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

2019
ANNUAL REPORT

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NARNIA GROUP

DIRECTORS

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

Independent Non-executive Directors
Mr. Leung Ka Tin (resigned on 27 September 2019)
Dr. Liu Bo
Mr. Yu Chung Leung
Mr. Song Jun (appointed on 27 September 2019)

AUDIT COMMITTEE MEMBERS
Mr. Yu Chung Leung *(Chairman)*
Dr. Liu Bo
Mr. Leung Ka Tin (resigned on 27 September 2019)
Mr. Song Jun (appointed on 27 September 2019)

NOMINATION COMMITTEE MEMBERS
Dr. Liu Bo *(Chairman)*
Mr. Leung Ka Tin (resigned on 27 September 2019)
Mr. Mr. Yu Chung Leung
Mr. Song Jun (appointed on 27 September 2019)

REMUNERATION COMMITTEE MEMBERS
Mr. Leung Ka Tin *(Chairman)*
(resigned on 27 September 2019)
Dr. Liu Bo
Mr. Yu Chung Leung
Mr. Song Jun *(Chairman)*
(appointed on 27 September 2019)

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

COMPLIANCE OFFICER
Mr. Dai Shunhua

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

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COMPANY'S WEBSITE
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STOCK CODE
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FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2019 RMB'000	2018 RMB'000	Changes Increase/ (decrease)
Financial Highlights			
Revenue	**329,562**	332,336	(0.8)%
Cost of sales	**(264,507)**	(265,826)	(0.5)%
Gross profit	**65,055**	66,510	(2.2)%
Profit before taxation	**34,910**	51,369	(32.0)%
Profit for the year	**31,244**	46,082	(32.2)%
Profit attributable to equity shareholders/owners of the Company	**31,244**	39,293	(20.5)%
Basic earnings per share (RMB cents)	**4.06**	6.60	(38.5)%
Proposed final dividend per share (HK cents)	**Nil**	Nil	0.0%

	As at 31 December 2019	2018	Changes Increase/ (decrease)
Liquidity and Gearing			
Current ratio (Note 1)	**1.41**	0.95	48.4%
Quick ratio (Note 2)	**0.69**	0.41	68.3%
Asset-liability ratio (Note 3)	**31.8%**	44.9%	(13.1)%

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%.

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of Narnia (Hong Kong) Group Company Limited, I hereby take pride and pleasure in presenting the annual report of the Company for the year ended 31 December 2019 (the "**Year Under Review**") to our shareholders (the "**Shareholders**") and potential investors.

The year of 2019 was a stable year of the Group where we have seen growth and steady transition while maintaining stability for the Group. Notwithstanding the impact of adverse factors such as the trade frictions between the People's Republic of China (the "**PRC**") and the United States (the "**US**"), the complex and volatile domestic and international economic situations, and prominent problems arising from the instability and uncertainties about global economy, leveraging on years of successful business achievement, the Company's shares were successfully listed on GEM of the Stock Exchange on 26 February 2019 (the "**Listing**"), upon which the Company 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.

YEAR UNDER REVIEW

During the year under Review, with its sound business development strategies and effective implementation, the Group recorded a total revenue of approximately RMB329.6 million for the year ended 31 December 2019, representing a slight decrease of 0.8% as compared to the previous year of approximately RMB332.3 million. Profit attributable to Shareholders was approximately RMB31.2 million, representing a decrease of approximately RMB8.1 million or 20.5% as compared to the previous year of approximately RMB39.3 million. The decrease was mainly due to the drop in other gains of approximately RMB23.0 million which was a gain on disposal of an associate in 2018 which was absent during the Year Under Review, partially offset by the government subsidies received in connection with the Listing amounting to approximately RMB14.5 million. The overall gross profit margin slightly decreased by 0.3% from 20.0% for the year ended 31 December 2018 to 19.7% for the Year Under Review. Earnings per share was RMB4.06 cents, representing a decrease of 38.5% as compared to the previous year of RMB6.60 cents. During the Year Under Review, the Company declared and paid an interim dividend of HK2 cents per share, representing a total dividend amount of HK$16,000,000. 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

The Company is committed to maintaining a high standard of corporate governance to the greatest extent practicable, with an emphasis on principles of integrity, transparency, accountability and fairness. The Board believes that good corporate governance is crucial to the success of the Company and the creation of Shareholder value.

The Board is also dedicated to creating value and securing maximum returns for Shareholders. The Board will continue to review and raise the quality of corporate governance practices with reference to local and international standards. The Company also welcomes any feedback suggestions from Shareholders, which help to raise the Company's transparency. Following the successful Listing of the Company, the Group will continue to improve the level of its corporate governance and reinforce risk prevention and profit-making capabilities of the Group.

FUTURE OUTLOOK

Since the outbreak of the novel coronavirus (COVID-19) epidemic (the "Epidemic") in early 2020, the Chinese government authorities have taken a timely approach to adopt Epidemic prevention measures, such as temporarily closing public places, checking the travel routes of employees, and restricting employees from returning to work at local enterprises. As a result, the Group's factories in China halted production since 24 January 2020 to prevent the spread of the Epidemic, and have resumed work on 21 February 2020. At present, the Group is carrying out normal operations. Due to the fact that the Epidemic in China as at the date of this report turned to become more stable, it did not result in any material adverse impacts on the Group's production. However, due to the worsening situation of the Epidemic in overseas markets, our sales and profit have suffered adverse impacts to a certain extent, and the management has been assessing the impact brought by the Epidemic on the financial results of the Group for the next few months. Based on the development of the epidemic outside China, we will adjust our sales model and profit forecast in time. At the moment, we expect the development of the epidemic will not result in significant adverse impacts to the Group's continuing operation.

In 2020, the Group is still facing a complex and volatile economic environment and unprecedented challenges, the Group keeps moving forward to strive for opportunities and the development of its core business with an aim to increasing the market share of its major products.

Looking ahead, the Group will continue to evaluate the commercial feasibility of various products with the aim to expand and broaden our revenue source for sustained growth and profitability. Leveraging the Group's existing competitive advantages, we are confident that our experienced professional teams and our provision of high quality products and services to customers will keep it well-positioned to capture the surging business opportunities.

Following our successful Listing, 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, which will enable us to capitalise growth opportunities ahead.

APPRECIATION

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 advance our 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, 31 March 2020

INDUSTRY REVIEW

In 2019, China's economy remained robust with steady improvement and the reform of economy has achieved certain result in optimising the economic structure of China. In 2019, the textile industry experienced rapid changes. Due to tightening environmental policies and the rise of Southeast Asia's textile industry and manufacturing chain relocation, numerous factors are forcing the textile industry in China to undergo further transformation and move towards developing high-end and high quality products. Still, as a populous country, China has demonstrated growing demand for textile products. Such trend will 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 stimulates the overall textile industry in China.

Through continuous advancement of technology and innovation, 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. Stimulated by continuous technological innovation, uncompetitive manufacturers will be eliminated from the textile fabric production industry. This will spell tough times for the development of small companies, but it also presents opportunity for medium and large companies in the textile industry.

In order to promote industrial advancement, players in the textile fabric manufacturing industry forge mutual connections through the formation of intra-regional industrial clusters. In this way, the textile industry has formed industrial alliance groups. By leveraging shared resources of various enterprises, an industrial alliance group 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, which keep companies informed of market dynamics and allow them to work out timely strategies. Such industrial alliance groups provide advantages for companies, allowing them to create economies of scale, thus driving the sustainable development of overall textile fabric manufacturing industry.

BUSINESS REVIEW

The Group continued to focus on strengthening its core business of production, dyeing and processing textile products. Besides maintaining business relationships with loyal customers, we have spent more effort in seeking new customers to increase our market share.

During the Year Under Review, the Group increased promotional efforts for its new products. A primitive market has formed for eco-friendly functional fabric products, as domestic and overseas customers have started the application of those products 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 has begun to reach scale.

The Group put strong emphasis in investment in research and development of new products and technology. During the Year Under Review, the Group collaborated with Soochow University to develop new products. The polyester woven beding fabric produced by the Company was successful in passing green product verification. It has established a Zhejiang post-doctoral workshop, the Zhejiang Narnia Ecological Functional Fabric Research Institute. It was rated 2019 provincial "Hidden Champion" nurturing company and Huzhou municipal water conservation company. The Group led and formulated a national standard for inspecting defects in printed and dyed fabrics, for which the China Filament Weaving Association awarded us the 2019 industrial technology innovation award and honoured us as top 50 in economic benefits to the filament weaving industry.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Sales of fabrics	**202,664**	**61.5**	219,473	66.0
Service revenue from processing, printing and dyeing service	**126,898**	**38.5**	112,863	34.0
Total	**329,562**	**100.0**	332,336	100.0

Our total revenue was approximately RMB329.6 million for the year ended 31 December 2019 (2018: approximately RMB332.3 million), representing a slight decrease of 0.8% 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 decreased by approximately 7.7% from approximately RMB219.5 million for the year ended 31 December 2018 to approximately RMB202.7 million for the year ended 31 December 2019, reflecting the decrease of total volume of fabrics sold from approximately 48.8 million metres for the year ended 31 December 2018 to approximately 38.8 million metres for the year ended 31 December 2019, primarily as a result of the decreased sales orders for fabric products from our customers.

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 in related revenue of approximately RMB14.0 million or 12.4% from approximately RMB112.9 million for the year ended 31 December 2018 to approximately RMB126.9 million for the year ended 31 December 2019, 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 29.9% for the service revenue from printing and dyeing compared to approximately 13.4% 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 2019. As a result of the technical upgrade, the total number of our dyeing and setting machines increased from 24 to 62 and from 5 to 13 respectively.

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			
	2019		2018	
	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	**38.8**	**5.22**	48.8	4.50
Service revenue from processing, printing and dyeing service	**192.9**	**0.66**	188.1	0.60
Total	**231.7**	**1.42**	236.9	1.40

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 increased to approximately RMB5.22 per metre for the year ended 31 December 2019 as a result of our sales mix shifted to higher end products (2018: approximately RMB4.50 per metre). For the printing and dyeing service, the average unit selling price were maintained at a level of RMB0.66 per metres for the year ended 31 December 2019 (2018: approximately RMB0.60 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Raw materials	**176,959**	**66.9**	192,458	72.4
Utility costs	**57,155**	**21.6**	48,912	18.4
Direct labour costs	**16,719**	**6.3**	9,038	3.4
Depreciation	**10,204**	**3.9**	10,633	4.0
Others (Note)	**3,470**	**1.3**	4,785	1.8
Total	**264,507**	**100.0**	265,826	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 66.9% of our total cost of sales and services for the year ended 31 December 2019 (2018: approximately 72.4%). 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 RMB177.0 million for the year ended 31 December 2019 (2018: approximately RMB192.5 million). The decrease of approximately RMB15.5 million in our raw materials consumed was generally in line with the decrease in the units of fabric products sold and partially off-set by the increase in the purchase costs of chemical fibres in 2019.

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 21.6% of our total cost of sales and services for the year ended 31 December 2019 (2018: approximately 18.4%). Utility costs increased approximately RMB8.2 million or 16.9% for the year ended 31 December 2019 compared to that of 2018, 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 6.3% of our total cost of sales and services for the year ended 31 December 2019 (2018: approximately 3.4%). The direct labour cost recognised in cost of sales and services increased by approximately 85.0% from approximately RMB9.0 million for the year ended 31 December 2018 to approximately RMB16.7 million for the year ended 31 December 2019, primarily as a result of hiring more production staff from 312 production staff members as at 31 December 2018 to 321 production staff members as at 31 December 2019, and with an increased average wages per headcount.

FINANCIAL REVIEW (Continued)

Gross profit and gross profit margin

Our gross profit was approximately RMB65.1 million for the year ended 31 December 2019 (2018: approximately RMB66.5 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			
	2019		2018	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Sales of fabrics	**27,151**	**13.4**	28,531	13.0
Service revenue from processing, printing and dyeing service	**37,904**	**29.9**	37,979	33.7
Total/overall	**65,055**	**19.7**	66,510	20.0

The gross profit margin of our sales of fabrics increased by approximately 0.4% from approximately 13.0% for the year ended 31 December 2018 to approximately 13.4% for the year ended 31 December 2019. Such increase was mainly due to the change in product mix of the purchase orders from our customers.

For the year ended 31 December 2019, the gross profit margin of our processing, printing and dyeing service was approximately 29.9% (2018: approximately 33.7%). Such decrease was mainly due to the increase in the cost of chemicals.

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	
	2019	2018
	RMB'000	RMB'000
Interest income	**226**	17
Net gain on sales of scraps	**–**	1,937
Government subsidies	**18,431**	4,525
Net gain on sales of raw materials	**3,437**	3,611
Investment income	**123**	–
Dividend income from unlisted equity securities mandatorily measured at FVTPL	**1,097**	1,059
Rental income	**179**	166
Others	**83**	105
Total	**23,576**	11,420

Our other income was approximately RMB23.6 million for the year ended 31 December 2019 (2018: approximately RMB11.4 million). The increase of approximately RMB12.2 million for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was mainly due to the increase in government subsidies of approximately RMB13.9 million.

Government subsidies represented the subsidies received from local government in connection with the Company's Listing in 2019 amounting to approximately RMB14.5 million, the enterprise development support, innovation capabilities incentives and social insurance 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 2019, our customers requested raw materials from us for various uses, we thereby sold them the raw materials in stock, resulting in a net gain on sales of raw materials of approximately RMB3.4 million during the Year Under Review (2018: approximately RMB3.6 million).

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.

Dividend income from unlisted equity securities mandatorily measured at FVTPL represented the dividends received from the equity investment in Changxing Rural Commercial Bank owned by our Group for the year ended 31 December 2019. The dividends income were relatively stable.

FINANCIAL REVIEW (Continued)

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	
	2019	2018
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	**(11,344)**	(3,052)
Change in fair value of financial assets mandatorily measured at FVTPL	**–**	1,672
Gain on disposal of an associate	**–**	23,003
Net exchange gain/(loss)	**282**	(1,394)
Recognition of loss allowances on trade receivables	**(1,860)**	(448)
Reversal of loss allowances on other receivables	**–**	1
Total	**(12,922)**	19,782

Loss on disposal of property, plant and equipment primarily represented the loss incurred through disposing old or low-tech machinery and production equipment during the Year Under Review. The significant loss on disposal of property, plant and equipment for the year ended 31 December 2019 was mainly due to the disposal of low-tech machinery during the technical upgrade process of our fabric production facilities.

Gain on disposal of an associate 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 gain during the Year Under Review mainly caused by currency depreciation of RMB against United States Dollar.

Recognition of loss allowances on trade and other receivables were provided based on the management's assessment at each reporting date for expected loss rate on trade and other receivables.

FINANCIAL REVIEW (Continued)

Selling and distribution expenses

Our selling and distribution expenses principally comprise (i) export fees and 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) staff costs. The following table sets out a breakdown of our selling and distribution expenses during the Year Under Review:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Export and transportation expenses	**1,227**	**47.1**	1,268	56.9
Packaging expenses	**396**	**15.2**	710	31.9
Exhibition expenses	**389**	**14.9**	227	10.2
Staff costs	**508**	**19.5**	–	–
Others (Note)	**85**	**3.3**	22	1.0
Total	**2,605**	**100.0**	2,227	100.0

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

Our selling and distribution expenses increased by approximately RMB0.4 million or approximately 17.0% from approximately RMB2.2 million for the year ended 31 December 2018 to approximately RMB2.6 million for the year ended 31 December 2019. The increase was mainly due to an increase in staff costs of approximately RMB0.5 million, such staff costs was included in the administrative expenses for the year ended 31 December 2018.

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			
	2019		2018	
	RMB'000	%	RMB'000	%
Staff costs	**5,331**	**38.1**	8,173	53.3
Entertainment expenses	**681**	**4.9**	1,255	8.2
Agency fees	**609**	**4.4**	608	4.0
Office expenses	**577**	**4.1**	444	2.9
Professional service fees	**2,687**	**19.2**	1,515	9.9
Utility expenses	**611**	**4.4**	184	1.2
Depreciation and amortisation	**1,511**	**10.8**	1,362	8.9
Insurance expenses	**565**	**4.0**	306	2.0
Welfare expenses	**653**	**4.7**	638	4.2
Others (Note)	**758**	**5.4**	820	5.4
Total	**13,983**	**100.0**	15,305	100.0

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

Our administrative expenses decreased by approximately RMB1.3 million or approximately 8.6% from approximately RMB15.3 million for the year ended 31 December 2018 to approximately RMB14.0 million for the year ended 31 December 2019. The decrease was mainly a result of a decrease in staff costs of approximately RMB2.0 million due to re-classification of social insurance expenses of approximately 2.3 million to cost of sales and services and the re-classification of approximately RMB0.5 million to selling and distribution expenses in 2019, partially offset by the increase in average wages per headcount. The decrease was partially offset by the increase in professional service fees which was mainly due to the compliance adviser fees and legal adviser fees after Listing.

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 RMB11.6 million for the year ended 31 December 2019 (2018: approximately RMB9.1 million). The expenditure mainly 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 RMB2.5 million in research expenditure for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was mainly due to the increase in direct usage of different raw 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Donations	**100**	**17.4**	500	99.0
Others	**475**	**82.6**	5	1.0
Total	**575**	**100.0**	505	100.0

Our other expenses amounted to approximately RMB0.6 million for the year ended 31 December 2019 (2018: approximately RMB0.5 million), which were relatively stable as comparing to that of last year.

Finance costs

For the year ended 31 December 2019, our finance costs amounted to approximately RMB6.2 million (2018: approximately RMB7.2 million). Our finance costs mainly comprised of the interest expense on our bank borrowings. The finance cost decreased by approximately RMB1.0 million or 14.6% 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.

Under the EIT Law and Implementation Regulation of the EIT Law, Huzhou Narnia is allowed for 75% additional tax reduction for qualified research and development costs.

Our Group's effective tax rate was approximately 10.5% for the year ended 31 December 2019 (2018: approximately 10.3%). 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 recognised of approximately RMB5.8 million. The details are set out in Note 9 to the consolidated financial information.

Profit and other total comprehensive income for the year

As a result of the foregoing, the profit and other total comprehensive income for the year of our Group has decreased by approximately 32.2% from approximately RMB46.1 million for the year ended 31 December 2018 to approximately RMB31.2 million for the year ended 31 December 2019. Excluding the expenses incurred in connection with the Listing, profit would be approximately RMB37.1 million for the year ended 31 December 2019.

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, assets under installation and right-of-use assets. As at 31 December 2019, our property, plant and equipment amounted to approximately RMB111.7 million (2018: approximately RMB105.4 million). The significant increase in carrying amount of our property, plant and equipment during the year ended 31 December 2019 was mainly the results of (i) the replacement of obsolete production facilities during the technical upgrade and the continuous improvement of our production lines with new equipment and machinery, and (ii) land use rights reclassified to right-of-use assets upon the adoption of IFRS 16.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Property, plant and equipment (Continued)

During the year ended 31 December 2019, we have construction in progress transferred to buildings, production equipment and machinery amounted to approximately RMB6.4 million representing the completion of our factory expansion which we engaged independent third party construction companies to build these infrastructures.

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	
	2019	2018
	RMB'000	RMB'000
Raw materials	**66,690**	47,918
Work in progress	**4,874**	5,291
Finished goods	**22,191**	19,316
Total	**93,755**	72,525

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 increased from approximately RMB72.5 million as at 31 December 2018 to approximately RMB93.8 million as at 31 December 2019, which was mainly due to the increase in finished goods resulting from the sales recorded for the year ended 31 December 2019 and 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 2019 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	
	2019	2018
Average inventory turnover days (Note)	**115**	103

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 increased from 103 days for the year ended 31 December 2018 to 115 days for the year ended 31 December 2019. The increase in average inventory turnover days in 2019 was primarily due to the decrease in sales and increase in inventory.

Trade and other receivables

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**60,499**	22,938
Less: loss allowance for trade receivables	**(3,325)**	(1,465)
Trade receivables, net	**57,174**	21,473
Prepayments	**9,910**	1,463
Value added tax ("VAT") recoverable	**758**	1,186
Deferred issue costs	**–**	4,071
Interest receivable	**116**	–
Other receivables	**227**	1,265
Less: loss allowance for other receivables	**(2)**	(2)
Other receivables, net	**225**	1,263
Total	**68,183**	29,456

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other receivables (Continued)

Trade receivables

Our trade receivables primarily consist of trade receivables arising from sales of fabric products and the provision of printing and dyeing services 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 RMB22.9 million as at 31 December 2018 to approximately RMB60.5 million as at 31 December 2019 was mainly due to our higher total sales for the last three months of the year ended 31 December 2019 when compared to the last year, which resulted in a more trade receivables aged within 3 months as at 31 December 2019.

The following table sets out an ageing analysis of our trade receivables, net of loss allowance for trade receivables, presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**50,923**	19,090
Over 3 months but within 6 months	**5,731**	2,113
Over 6 months but within 1 year	**484**	192
Over 1 year but within 2 years	**36**	78
Total	**57,174**	21,473

Provision for impairment of trade receivables

During the Year Under Review, our management assessed impairments according to the expected loss rate considering their ageing and historical default rates.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade 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	
	2019	2018
Average trade receivables turnover days (Note)	**46**	21

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 days.

The Group's trade receivables turnover days for the year ended 31 December 2019 was approximately 46 days (2018: approximately 21 days). The increase of turnover days was mainly due to the increase in trade receivables.

Other receivables

Other receivables mainly include 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 and other sundry receivables.

Our other receivables increased by approximately RMB3.0 million or approximately 37.9% from approximately RMB8.0 million as at 31 December 2018 to approximately RMB11.0 million as at 31 December 2019, the increase of which was mainly attributable to the combined effect of (i) an increase of prepayment of approximately RMB8.4 million; (ii) a decrease of the VAT recoverable of approximately RMB0.4 million as a result of the settlement during the year ended 31 December 2019; (iii) the decrease of deferred issue costs of approximately RMB4.1 million for the qualifying portion of the listing expenses incurred for the year ended 31 December 2019 which was debited to equity upon Listing.

Restricted bank deposits

Our pledged bank deposits of approximately RMB10.1 million primarily consist of deposits amounting to approximately RMB10 million placed to a bank as security for a short-term bank borrowing of the Group.

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	
	2019	2018
	RMB'000	RMB'000
Trade payables		
– Due to third parties	**30,633**	18,643
Trade payables, net	**30,633**	18,643
Other payables		
– Other tax payables	**1,578**	1,052
– Payroll payables	**3,952**	2,425
– Interest payables	**132**	198
– Deferred income	**–**	7,000
– Payable for acquisition of property, plant and equipment	**3,876**	4,878
– Due to related parties	**–**	553
– Accrued issue costs and listing expenses	**–**	764
– Others (Note)	**4,344**	1,282
Total	**44,515**	36,795

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 increased by approximately RMB12.0 million when compared to last year as a result of more raw materials was purchased from our suppliers near the end of 2019.

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	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**16,319**	9,689
Over 3 months but within 6 months	**10,315**	5,204
Over 6 months but within 1 year	**2,826**	1,885
Over 1 year but within 2 years	**1,072**	1,479
Over 2 years	**101**	386
Total	**30,633**	18,643

Trade payables turnover days

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

	Year ended 31 December	
	2019	2018
Average trade payables turnover days (Note)	**29**	29

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 days.

The trade payables turnover days remained stable at 29 days for the two years ended 31 December 2019 and 2018.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables (Continued)

Other payables

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

Our other payables decreased from approximately RMB18.2 million as at 31 December 2018 to approximately RMB13.9 million as at 31 December 2019 mainly due to (i) the decrease in deferred income of approximately RMB7.0 million which represented a conditional government grant received in relation to the Listing and credited to profit or loss once our Company is successfully listed; and (ii) the decrease 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	
	2019	2018
	RMB'000	RMB'000
Amounts received in advance of:		
– sales of fabrics	**4,244**	392
– printing and dyeing services	**2,823**	1,226
Total	**7,067**	1,618

As at 31 December 2019, all of our contract liabilities were due within 12 months. The increase in contract liabilities from approximately RMB1.6 million as at 31 December 2018 to approximately RMB7.1 million as at 31 December 2019 was mainly due to the increase in 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 2019, our Group had cash and cash equivalents amounting to approximately RMB5.2 million (2018: approximately RMB5.6 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 2019, our net cash generated from operating activities amounted to approximately RMB7.4 million, which primarily reflected our profit before tax of approximately RMB34.9 million, as adjusted by (i) the increase in trade and other receivables of approximately RMB44.5 million; (ii) adding back the non-cash depreciation of property, plant and equipment and investment properties of approximately RMB13.1 million, finance cost of approximately RMB6.2 million and loss on disposal of property, plant and equipment of approximately RMB11.3 million; (iii) increase in trade and other payables of approximately RMB11.5 million; (iv) the increase of inventories of approximately RMB21.2 million resulting from the production of more finished goods; and (v) the income tax paid of approximately RMB3.2 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 of 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 and other receivables of approximately RMB1.0 million.

CASH FLOW (Continued)

Net cash (used in)/generated from investing activities

For the year ended 31 December 2019, our net cash used in investing activities amounted to approximately RMB28.3 million, which was mainly attributable to cash used for the purchase of property, plant and equipment of approximately RMB32.2 million and partially off-set by the proceeds from disposal of property, plant and equipment of approximately 3.1 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 generated from/(used in) financing activities

For the year ended 31 December 2019, our net cash generated from financing activities of approximately RMB20.5 million, which was mainly attributable to (i) the proceeds received from bank borrowings of approximately RMB157.2 million, (ii) the repayment of bank borrowings of approximately RMB164.6 million, (iii) the payment of interest of approximately RMB6.2 million for the borrowings, (iv) the net placement of restricted bank deposits of approximately RMB10.0 million, (v) the payment of dividend of approximately RMB14.4 million, (vi) proceeds from initial public offering of approximately RMB68.2 million, and (v) payment of issue costs of approximately RMB8.4 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 2019 was approximately RMB106.4 million (2018: approximately RMB113.8 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

CAPITAL STRUCTURE (Continued)

Asset-liability ratio

As at 31 December 2019, the Group's asset-liability ratio was approximately 31.8% (2018: 44.9%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to a decrease in bank borrowings.

Pledge of assets

As at 31 December 2019, the Group had pledged certain buildings, equipment and machinery, land use right, investment properties, restricted bank deposits and unlisted equity securities with aggregate carrying amount of approximately RMB88.5 million (2018: approximately RMB83.3 million) to certain banks.

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 RMB25.8 million for the year ended 31 December 2019 (2018: approximately RMB16.6 million).

A comparison of actual capital expenditure with the "Future Plans and Use of Proceeds" in the Prospectus as at 31 December 2019 is set out in the section headed "Actual Business Progress and Use of Proceeds from the Listing" on page 32 of this report.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

At 31 December 2019, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB71,000,000 (2018:Nil). As at 31 December 2019, the subsidiaries have drawn down RMB65,626,000 bank loans from the above-mentioned banking facilities. The Directors do not consider the Group will not be able to perform the guarantees or default any terms of the guarantees.

As at 31 December 2019, the Group did not have any material legal proceedings or potential proceedings (2018: Nil).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments amounted to approximately RMB26.9 million (2018: Nil).

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 other than the entity-wide disclosure.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the Year Under Review, other than the Group Reorganisation undertaken by the Group for the purpose of Listing, the Group had not made any material acquisition or disposal.

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

Looking ahead, market competition will remain fierce while the domestic and international economic environment will continue to be complex and volatile. The Group will keep focus on its core business, maintaining and increasing market share for our major products with a dominating advantage.

In 2019, the impact of international factors such as the trade frictions between the PRC and the US led to instability in the development of the textile industry. Demand for printing and dyeing is lower compared to the previous year, but the Group still managed to sustain stable development. While the textile industry continues to be affected by domestic and international issues, the combined effect of technological advancement, safety management and environmental protection has eliminated some of the less competitive small and medium textile manufacturing enterprises. This forces existing enterprises to transform and upgrade, accelerating the pace of industrial product restructuring and upgrading, gradually raising industrial consolidation.

In 2020, due to the outbreak of the novel coronavirus epidemic, market competition will be even more intense and will feature more challenges and uncertainties. Facing this new landscape, the Group will remain steadfast in being market-oriented, united and industrious; we will continue to build up our risk awareness and innovative mindset, in order to take the Company's business to the next level.

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

(1) Putting greater emphasis on developing higher quality as a goal, leading the industry in sustainable development through accountability and technological innovation;

(2) Further enhancing research and development on eco-friendly functional fabrics, expanding our business team, 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 2019, the Group had a total of 419 employees, total staff cost for the Year Under Review amounted to RMB25.9 million (2018: approximately RMB20.9 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

To extend the Company’s gratitude for the support of the Shareholders, the Board had recommended the distribution of interim dividends for the nine months ended 30 September 2019 of HK2 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 18 November 2019, amounting to approximately HK$16,000,000. The above-mentioned interim dividends were paid by cash on Friday, 20 December 2019.

The Board did not recommend payment of any final dividends for the year ended 31 December 2019 (2018: 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 RMB37.9 million (equivalent to approximately HK$44.7 million), after deduction of the underwriting commission and relevant expenses. As at 31 December 2019, the Group had used net proceeds of approximately RMB20.4 million.

Following table illustrates the status of the use of net proceeds according to the section headed "Future Plans and Use of Proceeds" in the Prospectus as at 31 December 2019:

	Planned use of proceeds in total *(RMB million)*	**Planned use of proceeds as disclosed in the Prospectus up to 31 December 2019** *(RMB million)*	**Actual utilised amount as at 31 December 2019** *(RMB million)*	**Unutilised amount as at 31 December 2019** *(RMB million)*
Construction of new weaving factory	8.5	6.6	–	8.5
Renovation of the existing weaving factory	5.2	5.2	5.2	–
Acquisition of machinery, equipment and ancillary facilities for weaving	10.4	3.9	10.4	–
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	4.6	4.6	2.5	2.1
Enhancement of environmental protection infrastructure	5.4	3.3	5.3	0.1
General working capital	3.8	3.8	3.8	–
Total	37.9	27.4	27.2	10.7

There was a delay in the use of proceeds as to the construction of new weaving factory as at 31 December 2019 due to more time required for obtaining the requisite government approval for building the factory and obtaining the land use rights for the land at which the factory was intended to be built on.

Despite the difference in the time of application of the proceeds, the Company intends to continue to apply the net proceeds in accordance with the section headed "Future Plans and Use of Proceeds" in the Prospectus.

DIRECTORS

Executive Directors

Mr. Dai Shunhua (戴順華先生), aged 47, 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 26 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 47, 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 21 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 46, 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 20 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 40, 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.

Mr. Yu Chung Leung (余仲良先生), aged 49, 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 26 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 66, 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 36 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. Mr. Leung resigned as an Independent Non-executive Director of the Company on 27 September 2019.

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Song Jun (宋駿先生), aged 53, was appointed as our Independent Non-executive Director on 27 September 2019. He has 28 years of experience in the banking and investment sector. He has been the investment director of Wisdom Group International Development Co. Limited, a private company incorporated in Hong Kong with limited liability since 2013. Mr. Song was the investment director of Shanghai Cehai Investment Company Limited* (上海策海投資有限公司) from 2007 to 2013, Mr. Song worked as the first vice-president and the president of Shanghai Branch of Metropolitan Bank and Trust Company, a bank headquartered at the Philippines, from 2007 to 2009. From 2001 to 2007, he served as the deputy president and president of a branch bank of China Merchants Bank, Shanghai Branch. From 1985 to 2001, he served in various posts in the Zhejiang Branch of the Industrial and Commercial Bank of China, and from 1995 onwards, he worked in various managerial positions including the head of human resources, head of information management, head of strategic planning, head of financial planning, trust and investment executives, the secretary-general of bank credit review committee. Mr. Song was award a master's degree in economics from the Shanghai University of Finance and Economics in 2007.

SENIOR MANAGEMENT

Mr. Liu Xiaohua (劉曉華先生), aged 35, 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 12 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 37, 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 14 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.

SENIOR MANAGEMENT (Continued)

Mr. Chen Zhong (陳忠先生), aged 29, 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 7 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 36, 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 12 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 59, 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 28 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 and adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules. The Company has taken various measures to enhance the internal control system 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.

The shares of the Company were listed on 26 February 2019 (the "**Listing Date**"). Throughout the period since the Listing Date and up to the date of this report, the Board is of the opinion that the Company has complied with the code provisions, other than code provision 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 Independent non-executive Directors (the "INED(s)"), 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. Specific enquiries have been made to all Directors regarding Directors' securities transactions during the Year under Review 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 INEDs 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 INEDs. Mr. Dai Shunhua, Ms. Song Xiaoying and Mr. Wang Yongkang, served as Executive Directors, and Mr. Song Jun, Dr. Liu Bo and Mr. Yu Chung Leung served as Independent Non-executive Directors. These INEDs, 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 INEDs 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 INED 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 the Articles 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. Song Jun will retire at the forthcoming annual general meeting of the Company. Besides, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Dai Shunhua and Ms. Song Xiaoying 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 INEDs) 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 had performed the abovementioned corporate governance functions during the Year Under Review.

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

The INEDs are appointed under letters of appointment whose initial fixed term was one year commencing from the Listing Date, subject to retirement by rotation and re-election in accordance with the Articles of Association. Each INED 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 INED to confirm their independence under Rule 5.09 of the GEM Listing Rules, and each of them confirmed that they were 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 INED 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 recognises 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. The decision will be based on merit and potential contribution that the nominated candidate will bring to the Company. 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 INEDs 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.

The Nomination Committee reviews the Board's composition under the Board diversity policy and monitor its implementation annually. During the Year Under Review, the Nomination Committee had done the review of the Board diversity policy and made assessment as to the effective implementation of the policy by the Board.

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 (Chairman), Mr. Song Jun and Dr. Liu Bo, all being our INEDs. Mr. Yu Chung Leung, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. 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 2019, the unaudited consolidated quarterly financial results for the three months ended 31 March 2019 and for the nine months ended 30 September 2019 and the interim results for the six months ended 30 June 2019 and accounting principles and practices adopted for the Group, as well as the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit functions, 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 overall remuneration policy, 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. Song Jun (Chairman), Dr. Liu Bo and Mr. Yu Chung Leung, all being our INEDs. Mr. Song Jun is the chairman of our Remuneration Committee.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

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 directorship.

At present, our Nomination Committee comprises Dr. Liu Bo (Chairman), Mr. Song Jun and Mr. Yu Chung Leung, all being our INEDs. Dr. Liu Bo is the chairman of our Nomination Committee.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

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) the candidate's character and integrity;

(ii) the candidate's 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) whether the candidate's virtues can enhance the measurable objectives adopted for achieving diversity on the Board;

(iv) for INEDs, 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) the candidate's 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.

Details of the attendance records of Directors on Board meetings, Board committee meetings and general meeting for the Year under Review are as follows:

	Attendance/Number of meetings				
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Dai Shunhua *(Chairman)*	5/5	–	–	–	1/1
Ms. Song Xiaoying	5/5	–	–	–	1/1
Mr. Wang Yongkang	5/5	–	–	–	1/1
Independent Non-executive Directors					
Dr. Liu Bo	5/5	2/2	3/3	3/3	1/1
Mr. Yu Chung Leung	5/5	2/2	3/3	3/3	1/1
Mr. Leung Ka Tin (resigned on 27 September 2019)	4/4	1/1	2/2	2/2	1/1
Mr. Song Jun (appointed on 27 September 2019)	1/1	1/1	1/1	1/1	–

Subsequent to the year ended 31 December 2019 and up to date of this report, the Board held another Board meeting in March 2020 for the main purposes of approving the annual results of the Group for the year ended 31 December 2019 and this annual report for publication 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.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules. 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 KPMG, 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.

Internal control and risk management

The Board recognises 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 unauthorised 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) restricting disseminating information to specified persons on a need-to-know basis and adhering closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

EXTERNAL AUDITOR

In the year ended 31 December 2018, the Company appointed Deloitte Touche Tohmatsu ("**Deloitte**") as the auditor of the Company. As disclosed in the announcement of the Company dated 7 January 2020, Deloitte resigned as the auditor of the Company by tendering resignation. The Board and the Audit Committee confirmed that there was no disagreement or unresolved matters between the Company and Deloitte which should be brought to the attention of the Shareholders. On the same date, the Board had resolved to appoint KPMG as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor. According to the Articles of the Company, the appointment of KPMG as the auditor would be until the next annual general meeting of the Company, at which KPMG would retire and be eligible to stand for re-appointment by the Shareholders.

For the year ended 31 December 2019, the total remuneration paid to the external auditors for audit services amounted to approximately RMB1.1 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 2019.

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).

Communication with the Board

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**”), 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

In preparation of the Listing, the new Articles 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. Other than the above, the Company had made no changes to the Articles of the Company during the Year Under Review.

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, 31 March 2020

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 2019 (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 of the Company dated 13 February 2019 (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 2019 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 70 to 151.

To extend the Company's gratitude for the support of the Shareholders, the Board had recommended the distribution of an interim dividends for the nine months ended 30 September 2019 of HK2 cents per share to Shareholders whose names appear on the register of members of the Company on Monday, 18 November 2019, amounting to approximately HK$16,000,000. The above-mentioned interim dividends were paid by cash on Friday, 20 December 2019.

The Board did not recommend the payment of any final dividends for the year ended 31 December 2019 (2018: Nil).

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

The register of members of the Company will be closed from Monday, 11 May 2020 to Thursday, 14 May 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Friday, 8 May 2020.

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 30. 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 recognises 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 oversea suppliers, professional parties and certain receivables from overseas customers that are denominated in United States 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

At 31 December 2019, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB71,000,000 (2018:Nil). As at 31 December 2019, the subsidiaries have drawn down RMB65,626,000 bank loans from the above-mentioned banking facilities. The Directors do not consider the Group will not be able to perform the guarantees or default the terms of the guarantees.

As at 31 December 2019, the Group did not have any material legal proceedings or potential proceedings (2018: Nil).

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Group's Financial Statements were 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 28 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 pages 73 to 74 of the "Consolidated Statement of Changes in Equity" and in Note 33 of the Consolidated Financial Statements, respectively.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2019, calculated in accordance with Companies Laws of the Cayman Islands, was approximately RMB36.5 million.

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last four financial years is set out on page 152.

CHARITY DONATIONS

During the Year Under Review, the Group had charity donations of approximately RMB0.1 million (2018: RMB0.5 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in Note 13 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 2019 are set out in Note 36 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.

There were no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other eligible persons (as defined herein below), nor any options cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2019.

SHARE OPTION SCHEME (Continued)

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 Effective Date to make an offer to any of the following eligible person (the "**Eligible Persons**"):

   (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 total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Share in issue on the Listing Date. As at the date of this annual report, the number of issued shares of the Company is 800,000,000 shares and the total number of shares to be issued under the Share Option Scheme is 80,000,000, representing 10% of the issued share capital of the Company, if all the option under the Share Option Scheme have been granted to and duly exercised be Eligible Person. The maximum entitlement each Participant shall have shall be subject to the requirements under the GEM Listing Rules.

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 and resigned on 27 September 2019)
Dr. Liu Bo (appointed on 29 January 2019)
Mr. Yu Chung Leung (appointed on 29 January 2019)
Mr. Song Jun (appointed on 27 September 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 33 to 37 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 INED 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 10 to the Financial Statements.

The five highest paid individuals of the Group in the Year under Review include 3 Directors (2018: 3 Directors). Details of the five highest paid individuals are set out in Note 10 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 31 December 2019, 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)	Spring Sea	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)	Spring Sea	472,848,000 (L)	59.11%
	Interest of spouse/interest held jointly with another person (Note 3)			

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. Spring Sea Star Investment Limited ("**Spring Sea**") was the registered owner of 472,848,000 Shares, representing approximately 59.11% of the issued share capital of the Company. 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	Number of share held	Percentage of shareholding
Mr. Dai Shunhua	Spring Sea	Beneficial owner	26,991	53.98%
Ms. Song Xiaoying	Spring Sea	Beneficial owner	23,009	46.02%

As at 31 December 2019, 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 31 December 2019, 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 31 December 2019, 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%
Summer Land Star Investment Limited	Beneficial owner	121,602,000 (L)	15.20%
Wang Yun (Note 3)	Interest in controlled corporation	103,787,000 (L)	12.97%

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. Spring Sea was the registered owner of 472,848,000 Shares, representing approximately 59.11% of the issued share capital of the Company. 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. Wang Yun was interested in approximately 73.55% of the issued share capital of Summer Land Star Investment Limited ("**Summer Land**"). Therefore, Ms. Wang Yun was deemed to be interested in the same number of shares held by Summer Land.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2019, 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 2019, 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 35 to the Financial Statements.

CONNECTED TRANSACTIONS

During the year under Review, there was no connected transaction entered into by the Group which require disclosure in this report under the GEM Listing Rules.

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 2019, the Group had pledged certain buildings, equipment and machinery, land use right, unlisted equity securities and restricted bank deposits with aggregate carrying amount of approximately RMB88.5 million (2018: approximately RMB83.3 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 4.35% to 6.37%. 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 2019, the Group had cash and cash equivalents of RMB5.2 million (2018: approximately RMB5.6 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 46.8% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 20.4% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 51.7% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 12.9% 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 RMB37.9 million (equivalent to approximately HK$44.7 million), after deduction of the underwriting commission and relevant expenses. As at 31 December 2019, the Group had used net proceeds of approximately RMB20.4 million. Details of which are set out in the section headed "Actual Business Progress and Use of Proceeds from the Listing" of this report.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2019 are set out in Note 1(n) 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

(1) Deloitte Touche Tohmatsu ("**Deloitte**") had resigned as the auditor of the Company with effect from 7 January 2020 and the Board had resolved to appoint KPMG as the new auditor of the Company, to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next general meeting of the Company.

(2) The outbreak of the Epidemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the Epidemic on the Group's businesses and has commenced to put in place various measures. Based on the information currently available as at the date of this report, the Directors consider that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the Epidemic continues to develop.

(3) Reference is made to the announcement of the Company dated 18 March 2020 in relation to the sale and purchase agreement entered into between Huzhou Narnia Industry Co., Ltd.* (湖州納尼亞實業有限公司)("**Huzhou Narnia**"), an indirect wholly-owned subsidiary of the Company, as transferor and Zhejiang Hongchen Printing and Dyeing Co., Ltd.* (浙江弘晨印染科技股份有限公司) ("**Zhejiang Hongchen**"), an independent third party of the Company, as transferee dated 18 December 2018 (the "**Sale and Purchase Agreement**") for the sale and purchase of the 7,565,794 shares (representing approximately 1.07% of the total number of shares) (the "**Sale Shares**") in Zhejiang Changxing Rural Commercial Bank Company Limited* (浙江長興農村商業銀行股份有限公司)("**ZCRCB**") at the total consideration of RMB20,000,000 (the "**ZCRCB Disposal**").

As (i) after a shareholders' resolution being passed by ZCRCB on 13 March 2019 that Huzhou Narnia would be subject to a lock-up period over the shares in ZCRCB up to May 2021 as Huzhou Narnia was deemed by ZCRCB as a substantial shareholder due to its position as top ten shareholders in ZCRCB and (ii) the recent outbreak of the Epidemic, which adversely effected the operation of Zhejiang Hongchen, after mutual negotiation of the parties, on 18 March 2020, Huzhou Narnia and Zhejiagn Hongchen entered into a termination agreement (the "**Termination Agreement**"), pursuant to which the parties have mutually agreed, among others, (i) to terminate the Sale and Purchase Agreement with effect from the date of the Termination Agreement; (ii) that Huzhou Narnia shall refund the first instalment of the consideration of RMB2,000,000 to Zhejiang Hongchen; and (iii) that no party to the Sale and Purchase Agreement shall have any claim against the other party in respect of any matter arising out of or in connection with the Sale and Purchase Agreement.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

Zhejiang, PRC, 31 March 2020

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of Narnia (Hong Kong) Group Company Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Narnia (Hong Kong) Group Company Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 70 to 151, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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 Standard Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 87.

The Key Audit Matter

The principal activities of the Group are the manufacture and sale of fabric products and provision of printing and dyeing services.

The Group recognised revenue from the sale of fabric products of RMB202,664 thousand and the provision of printing and dyeing services of RMB126,898 thousand respectively for the year ended 31 December 2019. Management evaluates the terms of individual contracts to determine the Group's performance obligations and appropriate timing of revenue recognition.

Revenue from sales of fabric products is recognised when the control over the goods is transferred to customers, which is generally at the point in time when the goods leave the Group's own warehouses or designated warehouses for domestic sales, or when the goods are loaded on board of shipping vessels for overseas sales, in accordance with the terms of sales contracts with customers. Revenue from the provision of printing and dyeing services is recognised over time throughout the processing period.

We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of revenue recognition by management to meet specific targets or expectations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition;
- inspecting customer contracts, on a sample basis, to identify performance obligations and terms and conditions relating to the transfer of control of the goods or services and assessing the Group's timing of revenue recognition with reference to the requirements of prevailing accounting standards;
- comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts, customs declaration forms, customer acceptance notes and production records, where appropriate, to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included customs declaration forms, goods acceptance notes and production records, where appropriate, to assess whether the revenue had been recognised in accordance with the contract terms and in the correct financial year;
- confirming, on a sample basis, the amount of sales transactions for the year ended 31 December 2019 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed by customers and the Group's accounting records;
- inquiring management as to the reasons for all sales credit notes issued subsequent to the year end and inspecting relevant underlying documentation to assess whether these sales credit notes were completely and accurately accounted for in the correct financial year; and
- inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year which met specific risk-based criteria.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Alex M.K. Shum.

KPMG
Certified Public Accountants

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

31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000 (Note)
Revenue	3	329,562	332,336
Cost of sales and services		(264,507)	(265,826)
Gross profit		65,055	66,510
Other income	5	23,576	11,420
Other gains and losses	6	(12,922)	19,782
Selling and distribution expenses		(2,605)	(2,227)
Administrative expenses		(13,983)	(15,305)
Research expenditure		(11,616)	(9,141)
Listing expenses		(5,864)	(12,680)
Other expenses		(575)	(505)
Profit from operations		41,066	57,854
Share of result of an associate		–	724
Finance costs	7	(6,156)	(7,209)
Profit before tax	8	34,910	51,369
Income tax expense	9	(3,666)	(5,287)
Profit and total comprehensive income for the year		31,244	46,082
Profit and total comprehensive income for the year attributable to:			
– Equity shareholders of the Company		31,244	39,293
– Non-controlling interests		–	6,789
		31,244	46,082
Earnings per share			
– Basic (RMB cents)	12	4.06	6.60

Note: The Group has initially applied IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 77 to 151 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 RMB'000	 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	13	111,738	105,422
Deposit on acquisition of property plant and equipment		6,753	2,744
Prepaid lease payments	14	–	6,679
Investment properties	15	8,671	9,174
Intangible assets	16	1,211	792
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")	17	20,000	–
Deferred tax assets	27	1,739	917
		150,112	125,728
Current assets			
Inventories	18	93,755	72,525
Prepaid lease payments	14	–	170
Trade and other receivables	19	68,183	29,456
Receivables at fair value through other comprehensive income ("**FVTOCI**")	20	7,004	100
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")	17	–	20,000
Restricted bank deposits	21	10,060	–
Cash and cash equivalents	22	5,189	5,611
		184,191	127,862
Current liabilities			
Trade and other payables	23	44,515	36,795
Contract liabilities	24	7,067	1,618
Bank borrowings	25	74,493	91,959
Tax payable		4,901	3,858
		130,976	134,230
Net current assets/(liabilities)		53,215	(6,368)
Total assets less current liabilities		203,327	119,360

The notes on pages 77 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

		As at 31 December	
		2019	2018
	Notes	RMB'000	RMB'000
			(Note)
Non-current liabilities			
Bank borrowings	25	31,900	21,792
Deferred tax liabilities	27	280	–
		32,180	21,792
Net assets		171,147	97,568
Capital and reserves			
Share capital	28	5,346	325
Reserves		165,801	97,243
Equity attributable to			
Equity shareholders of the Company		171,147	97,568
Non-controlling interests		–	–
Total equity		171,147	97,568

Note: The Group has initially applied IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 77 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000 (note f)	Statutory reserve RMB'000 (note a)	Other reserve RMB'000 (note e)	(Accumulated losses)/ retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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
Profit appropriation to statutory reserve	–	–	1,925	–	(1,925)	–	–	–
Capital reduction of Huzhou Narnia (as defined in note b)	(27,232)	–	–	–	–	(27,232)	(7,768)	(35,000)
Capital contribution by the Controlling Shareholders (as defined in note 1(b)) (note c)	–	–	–	83,552	–	83,552	–	83,552
Effect arising from Group Reorganisation (note d)	(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
At 1 January 2019	325	–	7,105	76,116	14,022	97,568	–	97,568
Profit and total comprehensive income for the year	–	–	–	–	31,244	31,244	–	31,244
Profit appropriation to statutory reserve	–	–	4,302	–	(4,302)	–	–	–
Issue of shares by capitalisation of share premium (note 28(a))	3,682	(3,682)	–	–	–	–	–	–
Issue of ordinary shares upon initial public offering (note 28(b))	1,339	66,903	–	–	–	68,242	–	68,242
Cost of issue new shares	–	(12,254)	–	–	–	(12,254)	–	(12,254)
Capitalisation of amounts due to related parties (note 35)	–	–	–	791	–	791	–	791
Dividends declared in respect of the current year (note 11)	–	(14,444)	–	–	–	(14,444)	–	(14,444)
At 31 December 2019	5,346	36,523	11,407	76,907	40,964	171,147	–	171,147

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 77 to 151 form part of these consolidated financial statements.

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: On 6 March 2018, pursuant to an extraordinary general meeting of Huzhou Narnia Industry Co., Ltd. (湖州納尼亞實業有限公司)# ("**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 return the amount of RMB35,000,000 to its owners, the capital reduction was completed during the year ended 31 December 2018.

c: In May and June 2018, shareholders of the Company contributed RMB83,552,000 in aggregate to the Company to complete the group reorganisation as detailed in the prospectus of the Company dated 13 February 2019 (the "**Group Reorganisation**"). The capital contribution had been credited to other reserve.

d: 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. 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.

e: The opening balance of other reserve as at 1 January 2018 comprises (1) the deemed contribution by the Controlling Shareholders to the Group, (2) capitalisation of retained profits and statutory reserve of Huzhou Narnia upon its 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.

f: Share premium as at 31 December 2019 represents the difference between the total amount of the par value of shares issued and the amount of the proceeds received from the initial public offering, net of related issuance costs. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately from following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

English name is for identification purpose only.

The notes on pages 77 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000 (Note)
Operating activities			
Cash generated from operations	22(b)	**10,534**	56,065
PRC Enterprise Income Tax paid		**(3,165)**	(2,143)
Net cash generated from operating activities		**7,369**	53,922
Investing activities			
Purchase of and deposits placed for property, plant and equipment		**(32,210)**	(19,604)
Proceeds from disposal of property, plant and equipment		**3,117**	192
Purchase of intangible assets		**(553)**	(532)
Interest received		**110**	17
Dividends received from unlisted equity securities		**1,097**	–
Payment for investment in wealth management products		**(20,000)**	–
Proceeds from maturity of wealth management products		**20,123**	–
Proceeds from disposal of an associate		**–**	34,950
Net cash (used in)/generated from investing activities		**(28,316)**	15,023
Financing activities			
Capital element of lease rentals paid	22(c)	**(1,557)**	–
New bank borrowings raised	22(c)	**157,204**	194,616
Repayments of bank borrowings	22(c)	**(164,562)**	(214,450)
Repayment of finance lease obligations	22(c)	**–**	(2,800)
Placement of restricted bank deposits	22(c)	**(20,000)**	–
Withdrawal of restricted bank deposits	22(c)	**10,000**	–
Proceeds from issue of shares		**–**	325
Proceeds from initial public offering		**68,242**	–
Issue costs paid	22(c)	**(8,374)**	(3,880)
Interest paid	22(c)	**(6,222)**	(7,348)
Dividends paid	22(c)	**(14,444)**	(92)
Capital reduction of Huzhou Narnia	22(c)	**–**	(35,000)
Advance from related parties	22(c)	**–**	553
Capital injection by the Controlling Shareholders	22(c)	**238**	83,552
Consideration paid for acquisition of subsidiary under common control	22(c)	**–**	(83,877)
Net cash generated from/(used in) financing activities		**20,525**	(68,401)

The notes on pages 77 to 151 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
		(Note)
Net (decrease)/increase in cash and cash equivalents	**(422)**	544
Cash and cash equivalents at beginning of the year	**5,611**	5,062
Effect of exchange rate change	**–**	5
Cash and cash equivalents at end of the year	**5,189**	5,611

Note: The Group has initially applied IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 77 to 151 form part of these consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements of Narnia (Hong Kong) Group Company Limited ("the **Company**") and its subsidiaries (together referred to as the "**Group**") have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

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 is 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**").

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

Prior to the incorporation of the Company, the above-mentioned principal activities were carried out by **Huzhou Narnia** and its subsidiaries. To rationalise the corporate structure in preparation of the Listing, the Group underwent the Group Reorganisation. As part of the Group Reorganisation, the Company, through its wholly-owned subsidiaries, acquired entire equity interests in Huzhou Narnia. Upon completion of the Group Reorganisation on 10 May 2018, the Company became the holding company of the Group. As Huzhou Narnia was ultimately controlled by Mr. Dai and Ms. Song, before and after the Group Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Group Reorganisation only involved inserting certain newly formed entities with no substantive operations as the new holding companies of Huzhou Narnia. Accordingly, the Group Reorganisation has been accounted for using a principle similar to that as a reverse acquisition, with Huzhou Narnia treated as the acquirer for accounting purposes. The consolidated financial statements have been prepared and presented as a continuation of the financial statements of Huzhou Narnia with the assets and liabilities of Huzhou Narnia recognised and measured at their historical carrying amounts prior to the Group Reorganisation.

The consolidated financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand, which is the presentation currency and also the functional currency for the Group. It is prepared on the historical cost basis except for financial assets classified as fair value through other comprehensive income and fair value through profit or loss which are stated at their fair value.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, see note 38.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, International Financial Reporting Interpretations Committee Interpretation ("**IFRIC**") 4, *Determining whether an arrangement contains a lease*, Standing Interpretation Committee Interpretation 15, *Operating leases — incentives*, and Standing Interpretation Committee Interpretation 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and the initial application has no cumulative effect on the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 13(b). For an explanation of how the Group applies lessee accounting, see accounting policy set out in note 1(h).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.18%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

b. Lessee accounting and transitional impact (Continued)

(ii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 29 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	1,290
Less: commitments relating to leases exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(570)
	720
Less: total future interest expenses	(50)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	670
Total lease liabilities recognised at 1 January 2019	670

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Reclassification of land use rights under prepaid lease payments RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Property, plant and equipment	105,422	6,849	869	113,140
Prepaid lease payments, non-current	6,679	(6,679)	–	–
Total non-current assets	**125,728**	**170**	**869**	**126,767**
Prepaid lease payments, current	170	(170)	–	–
Trade and other receivables	29,456	–	(199)	29,257
Total current assets	**127,862**	**(170)**	**(199)**	**127,493**
Lease liabilities, current	–	–	346	346
Current liabilities	**134,230**	**–**	**346**	**134,576**
Net current liabilities	**(6,368)**	**(170)**	**(545)**	**(7,083)**
Total assets less current liabilities	**119,360**	**–**	**324**	**119,684**
Lease liabilities, non-current	–	–	324	324
Total non-current liabilities	**21,792**	**–**	**324**	**22,116**
Net assets	**97,568**	**–**	**–**	**97,568**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the statement of cash flows (see note 22(d)).

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16	Add back: IFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating leases as if under IAS 17 *(note 1)*	Hypothetical amounts for 2019 as if under IAS 17	Compared to amounts reported for 2018 under IAS 17
	(A)	(B)	(C)	(D=A+B-C)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	41,066	567	(567)	41,066	57,854
Finance costs	(6,156)	–	–	(6,156)	(7,209)
Profit before taxation	34,910	567	(567)	34,910	51,369
Profit for the year	31,244	567	(567)	31,244	46,082

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 *(notes 1 & 2)* (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated statement of cash flows for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	10,534	(1,557)	8,977	56,065
Net cash generated from operating activities	7,369	(1,557)	5,812	53,922
Capital element of lease rentals paid	(1,557)	1,557	–	–
Net cash generated from/(used in) financing activities	20,525	1,557	22,082	(68,401)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

d. Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 equity shareholders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity shareholders 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.

(e) 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 equity shareholders of the Company.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue and other income recognition

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 when the control over the goods is transferred to customers, which is generally at the point in time when the goods leave the Group's own warehouses or designated warehouses for domestic sales, or when the goods are loaded on board of shipping vessels for overseas sales, in accordance with the terms of sales contracts with customers, since only by that time the Group passes control of the fabric products to the customer.

Revenue from printing and dyeing services is recognised progressively over time using the unit-of-production method, i.e. based on direct measurements of the value to the customers of services transferred to date, relative to the remaining services promised under the contract.

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.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset) (see note 1(x)).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets

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

(i) As a lessee

(A) Policy applicable from 1 January 2019

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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. Upon the adoption of IFRS 16, Leases, "prepaid lease payments" is reclassified to right-of-use assets under "property, plant and equipment".

(j) 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.

(k) 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.

(l) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(m) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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 and equipment in the course of construction/assets under installation for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Such items 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 equivalent 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

(r) 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, 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 financial reporting period in which it is incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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 only to the extent 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.

Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare interim financial reports in compliance with IAS 34, *Interim financial reporting*. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

(t) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Cash and cash equivalents

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

(v) Bank borrowings

Bank borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, bank borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs.

(w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(x) Financial instruments

Financial assets and financial liabilities are recognised when the Group 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (Continued)

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 is required to be measured at the amortised cost or FVTOCI as measured at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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 measures ECL for trade receivables at an amount equal to lifetime ECL under the simplified approach. ECLs are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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 derecognition 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 deposits 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 asset 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Financial instruments (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.

(y) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Related parties (Continued)

(b) (Continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(z) Segment reporting

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

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

(aa) Provisions and contingent liabilities

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

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

2. 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 1, 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.

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.

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.

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.

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.

3. REVENUE

Revenue represents the amounts received and receivable from sale of fabric products, and provision of printing and dyeing services, 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	
	2019	2018
	RMB'000	RMB'000
Sale of fabric products, recognised at a point in time	202,664	219,473
Revenue from printing and dyeing services, recognised over time	126,898	112,863
Total	329,562	332,336

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.

3. REVENUE (Continued)

Printing and dyeing services

Revenue relating to printing and dyeing services 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 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 goods or service is less than one year.

Information about major customers

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer A	**67,105**	84,128
Customer B	**36,542**	–

4. 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 provision of printing and dyeing services.

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

Geographical information

The following table sets out information about the geographical analysis of the Group's revenue based on geographical locations of the customers.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**228,995**	240,510
Hong Kong	**82,346**	72,864
Other regions	**18,221**	18,962
Total	**329,562**	332,336

The Group's operations are in the PRC and all its non-current assets are in the PRC.

5. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest income	226	17
Investment income	123	–
Net gain on sales of raw materials	3,437	3,611
Net gain on sales of scraps	–	1,937
Government subsidies (note)	18,431	4,525
Dividend income from unlisted equity securities mandatorily measured at FVTPL	1,097	1,059
Rental income	179	166
Others	83	105
	23,576	11,420

Note: The amount comprised government subsidies received from local government in connection with the Company's Listing in 2019 amounting to RMB14,500,000 (2018: nil), and other unconditional government grants for enterprise development support, innovation capabilities incentives etc.

6. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Recognition of loss allowances on trade receivables	(1,860)	(448)
Reversal of loss allowances on other receivables	–	1
Total loss allowance on financial assets (recognised)/reversed, net	(1,860)	(447)
Loss on disposal of property, plant and equipment	(11,344)	(3,052)
Gain on disposal of an associate	–	23,003
Net exchange gain/(loss)	282	(1,394)
Change in fair value of financial assets mandatorily measured at FVTPL	–	1,672
Net (losses)/gains	(12,922)	19,782

7. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank borrowings	6,156	7,025
Interest on finance lease obligations	–	184
Total	6,156	7,209

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax has been arrived at after charging/(crediting):		
Depreciation of property plant and equipment	12,484	11,948
Depreciation of right-of-use assets	567	–
Depreciation of investment properties	503	503
Amortisation of prepaid lease payments	–	170
Amortisation of intangible assets	134	78
Total depreciation and amortisation	13,688	12,699
Capitalised in inventories	(1,042)	(4,369)
Total depreciation and amortisation charged to profit or loss	12,646	8,330
Analysed as:		
Charged in cost of sales and services	10,710	6,660
Charged in administrative expenses	1,511	1,238
Charged in research expenditure	425	432
	12,646	8,330
Auditor's remuneration – audit service	1,050	1,000
Directors' emoluments (note 10)	907	692
Other staff costs		
– Salaries and other benefits	21,917	16,329
– Retirement benefit scheme contributions	2,143	3,378
– Discretionary performance related bonus	982	508
	25,042	20,215
Total staff costs	25,949	20,907
Capitalised in inventories	(1,115)	(4,679)

8. PROFIT BEFORE TAXATION (Continued)

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Total staff costs charged to profit or loss	**24,834**	16,228
Analysed as:		
Charged in cost of sales and services	**16,719**	8,046
Charged in selling and distribution expenses	**508**	–
Charged in administrative expenses	**5,331**	7,003
Charged in research expenditure	**2,276**	1,179
	24,834	16,228
Cost of inventories recognised as cost of sales and services	**264,433**	227,321
Cost of inventories recognised as research expenditure	**8,425**	7,298
Depreciation and amortisation	**425**	432
Staff costs	**2,276**	1,179
Other expenses charged in research expenditure	**490**	232
Total research expenditure	**11,616**	9,141

9. INCOME TAX EXPENSE

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Current tax – PRC Enterprise Income Tax ("**EIT**")	**4,208**	6,302
Deferred tax credit (note 27)	**(542)**	(1,015)
	3,666	5,287

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 2019 and 2018.

Provision for the EIT during the years ended 31 December 2019 and 2018 was made based on the estimated taxable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operating in the PRC.

9. 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 is 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 ended on 31 December 2019.

Under the EIT Law and Implementation Regulations of the EIT Law, Huzhou Narnia is allowed for 75% additional tax deduction for qualified research and development costs.

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	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**34,910**	51,369
Tax at PRC EIT rate of 25%	**8,728**	12,842
Tax effect of expense not deductible for tax purpose	**1,996**	3,572
Effect of share of results of an associate	**–**	(181)
Tax effect of income not taxable for tax purpose	**(274)**	(265)
Utilisation of deductible temporary differences previously not recognised	**–**	(5,751)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(2,162)**	(1,714)
Tax effect of preferential tax rate	**(3,808)**	(3,216)
Over provision in respect of previous year	**(814)**	–
Income tax expense	**3,666**	5,287

English name is for identification purpose only.

10. 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	Discretionary performance related bonus	Salaries	Retirement benefit scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2019						
Executive directors						
Mr. Dai (note)	1 September 2017	–	216	82	12	310
Ms. Song	23 July 2018	–	128	70	10	208
Mr. Wang Yongkang	23 July 2018	–	91	58	8	157
Independent non-executive directors						
Mr. Leung Ka Tin (resigned on 27 September 2019)	29 January 2019	60	–	–	–	60
Mr. Yu Chung Leung	29 January 2019	75	–	–	–	75
Dr. Liu Bo	29 January 2019	75	–	–	–	75
Mr. Song Jun	27 September 2019	22	–	–	–	22
		232	435	210	30	907

	Date of appointment as a director of the Company	Fees	Discretionary performance related bonus	Salaries	Retirement benefit scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	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

Note: Mr. Dai is the General Manager of the Group and assumed the role of Chief Executive Officer of the Company during the years ended 31 December 2019 and 2018 for which emoluments have 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.

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

(B) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, 2 (2018: 3) were directors of the Company for the year ended 31 December 2019 whose emoluments are included in the disclosure above. The emoluments of the remaining 3 (2018: 2) individuals for the year were as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and other benefits	**203**	133
Retirement benefit scheme contributions	**29**	25
Discretionary performance related bonus	**224**	49
	456	207

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 2019 and 2018.

During the years ended 31 December 2019 and 2018, 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.

11. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interim dividend declared and paid of HK$2 cents per ordinary share in respect of current year (2018: nil)	**14,444**	–

12. EARNINGS PER SHARE

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

	Year ended 31 December	
	2019	2018
Earnings:		
Profit for the year attributable to equity shareholders/owners of the Company for the purpose of basic earnings per share (RMB'000)	**31,244**	39,293
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**768,767,123**	595,796,054

For the year ended 31 December 2018 and for the period from 1 January 2019 to 26 February 2019 (date of Listing), 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 2018.

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

13. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Buildings RMB'000	Furniture, fixtures and office equipment RMB'000	Production equipment and machinery RMB'000	Motor vehicles RMB'000	Construction in Progress/ asset under installation RMB'000	Right-of-use assets RMB'000	Total RMB'000
COST							
At 1 January 2018	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
Impact on initial application of IFRS 16 (Note)	–	–	–	–	–	7,718	7,718
At 1 January 2019	66,416	1,419	83,543	1,419	1,119	7,718	161,634
Additions	7,612	369	10,070	205	6,967	1,557	26,780
Disposals	(1,996)	(393)	(28,672)	–	–	(670)	(31,731)
Transfers	1,267	–	5,159	–	(6,426)	–	–
At 31 December 2019	73,299	1,395	70,100	1,624	1,660	8,605	156,683
ACCUMULATED DEPRECIATION							
At 1 January 2018	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
Provided for the year	4,805	178	7,252	249	–	567	13,051
Eliminated on disposals	(273)	(374)	(15,953)	–	–	–	(16,600)
At 31 December 2019	22,177	818	20,613	770	–	567	44,945
CARRYING VALUES							
At 31 December 2019	51,122	577	49,487	854	1,660	8,038	111,738
At 31 December 2018	48,771	405	54,229	898	1,119	–	105,422

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 of 5%, using straight-line method, as follows:

	Useful lives	Annual depreciation rates
Buildings	20 years	4.75%
Furniture, fixtures and office equipment	3–5 years	19%–31.67%
Production equipment and machinery	5–10 years	9.5%–19%
Motor vehicles	5 years	19.00%
Right-of-use assets	3–50 years	2%–33.33%

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

As at 31 December 2019, certain of Group's buildings, equipment and machinery and land use right totalling with a net book value of RMB49,825,000 (2018:RMB47,310,000) were pledged to secure the Group's certain bank borrowings as set out in note 25.

(b) Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Included in "Property, plant and equipment":		
Land use rights leased for own use, carried at depreciated cost	6,697	6,849
Other properties leased for own use, carried at depreciated cost	1,341	869
	8,038	7,718

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights leased for own use	152	–
Other properties leased for own use	415	–
	567	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	570	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	1,290

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

14. PREPAID LEASE PAYMENTS

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

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 2018, all of Group's prepaid lease payments were pledged to secure the Group's certain short-term bank borrowings as set out in note 25.

On 1 January 2019, the Group adopted IFRS 16, Lease, thus the above prepaid lease payments were reclassified to right-of-use assets as included in note 13.

15. INVESTMENT PROPERTIES

	Buildings RMB'000
COST	
At 1 January 2018, 31 December 2018 and 2019	13,319
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1 January 2018	3,642
Provided for the year	503
At 31 December 2018	4,145
Provided for the year	503
At 31 December 2019	4,648
CARRYING VALUE	
At 31 December 2019	8,671
At 31 December 2018	9,174

The above investment properties are depreciated on a straight-line basis, taking into account their residual value of 5%, at 4.75% per annum:

As at 31 December 2019, the Group's investment properties with a net book value of RMB8,671,000 (2018: RMB9,174,000) were pledged to secure the Group's certain short-term bank borrowings as set out in note 25.

15. INVESTMENT PROPERTIES (Continued)

As at 31 December 2019, the fair value of the Group's investment properties was RMB18,164,000 (2018: RMB17,097,000). 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. The fair value is determined based on the direct comparison approach, reflecting recent transaction 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 2019 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	**18,164**	**18,164**

	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

16. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2018	341
Additions	532
At 31 December 2018	873
Additions	553
At 31 December 2019	1,426
ACCUMULATED AMORTISATION	
At 1 January 2018	3
Provided for the year	78
At 31 December 2018	81
Provided for the year	134
At 31 December 2019	215
CARRYING VALUE	
At 31 December 2019	1,211
At 31 December 2018	792

The above intangible asset is amortised on a straight-line basis based on its estimated useful life of 10 years.

17. FINANCIAL ASSETS MANDATORILY MEASURED AT FVTPL

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Unlisted equity securities, at fair value:		
Balance at 1 January	20,000	18,328
Change in fair value	–	1,672
Balance at 31 December	20,000	20,000

The unlisted equity securities represent the investment in 7,565,794 shares in Zhejiang Changxing Rural Commercial Bank Company Limited ("Changxing Rural Commercial Bank").

The securities are measured at FVTPL because the directors of the Company are of the opinion that these securities are not held for strategic long term purpose. Total unrealised gain on financial assets mandatorily measured at FVTPL is included in "other gains and losses" in note 6.

At the end of each reporting period, the fair value of the securities was arrived at on the basis of valuation carried out by a firm of independent qualified professional valuers not connected with the Group. The fair value was determined using market multiples of public companies and applying a discount on lack of marketability on the unlisted equity securities.

On 18 December 2018, the Group entered into a sale and purchase agreement with an independent third party (the "Buyer") to sell the Group's unlisted equity securities for a cash consideration of RMB20,000,000 (the "Sale and Purchase Agreement"). The transaction was subjected, among other things, to the completion of business registration of ownership change at the State Administration for Market Regulation. As at 31 December 2018, the transaction was expected to be completed with one year from the date of the Sales and Purchase Agreement and therefore the securities were classified as current assets.

Due to the modification of the Articles of Association of Changxing Rural Commercial Bank in March 2019, the securities could not be transferred to the Buyer until May 2021. Thus, these securities were reclassified as non-current assets as at 31 December 2019.

On 18 March 2020, the Buyer and the Group entered into a termination agreement to terminate the Sale and Purchase Agreement with effect from 18 March 2020. Both the Buyer and the Group agreed no claims arising out of or in connection with the Sale and Purchase Agreement.

As at 31 December 2019 and 2018, the Group's unlisted equity securities were pledged to secure certain bank borrowings of the Group as set out in note 25.

18. INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	66,690	47,918
Work in progress	4,874	5,291
Finished goods	22,191	19,316
	93,755	72,525

No inventory provision was provided during the years ended 31 December 2019 and 2018.

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	60,499	22,938
Less: loss allowance for trade receivables	(3,325)	(1,465)
	57,174	21,473
Other receivables	227	1,265
Less: loss allowance for other receivables	(2)	(2)
	225	1,263
Prepayments (note i)		
– related party (note 35)	–	199
– independent third parties	9,910	1,264
Value added tax ("**VAT**") recoverable	758	1,186
Deferred issue costs (note ii)	–	4,071
Interest receivable	116	–
	10,784	6,720
Trade and other receivables	68,183	29,456

19. TRADE 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 costs represent the qualifying portion of issue cost incurred up to 31 December 2018, which was debited to equity of the Company as share issue cost in respect of the issue of new shares upon Listing.

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

The following is an aged analysis of trade receivables, net of loss allowance, presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	50,923	19,090
Over 3 months but within 6 months	5,731	2,113
Over 6 months but within 1 year	484	192
Over 1 year but within 2 years	36	78
	57,174	21,473

Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in note 32.

20. RECEIVABLES AT FVTOCI

	As at 31 December 2019 RMB'000	2018 RMB'000
Receivables at FVTOCI comprise of:		
Bill receivable with an original maturity of up to 12 months from the issue dates of bills receivable	7,004	100

Based on cash management needs, the Group may decide to endorse bank acceptance bills to its suppliers as settlement in relation to trade payables of the same amount. The bank acceptance bills have a maturity of no more than 12 months.

For bank acceptance bills endorsed and derecognised, the Group is subject to obligations under the relevant PRC laws and regulations. As at 31 December 2019, bills amounting to RMB15,510,000 were yet to reach maturity (2018: RMB15,698,000).

As at 31 December 2019, bank acceptance bills amounting to RMB7,004,000 were endorsed but not derecognised (2018: nil). For these bank acceptance bills, the Group recognised an associated liability of an equivalent amount in trade and other payables.

21. RESTRICTED BANK DEPOSITS

	As at 31 December 2019 RMB'000	2018 RMB'000
Guarantee deposits for bank borrowings	10,000	–
Others	60	–
	10,060	–

As at 31 December 2019, bank deposits of RMB10,000,000 (2018: nil) had been pledged to a bank as security for a short-term bank borrowing of the Group. The pledge in respect of the bank deposits will be released upon the termination of related bank borrowing.

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December 2019 RMB'000	2018 RMB'000
Cash on hand	41	32
Cash at banks	5,148	5,579
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	5,189	5,611

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

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

	Year ended 31 December 2019 RMB'000	2018 RMB'000 (Note)
Operating activities		
Profit before tax	34,910	51,369
Adjustments for:		
Depreciation of property, plant and equipment	13,051	7,623
Depreciation of investment properties	503	503
Amortisation of prepaid lease payments	–	126
Amortisation of intangible assets	134	78
Bank interest income	(226)	(17)
Investment income	(123)	–
Finance costs	6,156	7,209
Total loss allowance on financial assets recognised	1,860	447
Loss on disposal of property, plant and equipment	11,344	3,052
Share of result of an associate	–	(724)
Dividend income from unlisted equity securities	(1,097)	–
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 (gain)/loss	(282)	1,394
Operating cash flows before movements in working capital	66,230	46,385
(Increase)/decrease in inventories	(21,230)	9,856
Increase in trade and other receivables	(44,459)	(1,041)
(Increase)/decrease in receivables at FVTOCI	(6,904)	120
Increase in restricted bank deposits	(60)	–
Increase in trade and other payables	11,508	1,604
Increase/(decrease) in contract liabilities	5,449	(859)
Cash generated from operations	10,534	56,065

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB570,000 were classified as operating activities in the consolidated statement of cash flows. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 22(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) 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	Lease liabilities RMB'000	Consideration payable RMB'000	Capital reduction payable RMB'000	Accrued issue costs RMB'000	Amounts due (from)/ to related parties RMB'000	Dividend payables RMB'000	Interest payables RMB'000	Finance lease obligations RMB'000	Restricted bank deposits RMB'000	Total RMB'000
At January 2018	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 7)	-	-	-	-	-	-	-	7,025	184	-	7,209
Dividends (note 11)	-	-	-	-	-	-	-	-	-	-	-
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
Financing cash flows	(7,358)	(1,557)	-	-	(8,374)	238	(14,444)	(6,222)	-	(10,000)	(47,717)
Operating cash flows	-	-	-	-	-	-	-	-	-	(60)	(60)
Non-cash changes											
Issue costs accrued	-	-	-	-	8,183	-	-	-	-	-	8,183
Accrued finance cost (note 7)	-	-	-	-	-	-	-	6,156	-	-	6,156
Dividends (note 11)	-	-	-	-	-	-	14,444	-	-	-	14,444
Increase in lease liabilities from entering into new leases during the year	-	1,557	-	-	-	-	-	-	-	-	1,557
Crediting to capital reserve	-	-	-	-	-	(791)	-	-	-	-	(791)
At 31 December 2019	106,393	-	-	-	-	-	-	132	-	(10,060)	96,465

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 1(c) and 22(b).

22. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(d) Total cash outflow for leases

Amounts included in the statement of cash flows for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	–	570
Within financing cash flows	1,557	–
	1,557	570

Note: As explained in note 22(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

23. TRADE AND OTHER PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables		
– Due to third parties	30,633	18,643
	30,633	18,643
Amounts due to related parties (note 35)	–	553
Deferred income (note)	–	7,000
Other payables	4,344	1,282
Payable for acquisition of property, plant and equipment	3,876	4,878
Accrued issue costs and listing expenses	–	764
Other tax payables	1,578	1,052
Payroll payable	3,952	2,425
Interest payable	132	198
	44,515	36,795

Notes:

(i): All of the trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

(ii): 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 was credited to profit or loss as "other income" upon the Listing in February 2019.

23. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**16,319**	9,689
Over 3 months but within 6 months	**10,315**	5,204
Over 6 months but within 1 year	**2,826**	1,885
Over 1 year but within 2 years	**1,072**	1,479
Over 2 years	**101**	386
	30,633	18,643

24. CONTRACT LIABILITIES

	2019	2018
	RMB'000	RMB'000
Amounts received in advance from customers for:		
– sales of fabric products	**4,244**	392
– printing and dyeing services	**2,823**	1,226
	7,067	1,618

The following table shows how much of the revenue recognised in the years ended 31 December 2019 and 2018 relates to brought forward contract liabilities. There was no revenue recognised in the years ended 31 December 2019 and 2018 that related to performance obligations that were satisfied in a prior year.

Movements in contract liabilities

	2019	2018
	RMB'000	RMB'000
Balance at 1 January	**1,618**	2,477
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year		
– Sales of fabric products	**(392)**	(1,983)
– Printing and dyeing services	**(1,226)**	(312)
Net increase in contract liabilities as a result of cash receipts in advance from customers (net off the contract liabilities as a result of recognising revenue during the year)	**7,067**	1,436
Balance at 31 December	**7,067**	1,618

25. BANK BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Fixed-rate bank borrowings		
– Secured and guaranteed (note a)	72,167	45,146
– Secured and unguaranteed (note b)	21,600	50,000
– Unsecured and guaranteed (note c)	12,626	18,605
Total	106,393	113,751

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
The carrying amounts of the above bank borrowings are repayable*:		
Within one year	74,493	91,959
Within more than one year but no more than two years	12,993	2,742
Within more than two years but no more than five years	13,074	12,550
More than five years	5,833	6,500
	106,393	113,751
Less: amounts due within one year shown under current liabilities	(74,493)	(91,959)
Amounts shown under non-current liabilities	31,900	21,792

* 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	
	2019	2018
Effective interest rate:		
Fixed-rate borrowings	4.35%–6.37%	4.33%–7.00%

25. BANK BORROWINGS (Continued)

Notes:

(a) The bank borrowings were secured by (i) pledge of property, plant and equipment (including land use right) and investment properties of the Group; (ii) corporate guarantees from the Company and its subsidiaries Huzhou Narnia and Changxing Seashore.

(b) The bank borrowings were secured by (i) pledge of property, plant and equipment of the Group; (ii)unlisted equity securities as detailed in note 17; and (iii) restricted bank deposits as detailed in note 21.

(c) The bank borrowings were guaranteed by the Company.

At the end of the reporting period, the carrying amounts of the Group's pledged assets as securities for the Group's bank borrowings and banking facilities are set out below:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank deposits	10,000	–
Property, plant and equipment	49,825	47,310
Prepaid lease payments	–	6,849
Investment properties	8,671	9,174
Unlisted equity securities	20,000	20,000
	88,496	83,333

26. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	At 31 December 2019		At 1 January 2019 (Note)	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	–	–	346	360
After 1 year but within 2 years	–	–	324	360
	–	–	670	720
Less: total future interest expenses		–		(50)
Present value of lease liabilities		–		670

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

27. 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 2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised on the consolidated statement of financial position	**1,739**	917
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(280)**	–
	1,459	917

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 assets at FVTPL RMB'000	Tax losses RMB'000	Accrued expenses RMB'000	Total RMB'000
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
At 1 January 2019	**320**	**329**	**1,050**	**258**	**(1,040)**	**–**	**–**	**917**
Credit/(charge) to profit or loss	**326**	**(19)**	**(1,050)**	**(196)**	**–**	**1,309**	**172**	**542**
At 31 December 2019	**646**	**310**	**–**	**62**	**(1,040)**	**1,309**	**172**	**1,459**

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 2019, deferred tax liability has not been provided for in the consolidated financial statements in respect of undistributed profits of the Group's PRC subsidiaries amounting to RMB64,096,000 (2018: RMB29,907,000) as the Group is able to control the timing of the reversal of the temporary differences associated with undistributed profits of these subsidiaries and it is probable that the undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future.

There were no other significant unrecognised temporary differences as at 31 December 2019 and 2018.

28. SHARE CAPITAL

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

	2019		2018	
	No. of shares ('000)	RMB'000	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid				
At 1 January	50	325	50	325
Share subdivision (note a)	49,950	–	–	–
Capitalisation issue (note a)	550,000	3,682	–	–
New shares issues upon Initial Public Offering (note b)	200,000	1,339	–	–
At 31 December	800,000	5,346	50	325

Note a: Capitalisation issue

In contemplation of the 200,000,000 shares offered for the Placing and the Public Offer ("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.

Note b: Issue of ordinary shares by Initial Public Offering

The Company is listed on GEM of the Stock Exchange on 26 February 2019. Based on the issue price of HK$0.40 per share, the proceeds from Share Offer after deduction of the underwriting commissions and fees and other related expenses charged to equity were approximately HK$66,066,000 (equivalent to RMB55,988,000 converted at the rate of HK$1.18 to RMB1.00 on 26 February 2019), with RMB1,339,000 credited to share capital and RMB54,649,000 credited to share premium.

29. OPERATING LEASE ARRANGEMENT

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2018 were RMB360,000.

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2018 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 plant premises. Those leases had fixed lease term of 3 years.

The Group is the lessee in respect of a number of properties and items of plant held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(h).

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	
	2019 RMB'000	2018 RMB'000
Within one year	**239**	220
In the second year to fifth year inclusive	**135**	160
	374	380

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.

30. CAPITAL COMMITMENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	26,857	–

31. CAPITAL 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 equity shareholders of the Company through the optimisation of the debt and equity balance. The Group's overall capital management strategy remains unchanged from prior year.

The capital structure of the Group consists net debt, which includes bank borrowings and lease liabilities, net of restricted bank deposits and cash and cash equivalents and equity attributable to shareholders of the Group, comprising issued 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.

31. CAPITAL MANAGEMENT (Continued)

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019.

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current liabilities:				
Bank borrowings	25	74,493	91,959	91,959
Lease liabilities	26	–	346	–
		74,493	92,305	91,959
Non-current liabilities:				
Bank borrowings	25	31,900	21,792	21,792
Lease liabilities	26	–	324	–
Total debt		106,393	114,421	113,751
Add: Proposed dividends		–	–	–
Less: Restricted bank deposits	21	(10,060)	–	–
Cash and cash equivalents	22	(5,189)	(5,611)	(5,611)
Adjusted net debt		91,144	108,810	108,140
Total equity		171,147	97,568	97,568
Less: Proposed dividends		–	–	–
Adjusted capital		171,147	97,568	97,568
Adjusted net debt-to-capital ratio		53%	112%	111%

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets measured at FVTPL	20,000	20,000
Financial assets measured at amortised cost (including bank deposits)	72,764	28,347
Receivables at FVTOCI	7,004	100
	99,768	48,447
Financial liabilities		
Financial liabilities at amortised cost	150,908	140,069
	150,908	140,069

Financial risk management objectives and policies

The major financial instruments include financial assets measured at FVTPL, trade and other receivables, receivables at FVTOCI, bank deposits, trade and other payables and bank borrowings.

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.

32. FINANCIAL INSTRUMENTS (Continued)

Currency risk

During the year ended 31 December 2019, approximately 31% (2018: 28%) of the Group's sales and approximately 0% (2018: 0.53%) of the Group's purchase was 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:

	Year ended 31 December			
	2019		2018	
	US$	HK$	US$	HK$
The functional-currency in RMB'000				
Cash and cash equivalents	36	444	25	–
Trade receivables	10,053	–	11,521	–
Trade payables	(121)	–	(131)	–
Short-term loans	–	–	(5,213)	–
Total exposure	9,968	444	6,202	–

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% (2018: 10%) decrease in the functional currency of the relevant group entities against the foreign currency. 10% (2018: 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% (2018: 10%) change in foreign currency exchange 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% (2018: 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	
	2019	2018
	RMB'000	RMB'000
US$	848	527
HK$	44	–
	892	527

32. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (detailed in note 25). 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 deposit 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 years ended 31 December 2019 and 2018 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.

Except for the financial guarantees given by the Company as set out in note 34, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 34.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The Group has concentration of credit risk as 0.0% (2018: 3.3%) of the total trade receivables was due from the Group's largest customer and as 69.5% (2018: 29.3%) of the total trade receivables was due from the five largest customers, as at 31 December 2019.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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

32. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Trade receivables (Continued)

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

	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.02	18,008	4
Less than 3 month past due	3.17	39,637	1,258
3–6 months past due	47.88	754	361
6–12 months past due	47.97	765	367
More than 12 months past due	100.00	1,335	1,335
		60,499	3,325

	2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.74	16,421	285
Less than 3 months past due	2.15	3,019	65
3–6 months past due	2.22	2,161	48
6–12 months past due	5.88	204	12
More than 12 months past due	93.12	1,133	1,055
		22,938	1,465

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data were collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

32. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Trade receivables (Continued)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**1,465**	1,017
Amounts written off during the year	**–**	(127)
Impairment losses recognised during the year	**1,860**	575
Balance at 31 December	**3,325**	1,465

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.

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 RMB106,393,000 (2018: RMB113,751,000) as at 31 December 2019, of which RMB74,493,000 (2018: RMB91,959,000) will be repayable in the coming next 12 months after 31 December 2019 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 repay or 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 2019, the Group had available unutilised banking facilities amounted to RMB47,208,000 (2018: RMB33,800,000).

32. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

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.

	On demand and within one year RMB'000	Over 1 year but not more than 2 years RMB'000	Over 2 years but not more than 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019						
Trade and other payables	44,515	–	–	–	44,515	44,515
Bank borrowings	79,149	14,780	14,938	7,472	116,339	106,393
Total	123,664	14,780	14,938	7,472	160,854	150,908

	On demand and within one year RMB'000	Over 1 year but not more than 2 years RMB'000	Over 2 years but not more than 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018						
Trade and other payables	26,318	–	–	–	26,318	26,318
Bank borrowings	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

32. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements of financial instruments

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements using		
	Fair value at 31 December 2019	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities	20,000	–	–	20,000
Receivables at FVTOCI	7,004	–	7,004	–
	27,004	–	7,004	20,000

32. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements of financial instruments (Continued)

(i) Financial instruments carried at fair value (Continued)

Fair value hierarchy (Continued)

		Fair value measurements using		
	Fair value at 31 December 2018	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities	20,000	–	20,000	–
Receivables at FVTOCI	100	–	100	–
	20,100	–	20,100	–

During the year ended 31 December 2019, the fair value measurement of unlisted equity securities was transferred from Level 2 into Level 3. The fair value as at 31 December 2019 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 using market multiples of public companies and applying a discount on lack of marketability of the unlisted equity securities. 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 considering the transaction price agreed with an independent third party. 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.

32. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements of financial instruments (Continued)

(i) Financial instruments carried at fair value (Continued)

Valuation techniques and inputs used in Level 2 fair value measurements

Fair value of the Group's receivables at FVTOCI has been 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 date of settlement.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Unlisted equity securities	Market comparable companies	Market multiple	0.58–0.91	0.86
		Discount for lack of marketability	N/A	29%

The fair value of unlisted equity securities was determined using the price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is positively correlated to the market multiple and negatively correlated to the discount for lack of marketability. As at 31 December 2019, it is estimated that with all other variables held constant, an increase/decrease of market multiple of comparable companies would have increase/decrease the Group's profit by RMB850,000, and a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's profit by RMB344,000.

Fair value of financial assets and liabilities carried at other than fair value

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.

33. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of Financial Position

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current assets		
Investment in a subsidiary (note)	**84,206**	84,206
Current assets		
Amounts due from group companies	**57,091**	4,071
Cash and cash equivalents	**470**	7
	57,561	4,078
Current liabilities		
Amount due to group companies	**31,032**	17,504
Net current assets/(liabilities)	**26,529**	(13,426)
Total assets less current liabilities	**110,735**	70,780
Capital and reserves		
Share capital	**5,346**	325
Reserves	**105,389**	70,455
Total equity	**110,735**	70,780

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

33. FINANCIAL INFORMATION OF THE COMPANY (Continued)

(b) Movements of the Company's reserves

	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2018	–	83,552	(13,097)	70,455
Loss and total comprehensive income for the year	–	–	(2,380)	(2,380)
Issue of shares by capitalisation of share premium	(3,682)	–	–	(3,682)
Issue of ordinary shares by Initial public offering	66,903	–	–	66,903
Cost of issue new shares	(12,254)	–	–	(12,254)
Capitalisation of amounts due to related parties	–	791	–	791
Dividends declared and paid in respect of current year	(14,444)	–	–	(14,444)
At 31 December 2019	36,523	84,343	(15,477)	105,389

	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 income for the year	–	(13,097)	(13,097)
At 31 December 2018	83,552	(13,097)	70,455

34. CONTINGENT LIABILITIES

At 31 December 2019, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB71,000,000 (2018:nil). As at 31 December 2019, the subsidiaries have drawn down RMB65,626,000 bank loans from the above-mentioned banking facilities. The directors do not consider it probable that a claim will be made against the Company under any of these guarantees.

35. RELATED PARTY DISCLOSURES

Related party transactions

Saved as disclosed elsewhere in this report, the Group had also entered into the following related party transactions.

	Nature of transactions	Year ended 31 December 2019 RMB'000	2018 RMB'000
Zhejiang Senlaite Industry and Trade Technology Limited# (浙江森萊特工貿科技有限公司) (**"Zhejiang Senlaite"**) (note (a))	Rental expenses	240	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 (b))	Purchase of steam and electricity for production	–	864
		240	1,008

Notes:

(a) The directors of the Company consider Zhejiang Senlaite is a related party as the Controlling Shareholders of the Group are key management personnel of Zhejiang Senlaite.

(b) 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. On 15 August 2018, Mr. Dai had fully settled such bank borrowings. Therefore, on the same date, the Group's pledged of assets in relation to such bank borrowing was fully released.

Guarantees and pledge of assets provided by related parties

At 31 December 2018, the Controlling Shareholders and/or Zhejiang Senlaite had provided guarantees and/or pledge of assets to banks in respect of the Group's bank borrowings amounted to RMB39,313,000. The guarantees and/or pledge of assets granted to banks provided by the Controlling Shareholders and/or Zhejiang Senlaite had been fully released before Listing in February 2019.

English name is for identification purpose only.

35. RELATED PARTY DISCLOSURES (Continued)

Compensation of key management personnel

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Salaries and other benefits	472	378
Retirement benefit scheme contributions	67	90
Discretionary performance related bonus	749	479
	1,288	947

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 2019 RMB'000	2018 RMB'000
Zhejiang Senlaite	–	199

Amounts due from related parties – non-trade nature

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 2019 RMB'000	2018 RMB'000
Spring Sea (note)	–	192

35. RELATED PARTY DISCLOSURES (Continued)

Related party balances (Continued)

Amounts due to related parties – non-trade nature (Continued)

	As at 31 December	
	2019	2018
	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, Spring Sea and Summer Land agreed to waive the non-trade nature receivables among to RMB791,000 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.

36. PARTICULARS OF SUBSIDIARIES

The following list contains all the subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business and date of establishment	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Autumn Sky	BVI 16 October 2017	US$ 50,000	100%	100%	–	Investment holding
Hengye Development	Hong Kong 30 October 2017	HK$ 10,000	100%	–	100%	Investment holding
Huzhou Narnia*	the PRC 5 August 2002	RMB 120,000,000	100%	–	100%	Manufacture and sale of fabrics and provision of printing and dyeing services
Narnia International (Hong Kong) Limited	Hong Kong 25 July 2013	US$ 8,000,000	100%	–	100%	Investment holding
Changxing Seashore*	the PRC 23 October 2012	US$ 8,000,000	100%	–	100%	Textile manufacturing

* All the PRC entities are limited liability companies.

None of the subsidiaries had issued any debt securities during or at the end of both years.

37. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period:

(i) Deloitte Touche Tohmatsu ("**Deloitte**") had resigned as the auditor of the Company with effect from 7 January 2020 and the Board had resolved to appoint KPMG as the new auditor of the Company, to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next general meeting of the Company.

(ii) Since the outbreak of the novel coronavirus (COVID-19) epidemic in early 2020, Chinese government authorities have taken a timely approach to adopt epidemic prevention measures such as temporarily closing public places, checking the travel routes of employees, and restricting employees from returning to work at local enterprises. As a result, the Group's factories in China have halted production since 24 January 2020 to prevent the spread of the novel coronavirus, and have resumed work on 21 February 2020. At present, the Group is carrying out normal operations.

Due to the fact that the epidemic in China is now becoming more stable, it did not result in any material adverse impacts on the Group's production. However, due to the worsening situation of the epidemic overseas, the sales and profit have suffered adverse impacts to a certain extent, hence the directors cannot provide accurate estimates on the financial results of the Group for the next few months. Based on the development of the epidemic outside China, the directors will change sales model and profit forecast in time. At the moment, the directors expect that the development of the epidemic will not result in significant adverse impacts to the Group's continuing operation.

(iii) As disclosed in note 17, on 18 March 2020, the Group agreed with the Buyer to terminate the Sale and Purchase Agreement related to the unlisted equity securities in Changxing Rural Commercial Bank.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3, *Definition of a Business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of Material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
IFRS 17, *Insurance Contracts*	1 January 2021
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

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

39. COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

FINANCIAL SUMMARY

The following table summarises the consolidated results of our Group for the three years ended 31 December:

	For the year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS				
Revenue	**329,562**	332,336	238,309	242,386
Gross profit	**65,055**	66,510	46,062	35,004
Profit before taxation	**34,910**	51,369	20,532	10,943
Income tax	**(3,666)**	(5,287)	(2,759)	(2,022)
Profit for the year	**31,244**	46,082	17,773	8,921
Attributable to:				
Equity shareholders/owners of the Company	**31,244**	39,293	13,947	8,353

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED ASSETS AND LIABILITIES				
Total assets	**334,303**	253,590	258,024	274,144
Total liabilities	**(163,156)**	(156,022)	(173,919)	(182,369)
Equity attributable to equity shareholders/owners of the Company	**171,147**	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 years ended 31 December 2016 and 2017 which were extracted from the Prospectus of the Company 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.