimated useful life as follows:

Software	10 years

20. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	As at 31 December 2018 RMB'000	2017 RMB'000
Cost of investment in an associate, unlisted	–	35,003
Share of post-acquisition loss	–	(22,081)
	–	12,922

Name of entity	Form of business structure	Place and date of establishment	Principal place of operation	Proportion of equity interests held by the Group as at 31 December 2018 %	2017 %	Principal activity
Changxing Hengli Financing (defined in note)	Limited liability company	the PRC	the PRC	-	23.34	Provision of financing solutions to small enterprise in the PRC

Note: On 30 March 2018, the Group disposed of its entire 23.34% equity interests in Changxing Hengli Financing Co., Ltd.# (長興恆力小額貸款有限公司) ("**Changxing Hengli Financing**") to an independent third party for a cash consideration of RMB34,950,000. On date of disposal, the carrying amount of the Group's interest in an associate amounted to RMB11,947,000, resulting in a gain on disposal of an associate of RMB23,003,000 credited to profit or loss.

The financial information below represents amounts shown in the financial statement in respect of Changxing Hengli Financing prepared in accordance with IFRSs.

	As at 31 December 2018 RMB'000	2017 RMB'000
Assets	N/A	69,292
Liabilities	N/A	13,918
Net assets	N/A	55,374
Proportion of the Group's ownership interest therein	–	23.34%
Group's share of net assets of an associate	N/A	12,922

English name is for identification purpose only.

20. INTEREST IN AN ASSOCIATE (Continued)

	For the period from 1 January 2018 to 30 March 2018 (date of disposal) RMB'000	Year ended 2017 RMB'000
Revenue	943	5,292
Profit and total comprehensive income for the period/year	3,104	370

As at 31 December 2017, the Group's equity interest in Changxing Hengli Financing were pledged to secure certain short-term bank borrowings as set out in note 36.

21. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December 2018 RMB'000	2017 RMB'000
Measured at cost		
Unlisted equity investment	–	13,064

As at 1 January 2016, the Group held 7,239,994 shares, representing 1.03%, of an unlisted local rural commercial bank. On 30 May 2016, the local rural commercial bank granted 325,800 bonus shares to the Group. On 22 August 2016, the Group acquired additionally 300,000 shares, representing 0.04%, of the unlisted local rural commercial bank at a consideration of RMB660,000. The Group did not possess any right to nominate directors, thus no significant influence could be exercised by the Group over this investee.

As at 31 December 2017, the Group's available-for-sale investment was pledged to secure certain short-term bank borrowings as set out in note 36.

As at 31 December 2017, the above equity investment was measured at cost less impairment because the investment did not have a quoted market price in an active market and their fair value could not be reliably measured. The directors of the Company reviewed the financial performance of their available-for-sale investment and performed impairment assessment and had assessed that no impairment was necessary to be provided as at 31 December 2017.

On 1 January 2018, the Group adopted IFRS 9 "Financial Instruments", thus the above equity investment held by the Group was measured at fair value and reclassified to financial asset mandatorily measured at FVTPL which was included in note 22.

22. FINANCIAL ASSET MANDATORILY MEASURED AT FVTPL

	As at 31 December 2018 RMB'000
Unlisted equity investment	20,000

Upon the adoption of IFRS 9 "*Financial Instruments*" on 1 January 2018, the equity investment recorded as "available-for-sale investment" before 1 January 2018 was subsequently mandatorily measured at FVTPL. The accumulated impact as at 1 January 2018 was recorded as an adjustment to the accumulated losses as at 1 January 2018, and subsequent fair value change of the investment is recorded in "other gains and losses" in note 9. The fair value as at 1 January 2018 was RMB18,328,000, which has been arrived at on the basis of valuation carried out by a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar financial instrument. The fair value of the unlisted investment is determined by market approach by determining the appraisal value of the equity investment using market multiples of public companies and applying a discount on lack of marketability on the unlisted equity investment.

On 18 December 2018, the Group entered into a sale and purchase agreement with an independent third party of the Group to sell the Group's unlisted equity investment mandatorily measured at FVTPL for a consideration of RMB20,000,000 (the "**Sale and Purchase Agreement**"). As at 31 December 2018, the Group's unlisted equity investment was pledged to secure certain bank borrowings as set out in note 36. Such pledge would be fully released before disposal. The directors of the Company are of the opinion and estimate that the transaction price agreed with an independent third party approximate to the fair value of the corresponding financial asset as at 31 December 2018.

The transaction is subjected to the completion of business registration of change at the State Administration for Market Regulation. Up to the date of the issuance of the consolidated financial statements, the buyer has paid part of the consideration and the transaction has not been completed.

23. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	47,918	26,138
Work in progress	5,291	5,196
Finished goods	19,316	46,678
	72,525	78,012

No allowance for inventory provision was provided during the years ended 31 December 2018 and 2017.

24. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	22,938	15,027
Less: allowance for doubtful debts of trade receivables	(1,465)	(922)
	21,473	14,105
Bills receivables	–	220
Prepayments (note i)		
– related party (note 41)	199	–
– independent third parties	1,264	7,910
Value added tax ("VAT") recoverable	1,186	3,555
Deferred issue costs (note ii)	4,071	–
Other receivables		
– Due from related party (note 41)	–	325
– Others	1,265	460
	1,265	785
Less: allowance of doubtful debts of other receivables	(2)	(1)
	1,263	784
Trade, bills and other receivables	29,456	26,574

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

Notes:

(i): The amount primarily represents prepayments for purchases of ancillary materials, transportation expenses, and other miscellaneous prepayments.

(ii): Deferred issue cost represent the qualifying portion of issue cost incurred up to 31 December 2018, which will be debited to equity of the company as share issue cost in respect of the issue of new shares upon listing.

The Group allows a credit period ranging from 30 to 90 days (2017: 30 to 90 days) to its trade customers.

The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the dates of goods sold or invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**19,090**	11,510
Over 3 months but within 6 months	**2,113**	904
Over 6 months but within 1 year	**192**	1,113
Over 1 year but within 2 years	**78**	578
	21,473	14,105

Aging of trade receivables which are past due but not impaired as at 31 December 2017.

	As at 31 December 2017 RMB'000
Within 3 months	4,619
Over 3 months but within 6 months	943
Over 6 months but within 1 year	39
Over 1 year but within 2 years	578
	6,179

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB6,517,000 which are past due as at the reporting date. Out of the past due balances, RMB2,113,000 has been past due over 3 to 6 months and not in dispute, which is not considered as in default because the management of the Group, according to the historical settlement pattern, industry practice and the Group's historical actual loss experience, had assessed that the probability of settlement from their customers was high in respect of those debtors. The management of the Group considered that the risk of default became high and defaulted when those debtors had been past due over 6 months or with disputes to the Group.

The management assessed at the end of the reporting date whether there is objective evidence that trade receivables are impaired at the year ended 31 December 2017. The Group would provide impairment for receivables that were considered to be impaired individually and/or assessed collectively for remaining debtors based on management assessment performed at the year ended 31 December 2018.

Movements in the allowance for doubtful debts of trade and other receivables are set out as follows:

(A) Movement of allowance on trades receivables for the year ended 31 December 2017

	As at 31 December 2017 RMB'000
Balance at the beginning of the year	3,370
Allowance for doubtful debts	140
Reversal of allowance of doubtful debts (note)	(1,360)
Bad debts written off	(1,228)
Balance at the end of year	922

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

(B) Movement of allowance on trade receivables for the year ended 31 December 2018

	Not credit impaired RMB'000	Credit impaired RMB'000	Total RMB'000
Balance at 31 December 2017			922
Effect arising on adoption of IFRS 9			95
Adjusted balance at 1 January 2018	101	916	1,017
Transfer to credit impaired	(315)	315	–
Recognition of ECL	575	–	575
Reversal of ECL (note)	(11)	(116)	(127)
Balance at 31 December 2018	350	1,115	**1,465**

(C) Movement of allowance on other receivables for the year ended 31 December 2017

	As at 31 December 2017 RMB'000
Balance at the beginning of the year	773
Reversal of allowance of doubtful debts (note)	(772)
Balance at the end of year	1

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

(D) Movement of allowance on other receivables for the year ended 31 December 2018

	As at 31 December 2018 RMB'000
Balance at 31 December 2017	1
Effect arising on adoption of IFRS 9	2
Adjusted balance at 1 January 2018	3
Reversal of ECL (note)	(1)
Balance at 31 December 2018	2

Note: Reversal of allowance of doubtful debts/ECL is due to the Group's recovery of receivables.

Included in the balance of allowance for trade and other receivables are individually impaired trade and other receivables with an aggregate balance of RMB923,000 as at 31 December 2017, which are considered to be not recoverable with reference to the historical collection experience. The Group does not hold any collateral over these balances.

The Group's trade and other receivables that are denominated in currency other than the functional currency of the relevant group entities is set out below:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Analysis of trade and other receivables by currency:		
Denominated in United States dollar ("**US$**")	11,521	7,275

25. RECEIVABLES AT FVTOCI

	As at 31 December 2018 RMB'000
Receivables at FVTOCI comprise of:	
Bills receivables aged within 3 months presented based on the issue dates of bills receivables	100

26. TRANSFER OF FINANCIAL ASSETS

As at 31 December 2018, the Group had transferred to suppliers by endorsing trade receivables supported by bills amounted to RMB38,320,000 (31 December 2017: RMB25,937,000) on a full recourse basis.

As those bills are issued by banks with high credit rating, the directors of the Company had assessed and satisfied that the Group had transferred substantially all of the risks and rewards relating to those bills. The Group had derecognised the full carrying amount of the abovementioned trade receivables supported by bills and the corresponding amount of trade payables.

27. BANK BALANCES AND CASH

Bank balances carried interest at prevailing market interest rates ranging from 0.3% to 0.35% (2017: 0.3% to 0.35%) per annum.

The Group's bank balances and cash that are denominated in currency other than the functional currency of the relevant group entities is set out below:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Analysis of bank balances and cash by currency:		
Denominated in US$	25	172

28. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables		
– Due to related parties (note 41)	–	197
– Due to third parties	18,643	23,603
	18,643	23,800
Amounts due to related parties (note 41)	553	–
Deferred income (note)	7,000	–
Other payables	1,282	378
Payable for acquisition of property, plant and equipment	4,878	5,515
Accrued issue cost and listing expenses	764	–
Other tax payables	1,052	1,366
Payroll payable	2,425	3,827
Interest payables	198	521
	36,795	35,407

Note: During the year ended 31 December 2018, the Group received a government grant amounted to RMB7,000,000, which is a subsidy conditional and related to the Listing. The government grant would be credited to profit or loss as "other income" when the Company is successfully listed.

The average credit period on purchases of materials is ranging from 30 to 90 days (2017: 30 to 90 days) upon receipts of the relevant VAT invoices.

The following is an aged analysis of trade payables, presented based on the materials receipt date at the end of each reporting period:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	9,689	11,891
Over 3 months but within 6 months	5,204	4,773
Over 6 months but within 1 year	1,885	2,424
Over 1 year but within 2 years	1,479	4,256
Over 2 years	386	456
	18,643	23,800

29. CONTRACT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Amounts received in advance of:		
– sales of fabric products (note i)	392	2,112
– printing and dyeing service (note ii)	1,226	365
	1,618	2,477

The following table shows how much of the revenue recognised in the years ended 31 December 2018 and 2017 relates to brought forward contract liabilities. There was no revenue recognised in the year ended 31 December 2018 and 2017 that related to performance obligations that were satisfied in a prior year.

Revenue recognised that was included in the contract liability balance at the beginning of the year:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of fabric products	1,983	2,035
Printing and dyeing service	312	135
	2,295	2,170

30. BANK BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Fixed-rate bank borrowings		
– Secured and guaranteed (note a)	45,146	81,832
– Secured and unguaranteed (note b)	50,000	–
– Unsecured and guaranteed (note c)	18,605	51,495
Total	113,751	133,327

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
The carrying amounts of the above bank borrowings are repayable*:		
Within one year	91,959	126,720
Within more than one year but no more than two years	2,742	1,980
Within more than two years but no more than five years	12,550	4,627
More than five years	6,500	–
	113,751	133,327
Less: amounts due within one year shown under current liabilities	(91,959)	(126,720)
Amounts shown under non-current liabilities	21,792	6,607

* The amounts due are based on the scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 December	
	2018	2017
Effective interest rate:		
Fixed-rate borrowings	4.33%–7.00%	4.35%–7.20%

30. BANK BORROWINGS (Continued)

Notes:

(a) The bank borrowings were secured by (i) pledge of property, plant and equipment held by the Group; (ii) the personal guarantee including Mr. Dai, Ms. Song and other independent personnels; (iii) charges over certain prepaid lease payments of the Group and/or Zhejiang Senlaite Industry and Trade Technology Limited# (浙江森萊特工貿科技有限公司), a related party of the Group, which was 63.81% held by Changxing Hengli, ("**Zhejiang Senlaite**") (see note 41); and (iv) equity interest in Zhejiang Changxin Rural Commercial Bank classified as "financial asset mandatorily measured at FVTPL" held by the Group in note 22. All the abovementioned secured assets and/or guarantee are received at nil consideration.

(b) The bank borrowings were secured by charges over certain prepaid lease payments and pledge of property, plant and equipment of the Group and Zhejiang Senlaite. All the abovementioned secured assets are received at nil consideration.

(c) The bank borrowings were guaranteed by the personal guarantee including Mr. Dai and Ms. Song (see note 41) and/or independent third-parties. All the abovementioned guarantees are received at nil consideration.

The abovementioned guarantees received from and secured assets provided by related parties had been fully released before Listing.

The Group's bank borrowings that are denominated in currency other than the functional currency of the relevant group entity is set out below:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Analysis of bank borrowings by currency		
Denominated in US$	**5,213**	4,032

English name is for identification purpose only.

31. FINANCE LEASE OBLIGATIONS

It is the Group's policy to lease certain of its automatic dye ingredient system and other equipment under finance leases. The original lease terms are two years and the corresponding interest rates range from 7.08% (2017: 7.08%) per annum for the year ended 31 December 2018.

	Minimum lease payments As at 31 December		Present value of minimum lease payments As at 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Obligations under finance lease:				
Within one year	**–**	2,800	**–**	2,616
In the second year	**–**	–	**–**	–
	–	2,800	**–**	2,616
Less: future finance charges	**–**	(184)	**–**	N/A
Present value of lease obligations	**–**	2,616	**–**	2,616
Amount due for settlement within 12 months (shown under current liabilities)			**–**	(2,616)

32. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for the financial reporting purposes:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets	**917**	664

32. DEFERRED TAX ASSETS/LIABILITIES (Continued)

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

	Loss allowance for receivables RMB'000	Impairment losses on investment properties RMB'000	Deferred income RMB'000	Unrealised profit RMB'000	Fair value changes on financial asset mandatorily measured at FVTPL RMB'000	Total RMB'000
At 1 January 2017	657	368	–	126	–	1,151
(Charge) credit to profit or loss	(469)	(20)	–	2	–	(487)
At 31 December 2017	188	348	–	128	–	664
Effect arising on adoption of IFRS 9	27	–	–	–	(789)	(762)
Adjusted balance at 1 January 2018	215	348	–	128	(789)	(98)
Credit (charge) to profit or loss	105	(19)	1,050	130	(251)	1,015
At 31 December 2018	320	329	1,050	258	(1,040)	917

As at 31 December 2017, the Group had deductible temporary differences of RMB22,081,000 arising from the accumulated share of losses from the Group's associate. No deferred tax asset has been recognised in relation to such deductible temporary differences as at 31 December 2017 as the Group do not anticipate to utilize the loss by disposing such equity interest in the associate. No such deductible temporary differences as at 31 December 2018 along with the Group's disposal of the associate completed 30 March 2018.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2018, deferred taxation has not been provided for in the consolidated financial statements in respect of all temporary differences attributable to undistributed profits of the PRC subsidiaries attributable to owners of the Company amounting to RMB29,907,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There were no other significant unrecognised temporary differences as at 31 December 2018 and 2017.

33. PAID-IN/SHARE CAPITAL

The paid-in/share capital of the Group as at 31 December 2017 represented the combined paid-in/share capital of the Company and Huzhou Narnia attributable to owners of the Company, while the share capital of the Group as at 31 December 2018 represented the share capital of the Company following the completion of Group Reorganisation.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Name of the entities		
The Company (note i)	**325**	325
Huzhou Narnia (note ii)	**NA***	79,247
	325	79,572

Note i:

Details of movements of authorised and issued capital of the Company are as follow:

	Par value	Number of shares	Share capital	Share capital presented in RMB
	US$		US$'000	RMB'000
Authorised and issued				
On 1 September 2017 (date of incorporation), 31 December 2017 and 31 December 2018	1.00	50,000	50	325

Note ii:

	Number of shares	Paid-in capital
		RMB'000
Ordinary share of RMB1.00 each		
Issued and fully paid		
As at 1 January 2017	80,265,000	80,265
Partial disposal (note a)	(1,018,500)	(1,018)
As at 31 December 2017	79,246,500	79,247

* Upon completion of the Group Reorganisation, Huzhou Narnia became a wholly-owned subsidiary of the Company

Note a: During the year ended 31 December 2017, the Controlling Shareholders and Changxing Hengli transferred 1.0% equity interest of Huzhou Narnia in aggregate to a number of independent third parties without losing control, resulting in a reduction of 1,018,000 shares of Huzhou Narnia attributable to the Controlling Shareholders.

33. PAID-IN/SHARE CAPITAL (Continued)

Other than the share allotments above, no other share issuance transaction has been undertaken by the Company since its date of incorporation to 31 December 2018.

34. OPERATING LEASE ARRANGEMENT

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2018 are RMB360,000 (2017: nil).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	360	–
In the second year to fifth year inclusive	930	–
	1,290	–

Operating lease payments represent rentals payable by the Group for certain of its equipment. Leases are negotiated with fixed lease term 3 years.

The Group as lessor

At the end of each reporting period, the Group had commitments for future minimum lease receivables under non-cancellable operating leases in respect of rented premises which fall due as follow:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	220	120
In the second year to fifth year inclusive	160	180
	380	300

Operating lease receivables represent rentals receivable by the Group for its investment properties. Leases are negotiated with fixed lease term ranging from 2 to 3 years.

35. CAPITAL COMMITMENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	–	1,169

36. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged certain assets as securities for the Group's bank borrowings and banking facilities. As at 31 December 2017, part of the Group's pledged assets are for Mr Dai's personal borrowings. As at 15 August 2018, Mr Dai's personal borrowings fully repaid and the pledge had been released. Details of the pledged assets and the corresponding carrying amounts are set out below:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	47,310	55,789
Prepaid lease payments	6,849	7,019
Investment properties	9,174	6,748
Available-for-sale investment	–	13,064
Unlisted equity investment mandatorily measured at FVTPL	20,000	–
Interest in an associate	–	12,922
	83,333	95,542

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists net debt, which includes bank borrowings, non-trade nature of amounts due to related parties, finance lease obligations, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued paid-in/share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

38. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial asset mandatorily measured at FVTPL	20,000	–
Available-for-sale investment, at cost	–	13,064
Financial assets measured at amortised cost (including cash and cash equivalent)	28,347	–
Loans and receivables (including cash and cash equivalent)	–	20,171
Receivables at FVTOCI	100	–
	48,447	33,235
Financial liabilities		
Finance lease obligations	–	2,616
Financial liabilities at amortised cost	140,069	163,633
	140,069	166,249

Financial risk management objectives and policies

The major financial instruments include available-for-sale investment, financial asset mandatorily measured at FVTPL, trade, bills and other receivables, receivables at FVTOCI, bank balances and cash, trade and other payables, bills payables, bank borrowings, dividends payable and finance lease obligations.

Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

38. FINANCIAL INSTRUMENTS (Continued)

Currency risk

During the year ended 31 December 2018, approximately 28% (2017: 27%) of the Group's sales and approximately 0.53% (2017: 0.37%) of the Group's purchase is denominated in currency other than the functional currency of the relevant group entities making the sale and purchase.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currency other than the respective group entities' functional currencies at the end of each reporting period are as follows:

	Liabilities		Assets	
	As at 31 December		As at 31 December	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**5,344**	4,450	**11,546**	7,447

The Group currently does not have a foreign currency hedging policy as the management of the Group considers that the foreign exchange risk exposure of the Group is minimal. The Group will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2017: 10%) decrease in the functional currency of the relevant group entities against the foreign currency. 10% (2017: 10%) is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% (2017: 10%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year where the functional currency of relevant group entities weakening against the relevant foreign currencies. For a 10% (2017: 10%) strengthen of the functional currency of relevant group entities, there would be an equal and opposite impact on the profit after tax.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
US$	**527**	255

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

38. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and finance lease obligations (detailed in notes 30 and 31). The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank balances.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

In the opinion of the directors of the Company, no sensitivity analysis is prepared for the interest rate risk since the impact to the Group's post-tax profit for the year during the year ended 31 December 2018 and 2017 is not significant.

Credit risk

Credit risk refers to the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group considers all elements of credit risk exposure such as counterparty default risk and sector risk for risk management purposes.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In the opinion of the directors of the Company, the risk of default in payment of the bills receivables is low because all bills receivables are issued and guaranteed by reputable PRC banks.

The credit risk on bank balances is limited because the counterparties are banks with good reputations.

The Group has concentration of credit risk as 3.3% (2017: nil as all settled) of the total trade receivables was due from the Group's largest customer and as 29.3% (2017: 25.1%) of the total trade receivables was due from the five largest customers, as at 31 December 2018.

38. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Group's exposure to credit risk after adoption of IFRS 9

After the adoption of the IFRS 9, in addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, except for trade receivables, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12m ECL.

Trade receivables

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items on an individual basis for customer with credit-impaired balance and/or assessed collectively for remaining debtors, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast of conditions at the reporting date.

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. For the year ended 31 December 2018, none of the trade receivables that had been written off as the directors of the Company assessed that no counterparties were in severe financial difficulty and the prospect of recovery was still realistic.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk gradings to categorise exposures according to their degree of risk of default.

The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

38. FINANCIAL INSTRUMENTS (Continued)

Trade receivables (Continued)

The Group determines the ECL on these items by (i) assessed individually for certain debtors with credit-impaired balance and/or (ii) assessed collectively for remaining debtors based on historical credit loss experience on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the end of each reporting period.

The following table details the risk profile of trade receivables:

As at 31 December 2018

	Trade receivables-day past due				
	Not past due	Within 3 months	3-6 months	Over 6 months (credit impaired)	Total
	(not credit impaired)				
Weighted average expected credit loss rate	1.74%	2.15%	2.22%	N/A*	
Estimated total gross carrying amount at default (RMB'000)	16,421	3,019	2,161	1,337	22,938
Lifetime ECL (RMB'000)	(285)	(65)	(48)	(1,067)	(1,465)
	16,136	2,954	2,113	270	21,473

* These credit impaired debtors were assessed individually.

38. FINANCIAL INSTRUMENTS (Continued)

Trade receivables (Continued)

The following table shows the Group's credit risk grading framework in respect of financial assets other than trade receivables:

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Other receivables

For other receivables, the Group has applied the general approach in IFRS 9 to measure the loss allowance approximate to such at 12m ECL, since the directors of the Company assessed there is no any significant increase in credit risk since initial recognition.

Bank balances and receivables at FVTOCI

The bank balances and receivables at FVTOCI are determined to have low risk at the end of the reporting period. The credit risk on bank balances and receivables at FVTOCI are limited because the counterparties are reputable banks and the risk of inability to pay or redeem at the due date is low.

38. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

In respect of the bank borrowings with carrying amount of RMB113,751,000 as at 31 December 2018, of which RMB91,959,000 will be matured in the coming next 12 months after 31 December 2018 in accordance with the repayment schedule of the respective agreements, the directors of the Company are of the view that the Group would be able to renew the majority of these borrowings upon their maturity, based on the relationship and successful renewal history with the banks. Furthermore, as at 31 December 2018, the Group has available unutilised banking facilities amounted to RMB33,800,000.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	On demand and within one year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018							
Trade and other payables	–	26,318	–	–	–	26,318	26,318
Bank borrowings – at fixed rate	6.28%	96,611	3,976	14,517	8,536	123,640	113,751
TOTAL		122,929	3,976	14,517	8,536	149,958	140,069

	Weighted average effective interest rate	On demand and within one year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017						
Trade and other payables	–	30,214	–	–	30,214	30,214
Dividends payable	–	92	–	–	92	92
Bank borrowings – at fixed rate	5.74%	130,121	2,251	4,879	137,251	133,327
Finance lease obligations	7.08%	2,800	–	–	2,800	2,616
TOTAL		163,227	2,251	4,879	170,357	166,249

38. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

Upon adoption of IFRS 9, the Group's investment in an unlisted equity investment amounted was accounted for as financial asset mandatorily measured at FVTPL as at 1 January 2018 and 31 December 2018 of which amounted to RMB18,328,000 and RMB20,000,000 is under level 3 and level 2 fair value hierarchy, respectively. The fair value as at 1 January 2018 has been arrived at on the basis of valuation carried out by a firm of independent professional valuers. Its fair value was determined by market approach by determining the appraisal value of the asset using market multiples of public company and applying a discount on lack of marketability of the unlisted equity investment. The significant unobservable input to the market approach being the market multiples of comparable companies and discount on lack of marketability. The fair value as at 31 December 2018 has been determined by the transaction price agreed with an independent third party closed to the end of reporting period. The directors of the Company are of the opinion that the transaction price could best represent the fair value of the corresponding financial asset as at 31 December 2018.

The Group's receivables at FVTOCI of which RMB100,000 are under level 2 fair value hierarchy. Its fair values were determined by discounted cash flows method at which the estimated future cash flows are discounted at market interest rate that reflects the time value to the dates of settlement.

38. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

The following table represents the changes in financial asset mandatorily measured at FVTPL:

As at 31 December 2018

	Financial asset mandatorily measured at FVTPL RMB'000
At 31 December 2017	–
Adjustment upon adoption of IFRS 9	18,328
Adjusted balance at 1 January 2018	18,328
Total gain recognised in profit or loss	1,672
At 31 December 2018	**20,000**

Of the total gain for the year ended 31 December 2018 included in profit or loss, the amount of RMB1,672,000 relates to the increase in fair value in respect of unlisted equity investment held as at 31 December 2018. Total unrealised gain on financial asset mandatorily measured at FVTPL is included in "other gains and losses" in note 9.

39. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of Financial Position

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current asset		
Investment in a subsidiary (note)	84,206	329
Current assets		
Other receivables	4,071	325
Bank balances and cash	7	–
	4,078	325
Current liability		
Other payables	17,504	329
Net current liabilities	(13,426)	(4)
Total assets less current liabilities	70,780	325
Capital and reserves		
Share capital	325	325
Reserves	70,455	–
Total Equity	70,780	325

Note: Investment in a subsidiary represents the investment cost of Autumn Sky Star Investment Limited ("**Autumn Sky**").

(b) Movements of the Company's reserves

	Other Reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
On 1 September 2017 (date of incorporation) and 31 December 2017	–	–	–
Capital contribution received from the Controlling Shareholders arising from Group Reorganisation	83,552	–	83,552
Loss and total comprehensive expenses for the year	–	(13,097)	(13,097)
At 31 December 2018	83,552	(13,097)	70,455

40. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those 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.

	Bank borrowings RMB'000 (note)	Bank acceptance bills financing payable RMB'000	Consideration payable RMB'000	Capital reduction payable RMB'000	Accrued issue cost RMB'000	Amounts due (from) to related parties RMB'000	Dividend payables RMB'000	Interest payables RMB'000	Finance lease obligations RMB'000	Total RMB'000
At January 2017	124,396	–	–	–	–	–	–	432	4,959	129,787
Financing cash flows	9,399	(14,720)	–	–	–	–	(25,676)	(7,576)	(2,880)	(41,453)
Non-cash changes										
Accrued finance cost (note 11)	–	–	–	–	–	–	–	7,665	537	8,202
Dividends (note 15)	–	–	–	–	–	–	25,768	–	–	25,768
Transaction of bank acceptance bills	–	14,720	–	–	–	–	–	–	–	14,720
Issue shares	–	–	–	–	–	(325)	–	–	–	(325)
Foreign exchange translation	(468)	–	–	–	–	–	–	–	–	(468)
At 31 December 2017	133,327	–	–	–	–	(325)	92	521	2,616	136,231
Financing cash flows	(19,834)	–	(83,877)	(35,000)	(3,880)	878	(92)	(7,348)	(2,800)	(151,953)
Non-cash changes										
Issue costs accrued	–	–	–	–	4,071	–	–	–	–	4,071
Accrued finance cost (note 11)	–	–	–	–	–	–	–	7,025	184	7,209
Dividends (note 15)	–	–	–	–	–	–	–	–	–	
Capital reduction	–	–	–	35,000	–	–	–	–	–	35,000
Consideration payable for the acquisition of Huzhou Narnia	–	–	83,877	–	–	–	–	–	–	83,877
Foreign exchange translation	258	–	–	–	–	–	–	–	–	258
At 31 December 2018	113,751	–	–	–	191	553	–	198	–	114,693

41. RELATED PARTY DISCLOSURES

Related party transactions

Saved as disclosed elsewhere in this report, the Company had also entered into the following significant related party transactions.

	Nature of transactions	Year ended 31 December 2018 RMB'000	2017 RMB'000
Zhejiang Senlaite (defined in note 30)	Rental expenses	144	–
Zhejiang Jinbakai Plant Products Changxing Base Co., Ltd.# (浙江金巴開植物製品長興基地有限公司) (“**Zhejiang Jinbakai**”) (note)	Expense of steam and electricity for production	864	559
		1,008	559

Note: The directors of the Company consider Zhejiang Jinbakai is a related party as Ms. Song, who is one of the Controlling Shareholders of the Group, is a key management personnel of Zhejiang Jinbakai.

During the year ended 31 December 2018, certain of the Group's assets were pledged to secure short-term bank borrowings granted to Mr. Dai with the amount of RMB3,000,000 from 6 February 2018 to 15 January 2019. On 15 August 2018, Mr. Dai had fully settled such bank borrowings. Therefore, on the same date, the Group's pledged of assets granted in relation to such bank borrowing is fully released.

Guarantees and pledged of assets provided by related parties

At 31 December 2018, the Controlling Shareholders and/or Zhejiang Senlaite had provided guarantees and/or securities to banks in respect of the Group's bank borrowings amounted to RMB39,313,000 (2017: RMB81,832,000). The guarantees and/or securities granted to banks provided by the Controlling Shareholders and/or Zhejiang Senlaite as at 31 December 2018 had been fully released before Listing.

English name is for identification purpose only.

41. RELATED PARTY DISCLOSURES (Continued)

Compensation of key management personnel

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other benefits	378	285
Retirement benefit scheme contributions	90	79
Discretionary performance related bonus	479	111
	947	475

The remuneration of directors and key executive are determined with reference to the performance of individuals and market trends.

Related party balances

Prepayment to related party – trade nature

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Zhejiang Senlaite	199	–

Amounts due from related parties – non-trade nature

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Spring Sea (note)	–	192
Summer Land (note)	–	133
	–	325

41. RELATED PARTY DISCLOSURES (Continued)

Related party balances (Continued)

Amounts due from related parties – non-trade nature (Continued)

For amount due from a related party which is controlled by a director of the Company which is non-trade in nature, the maximum amounts outstanding during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Spring Sea (note)	**192**	192

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Spring Sea (note)	**433**	–
Summer Land Star Investment Limited (“**Summer Land**”) (note)	**120**	–
	553	–

Note: The two entities are shareholders of the Company.

Pursuant to the Capitalisation Agreement dated on 28 January 2019, the shareholders of Spring Sea and Summer Land agree to waive the non-trade nature receivables among to RMB553,000 prior to the Listing of the Company. The amounts due to related parties of non-trade nature as at 31 December 2018 had been capitalised by crediting to the capital reserve of the Company with effect on 31 January 2019.

41. RELATED PARTY DISCLOSURES (Continued)

Related party balances (Continued)

Amounts due to a related party – trade nature

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Zhejiang Jinbakai	**–**	197

No general credit terms are granted to the amounts due to a related party of trade in nature. The following is an aged analysis of amounts due to a related party of trade in nature presented based on the receipts of goods by the Group at the end of each reporting period:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**–**	197

The amounts due from/to related parties which are non-trade in nature are unsecured, interest free and repayable on demand.

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of establishment	Paid-in share capital	Shareholding/equity interest attributable to owner of the Company as at 31 December 2018	2017	Principal activity
Directly held:					
Autumn Sky	BVI 16 October 2017	USD$50,000	100%	77.81%	Investment holding
Indirectly held:					
Hengye Development	Hong Kong 30 October 2017	HK$10,000	100%	77.81%	Investment holding
Huzhou Narnia Industry Co., Ltd	the PRC 5 August 2002	RMB66,850,000	100%	77.81%	Manufacture and sale of fabrics and provision of printing and dyeing services
Narnia International	Hong Kong 25 July 2013	USD$8,000,000	100%	77.81%	Investment holding
Changxing Seashore	the PRC 23 October 2012	USD$8,000,000	100%	77.81%	Textile manufacturing

None of the subsidiaries had issued any debt securities at the end of both years.

43. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group obtained additional source of financing by acquiring bank acceptance bills amounted to RMB14,820,000 from independent third parties and used these bills transferred to suppliers for settling trade payables with the same amounts. Subsequently, the Group used a combination of the bank acceptance bills received from customers with carrying amount of RMB100,000 and cash of RMB14,720,000 during the year ended 31 December 2017, to settle the respective acquired bank acceptance bills. Since 2 May 2017, the Group ceased the abovementioned bills financing arrangement.

44. EVENT AFTER THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period:

Listing of the Company

The Company is listed on GEM of the Stock Exchange on 26 February 2019. Based on the offer price of HK$0.40 per share, the net proceeds with 200,000,000 shares offered from the Placing and the Public Offer ("Share Offer") after deduction of the underwriting commissions and fees and other related expenses were approximately HK$57,578,000 (equivalent to RMB48,795,000 at the rate of HK$1.18 to RMB1.00 on 26 February 2019).

Capitalisation issue of shares

In contemplation of the Share Offer and the capitalisation issue, each share of US$1 was subdivided into 1,000 Shares of US$ 0.001 each pursuant to the shareholders' written resolutions passed on 29 January 2019. The Company then remained owned as to approximately 78.81% by Spring Sea and approximately 21.19% by Summer Land immediately after the sub-division of shares.

The management of the Group was authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of the Company by applying such sum towards RMB equivalent to pay up in full at par a total of 550,000,000 shares for allotment and issue, immediately prior to the share offer, to the shareholders whose names appear on the register of members of the Company as of 29 January 2019, on a pro rata basis.

Grant of share option scheme

The share option scheme was conditionally adopted by the resolutions in writing of the Shareholders of the Company passed on 29 January 2019. Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing from the effective date offer to grant to any eligible persons, including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for shares. Up to the date of issuance of these consolidated financial statements, no option is granted under this scheme.

Appointment of non-executive directors

On 29 January 2019, the Company appointed Mr. Leung Ka Tin, Mr. Yu Chung Leung and Dr. Liu Bo as Company's independent non-executive directors for an initial fixed term of one year commencing immediately.

FINANCIAL SUMMARY

The following table summarizes the consolidated results of our Group for the three years ended 31 December:

	For the year ended 31 December		
	2018	2017	2016
	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS			
Revenue	**332,336**	238,309	242,386
Gross profit	**66,510**	46,062	35,004
Profit before taxation	**51,369**	20,532	10,943
Income tax	**(5,287)**	(2,759)	(2,022)
Profit for the year	**46,082**	17,773	8,921
Attributable to:			
Owners of the Company	**39,293**	13,947	8,353

	As at 31 December		
	2018	2017	2016
	RMB'000	RMB'000	RMB'000
CONSOLIDATED ASSETS AND LIABILITIES			
Total assets	**253,590**	258,024	274,144
Total liabilities	**(156,022)**	(173,919)	(182,369)
Equity attributable to owners of the Company	**97,568**	65,439	72,325
Non-controlling interests	**–**	18,666	19,450

Note:

The consolidated results and summary of assets and liabilities for the year ended 31 December 2016 and 2017 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at time when the Company's Shares were listed on GEM of the Stock Exchange, had been in existence through those years.