



**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

2020 **ANNUAL REPORT**

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This report, for which the directors (the “Directors”) of Narnia (Hong Kong) Group Company Limited (the “Company”, together with its subsidiaries, the “Group”, “we”, “our” or “us”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Dr. Liu Bo
 Mr. Yu Chung Leung
 Mr. Song Jun

AUDIT COMMITTEE

Mr. Yu Chung Leung (*Chairman*)
 Dr. Liu Bo
 Mr. Song Jun

NOMINATION COMMITTEE

Dr. Liu Bo (*Chairman*)
 Mr. Yu Chung Leung
 Mr. Song Jun

REMUNERATION COMMITTEE

Mr. Song Jun (*Chairman*)
 Dr. Liu Bo
 Mr. Yu Chung Leung

COMPANY SECRETARY

Mr. Chan Hon Wan (*HKICPA*)

COMPLIANCE OFFICER

Mr. Dai Shunhua

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

Windward 3
 Regatta Office Park
 PO Box 1350
 Grand Cayman KY1-1108
 Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

Jiapu Economic Development Area
 Changxing County
 Huzhou City
 Zhejiang Province
 PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19th Floor, Three Exchange Square
 8 Connaught Place, Central
 Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Windward 3
 Regatta Office Park
 PO Box 1350
 Grand Cayman KY1-1108
 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
 Level 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

LEGAL ADVISER

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

AUDITOR

KPMG
Certified Public Accountants
 Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
 8th Floor, Prince's Building
 10 Chater Road, Central
 Hong Kong

COMPLIANCE ADVISER

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

PRINCIPAL BANKERS

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

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

COMPANY'S WEBSITE

www.narnia.hk

STOCK CODE

8607

FINANCIAL HIGHLIGHTS

	For the year ended		Changes Increase/ (decrease)
	31 December 2020 RMB'000	2019 RMB'000	
Financial Highlights			
Revenue	290,561	329,562	(11.8)%
Cost of sales	(258,431)	(264,507)	(2.3)%
Gross profit	32,130	65,055	(50.7)%
(Loss)/profit before taxation	(12,400)	34,910	N/A
(Loss)/profit for the year	(9,898)	31,244	N/A
(Loss)/profit attributable to equity holders of the Company	(9,898)	31,244	N/A
Basic (loss)/earnings per share (RMB cents)	(1.24)	4.06	N/A
Proposed final dividend per share (HK cents)	Nil	Nil	N/A
			Changes Increase/ (decrease)
	As at 31 December		
	2020	2019	
Liquidity and Gearing			
Current ratio (Note 1)	1.04	1.41	(26.2)%
Quick ratio (Note 2)	0.71	0.69	2.9%
Asset-liability ratio (Note 3)	28.2%	31.8%	(3.6)%

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets less inventories divided by current liabilities.
- (3) Asset-liability ratio is calculated as total borrowings divided by total assets and multiplied by 100%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “Board”) of Narnia (Hong Kong) Group Company Limited, it is my pride and pleasure in presenting the annual report of the Company for the year ended 31 December 2020 (the “Year Under Review”) to our shareholders (the “Shareholders”) and potential investors.

RESULTS OF OPERATION

During the Year Under Review, the world's economic and political positions remain under turmoil. Factors such as the Sino-U.S. trade dispute, the global outbreak of the novel coronavirus (COVID-19) epidemic (the “Epidemic”), the complex and changing domestic and foreign economic situations, the raw material price fluctuations, the relatively volatile Renminbi exchange rate, and the still prominent conflicts and issues that brought about instability and uncertainty for the global economy, have had an adverse impact on the Group's sales and earnings. The year of 2020 was a difficult year for us. The Group's overall sales and gross profit recorded a decline. However, leveraging on our business development strategies and efficient project implementation ability, the Group was able to capitalize on the global shortage of anti-epidemic materials and successfully expanded our business scope with our newly built and commissioned meltblown fabric production line. For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB290.6 million, representing a decrease of 11.8% as compared to the previous year. Loss attributable to equity Shareholders of the Company was approximately RMB9.9 million, compared to profit of approximately RMB31.2 million for the year ended 31 December 2019. The overall gross profit margin decreased by 8.6% from 19.7% for the year ended 31 December 2019 to 11.1% for the year ended 31 December 2020. Losses per share was approximately RMB1.24 cents, compared to earnings per share of approximately RMB4.06 cents for the year ended 31 December 2019. During the Year Under Review, the Group did not declare any dividend in order to maintain the financial sustainability of the Company. 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 Group is committed to maintaining a high standard of corporate governance to the greatest extent as far as 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 Group and the creation of Shareholders' value. While striving to maintaining a high standard of corporate governance, the Board is also committed to creating greater value and maximizing returns for its Shareholders. The Board will continue to review and improve the quality of corporate governance practices with reference to local and international standards. The Group also welcomes any feedback suggestions from the Shareholders, which help to raise the Group's transparency.

FUTURE OUTLOOK

Looking ahead, in addition to keeping focus on its core business, the Group will also expand our anti-epidemic material production business, maintain and increase market share for our major products with a dominating advantage, and actively increase the application of meltblown fabrics. The Group will continue to invest resources in the research and development projects for developing new products and innovative production technology, strengthen our marketing network in overseas markets, and further strengthen the supply assurance of our major raw materials. The Group believes that, with the implementation of our business strategies and the continuous enhancement of our corporate governance performance, risk prevention capability and profitability, we can create long-term values for all Shareholders.

CHAIRMAN'S STATEMENT

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, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2020, the economic situation in China has been adversely affected to a certain degree by the outbreak of the Epidemic. However, the Epidemic was under control in China, upon timely measures taken by the Chinese government authorities to control the outbreak of the Epidemic, such as temporarily closing public places, checking the travel routes of travellers, and restricting employees from returning to work at local enterprises. The active measures adopted by the Chinese government authorities minimized the negative impact of the Epidemic on the Chinese economy, thus China's economy continued to remain robust with steady improvement after the Epidemic has subsided. The economic structure continued to optimize, reforms achieved initial success, and green development initiatives started to yield results. In 2020, the textile industry experienced rapid changes. Due to normalized environmental policies, the adverse development of the global economy, the rise of Southeast Asia's textile industry, and manufacturing chain relocations, numerous factors are forcing the textile industry in China to undergo further transformation and move towards developing high quality products. Still, as a populous country, China has demonstrated growing demand for textile products. Such trend will possibly 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. Under the Chinese government's stringent policies of expanding domestic demand and stimulating its internal circulation, strong domestic demand will stimulate the overall textile industry in China.

Through continuous advancement and improvement of technology, players in the textile fabric production industry are actively developing new materials that can be applied in different sectors, ranging from aerospace and infrastructure construction to leisure and sports. Continuous technological innovation will drive the textile fabric production industry to further eliminate uncompetitive manufacturers. 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 to form industrial clusters. 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 enterprises within the clusters informed of market dynamics and allow them to work out timely strategies. Such industrial clusters provide advantages for enterprises, allowing them to create economies of scale, thus driving the sustainable development of overall textile fabric manufacturing industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group continued to focus on strengthening its core business of dyeing and processing textile products, while also commenced the production of meltblown fabrics. In addition to maintaining and increasing market share for our major products with a dominating advantage, we actively increased the application of meltblown fabrics. Besides maintaining business relationships with our current customers, we have also spent a lot of effort in seeking new customers to increase our market share. During the Year Under Review, our income and gross profit margin both declined, due to the adverse impact of the Epidemic.

During the Year Under Review, the Group increased promotional efforts for its new products. A 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 meltblown fabric production line, which has commenced operation in the Year Under Review, continuously gives stable and quality output to meet the increasing market demand. The Group will continue 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. Products from the newly added meltblown fabric business line are exported overseas with demands exceeding our supply. In this regard, as the meltblown fabrics are used in anti-Epidemic products such as face masks, we contributed to the global fight against the Epidemic.

The Group put strong emphasis in investment in research and development of new products and technology. During the Year Under Review, the Group continued its research and development of environmental-friendly functional fabrics. The “Provincial Enterprise Research Institute” announced by the Research and Development Center was jointly approved by the provincial Science and Technology Department, the Development and Reform Department, and the Economic and Information Technology Department, hence the “Flexible Workstation for Professors and Doctors” was established. The Station was named the “National Leading Enterprise in Water Efficiency among Key Industries” and an “Exemplary Enterprise of Big Data Application in Zhejiang Province” (listed in the 6th batch) by the Ministry of Industry and Information Technology of the PRC in 2020; awarded the “2020 Water Conservation Company in the Textile Industry” by the China National Textile And Apparel Council; the “2020 Water Conservation Company in Zhejiang Province” and the “Benchmark Water Conservation Company” by the Economic and Information Technology Department of Zhejiang, the “Famous Export Brand of Zhejiang Province” by the Department of Commerce of Zhejiang; and was also named one of the “Top 50 Economically Efficient Enterprises in the Chinese Filament Weaving Industry” and given the Gold Award in the “New Filament Fabric Product Fashion Design Competition” issued by the China Filament Weaving Association; five of our products won the “Tianyi Red Flag Cup” and other related honors.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group develops 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. We also commenced the commercial production of meltblown fabrics during the Year Under Review. With a view to diversifying our source of revenue, we also engage in the provision of printing and dyeing services in the PRC.

For the year ended 31 December 2020, 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			
	2020		2019	
	RMB'000	%	RMB'000	%
Sales of fabrics	156,682	53.9	202,664	61.5
Service revenue from processing, printing and dyeing service	133,879	46.1	126,898	38.5
Total	290,561	100.0	329,562	100.0

Our total revenue was approximately RMB290.6 million for the year ended 31 December 2020 (2019: approximately RMB329.6 million), representing a decrease of 11.8% as comparing the revenue of the Year Under Review with that of last year. The decrease was mainly due to the negative impacts brought by the Epidemic, which drove down the demand for the fabric products of the Group, and the Group's production was temporarily suspended after the Chinese New Year and movement of people was affected by the Epidemic due to travel restriction.

Revenue from the sales of fabrics decreased by approximately RMB46.0 million or 22.7% from approximately RMB202.7 million for the year ended 31 December 2019 to approximately RMB156.7 million for the year ended 31 December 2020. The decrease was mainly due to the decrease in both the sales volume and unit selling price.

Service revenue from processing, printing and dyeing service increased by approximately RMB7.0 million or 5.5% from approximately RMB126.9 million for the year ended 31 December 2019 to approximately RMB133.9 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in sales orders from our customers during the Year Under Review. The Group has good reputation and technology know-how in the provision of processing, printing and dyeing services, which is a segment that presents considerable technological barriers for many textile enterprises who have to rely on service providers for support in this aspect. Moreover, our processing, printing and dyeing services were provided to our PRC customers and was not affected by the Epidemic situation overseas. Thus, the Group recorded a stable increase in revenue from processing, printing and dyeing service during the Year Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

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 cost of sales and services decreased by approximately RMB6.1 million or 2.3% from approximately RMB264.5 million for the year ended 31 December 2019 to approximately RMB258.4 million for the year ended 31 December 2020. Such decrease was mainly attributable to the decrease in the cost of raw materials, which was in line with the decrease in revenue during the Year Under Review, while utility costs, depreciation and direct labour costs remained similar as compared to that for the year ended 31 December 2019.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB33.0 million or 50.7% from approximately RMB65.1 million for the year ended 31 December 2019 to approximately RMB32.1 million for the year ended 31 December 2020.

The overall gross profit margin of our sales and services decreased from approximately 19.7% for the year ended 31 December 2019 to approximately 11.1% for the year ended 31 December 2020. The significant decrease in gross profit margin was due to the outbreak of the Epidemic, which resulted in the Group's factories in Changxing halted its production from 24 January 2020 to 21 February 2020, and gradually restored its production in March 2020. During such period, the production in the Group's factories was suspended. However, most of the fixed cost overhead, including labour's basic salary and depreciation, continued to incur in the cost of sales. Thus, these fixed cost overhead to cost of sales ratio increased, which resulted in a decrease in gross profit margin. In addition, at the end of 2019, both the inventory amount and the average cost of the raw materials were high, which led to the cost of sales and services for 2020 being comparatively higher. Besides, as the sales orders for fabrics decreased, the Group needed to reduce the selling price in order to gain more sales orders.

Other income

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest income	154	226
Government subsidies	1,818	18,431
Net gain on sales of raw materials	–	3,437
Investment income	725	123
Dividend income from unlisted equity securities mandatorily measured at FVTPL	1,097	1,097
Rental income	226	179
Others	489	83
Total	4,509	23,576

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other income (Continued)

Our other income was approximately RMB4.5 million for the year ended 31 December 2020 (2019: approximately RMB23.6 million). The decrease of approximately RMB19.1 million for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was mainly due to the decrease in government subsidies and net gain on sales of raw materials.

Government subsidies decreased from approximately RMB18.4 million for the year ended 31 December 2019 to approximately RMB1.8 million for the Year Under Review, as we received government subsidies from local government of approximately RMB14.5 million in connection with our successful listing on GEM of the Stock Exchange for the year ended 31 December 2019, while the Group did not receive such amount for the year ended 31 December 2020.

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	
	2020	2019
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	(35)	(11,344)
Change in fair value of financial assets		
mandatorily measured at FVTPL	1,127	–
Impairment losses on property, plant and equipment	(4,200)	–
Net exchange (loss)/gain	(2,209)	282
Total	<u>(5,317)</u>	<u>(11,062)</u>

The Group's other losses was approximately RMB5.3 million for the year ended 31 December 2020 (2019: approximately RMB11.1 million). The decrease in other losses of approximately RMB5.8 million for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was mainly due to the decrease in loss on disposal of property, plant and equipment of approximately RMB11.3 million, which was partially off-set by the increase in impairment losses on property, plant and equipment of approximately RMB4.2 million.

The Group's exchange exposure is mainly due to the fact that trade receivables were dominated in USD, while the Group's expenses and reporting currency is dominated in RMB. The net exchange loss incurred during the Year Under Review was mainly due to the depreciation of USD against RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Selling and distribution expenses

The Group's 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 Group's selling and distribution expenses increased slightly by approximately RMB0.1 million or approximately 3.8% from approximately RMB2.6 million for the year ended 31 December 2019 to approximately RMB2.7 million for the year ended 31 December 2020.

Administrative expenses

The Group's 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 Group's administrative expenses decreased by approximately RMB2.3 million or approximately 16.4% from approximately RMB14.0 million for the year ended 31 December 2019 to approximately RMB11.7 million for the year ended 31 December 2020. The decrease was mainly a result of a decrease in staff costs.

Research expenditure

The 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 RMB10.3 million for the year ended 31 December 2020 (2019: approximately RMB11.6 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 decrease of approximately RMB1.3 million in research expenditure for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was mainly due to the decrease in direct usage of different raw materials during the testing and analysing process.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other expenses

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Net loss on sales of raw materials	14,229	94.6	–	–
Donations	181	1.2	100	17.4
Others	633	4.2	475	82.6
Total	15,043	100.0	575	100.0

Our other expenses amounted to approximately RMB15.0 million for the year ended 31 December 2020 (2019: approximately RMB0.6 million), the significant increase was mainly due to the net loss on sales of raw materials of approximately RMB14.2 million recorded during the Year Under Review. Due to the negative impact brought by the Epidemic in the first half of 2020, we sold a large quantity of grey fabrics at a low price in order to provide additional working capital, which resulted in a large net loss on sales of raw materials during the Year Under Review.

Finance costs

For the year ended 31 December 2020, our finance costs amounted to approximately RMB5.4 million (2019: approximately RMB6.2 million). Our finance costs mainly comprised of the interest expense on our bank borrowings. The finance cost decreased by approximately RMB0.8 million or 12.9% as compared to that of last year, mainly as a result of the reduction in the level of bank borrowings.

Income tax credit/(expense)

Income tax credit/(expenses) represent our total current and deferred tax credit/(expenses). The current taxes are calculated based on taxable (losses)/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. In 2020, the application for the renewal of the preferential tax certificate had been approved and Huzhou Narnia continued to enjoy a preferential tax rate of 15% for the Year Under Review.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Income tax credit/(expense) (Continued)

The income tax credit for the year ended 31 December 2020 was approximately RMB2.5 million, as compared to an income tax expense of approximately RMB3.7 million for the year ended 31 December 2019. The details are set out in Note 9 to the consolidated financial statements.

(Loss)/profit for the year attributable to the equity Shareholders of the Company

As a result of the foregoing, our loss for the year attributable to the equity Shareholders of the Company for the year ended 31 December 2020 was approximately RMB9.9 million, while there was a profit of approximately RMB31.2 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 2020, our property, plant and equipment amounted to approximately RMB129.0 million (31 December 2019: approximately RMB111.7 million). The increase in carrying amount of our property, plant and equipment during the year ended 31 December 2020 was mainly the results of the replacement of obsolete production facilities during the technical upgrade and the continuous improvement of our production lines with new equipment and machinery.

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. The following table sets out the summary of our inventories balances as of the dates indicated:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	41,140	66,690
Work in progress	5,232	4,874
Finished goods	8,500	22,191
Total	<u>54,872</u>	<u>93,755</u>

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Inventories (Continued)

Our inventories decreased from approximately RMB93.8 million as at 31 December 2019 to approximately RMB54.9 million as at 31 December 2020, which was mainly due to the decrease in finished goods and raw materials purchased by our Group for the year ended 31 December 2020.

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 2020 and 2019.

Inventory turnover

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

	Year ended 31 December	
	2020	2019
Average inventory turnover days (Note)	<u>105</u>	<u>115</u>

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

The average inventory turnover days decreased from 115 days for the year ended 31 December 2019 to 105 days for the year ended 31 December 2020. The decrease in average inventory turnover days in 2020 was primarily due to the decrease in average inventory balance.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other receivables

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade receivables	51,523	60,499
Less: loss allowance for trade receivables	(2,003)	(3,325)
Trade receivables, net	49,520	57,174
Prepayments	14,738	9,910
Value added tax ("VAT") recoverable	1,307	758
Interest receivable	–	116
Other receivables	139	227
Less: loss allowance for other receivables	(2)	(2)
Other receivables, net	137	225
Total	65,702	68,183

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 decrease in gross amount of trade receivables from approximately RMB60.5 million as at 31 December 2019 to approximately RMB51.5 million as at 31 December 2020 was mainly due to our lower total sales for the last three months of the year ended 31 December 2020 when compared to the same period last year, which resulted in a less trade receivables aged within 3 months as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other receivables (Continued)

Trade receivables (Continued)

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	
	2020	2019
	RMB'000	RMB'000
Within 3 months	39,041	50,923
Over 3 months but within 6 months	9,148	5,731
Over 6 months but within 1 year	705	484
Over 1 year but within 2 years	555	36
Over 2 years	71	–
Total	<u>49,520</u>	<u>57,174</u>

Provision for impairment of trade receivables

During the Year Under Review, our management assessed impairments according to the expected credit loss (“ECL”) rate considering their ageing and historical default rates. The details of credit risk and ECL are set out in Note 30 to the consolidated financial statements.

Trade receivable turnover days

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

	Year ended 31 December	
	2020	2019
Average trade receivables turnover days (Note)	<u>70</u>	<u>46</u>

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 2020 was approximately 70 days (2019: approximately 46 days). The increase of turnover days was mainly due to the decrease in total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other receivables (Continued)

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 RMB5.2 million or approximately 47.3% from approximately RMB11.0 million as at 31 December 2019 to approximately RMB16.2 million as at 31 December 2020, the increase of which was mainly attributable to the combined effect of (i) an increase of prepayment of approximately RMB4.8 million; and (ii) an increase of the VAT recoverable of approximately RMB0.5 million.

Restricted bank deposits

As at 31 December 2020, our restricted bank deposits of approximately RMB32.5 million (2019: RMB10.1 million) primarily consist of deposits amounting to approximately RMB32.4 million placed to a bank as security for a short-term bank borrowing of the Group.

Trade and other payables

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade and bills payables		
– Due to third parties	60,130	30,633
	<hr/>	<hr/>
	60,130	30,633
Other payables		
– Other tax payables	5,348	1,578
– Payroll payables	3,647	3,952
– Interest payables	143	132
– Payable for acquisition of property, plant and equipment	3,910	3,876
– Others	2,922	4,344
	<hr/>	<hr/>
Total	<u>76,100</u>	<u>44,515</u>

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables (Continued)

Trade and bills payable

Our trade and bills payable primarily consist of trade and bills payable 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. As at 31 December 2020, our trade and bills payable increased by approximately RMB29.5 million when compared to last year.

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 3 months	15,622	16,319
Over 3 months but within 6 months	6,773	10,315
Over 6 months but within 1 year	36,249	2,826
Over 1 year but within 2 years	1,305	1,072
Over 2 years	181	101
Total	<u>60,130</u>	<u>30,633</u>

Trade and bills payable turnover days

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

	Year ended 31 December	
	2020	2019
Average trade and bills payable turnover days (Note)	<u>64</u>	<u>29</u>

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

The Group's trade and bills payable turnover days for the year ended 31 December 2020 was approximately 64 days (2019: approximately 29 days). The increase of turnover days was mainly due to the increase in average trade and bills payable balance.

MANAGEMENT DISCUSSION AND ANALYSIS

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, payables for the acquisition of property, plant and equipment.

Our other payables increased from approximately RMB13.9 million as at 31 December 2019 to approximately RMB16.0 million as at 31 December 2020 mainly due to the increase in other tax payable of approximately RMB3.8 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	
	2020	2019
	RMB'000	RMB'000
Amounts received in advance of:		
– sales of fabrics	1,364	4,244
– printing and dyeing services	3,802	2,823
Total	<u>5,166</u>	<u>7,067</u>

As at 31 December 2020, all of our contract liabilities were expected to be recognised as revenue within 12 months. The decrease in contract liabilities from approximately RMB7.1 million as at 31 December 2019 to approximately RMB5.2 million as at 31 December 2020 was mainly due to the decrease in receipt of advance payments from customers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020, our Group had cash and cash equivalents amounting to approximately RMB10.1 million (2019: approximately RMB5.2 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.

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB4.9 million, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB79.6 million, net cash outflow used in investing activities with the amount of approximately RMB37.7 million, and net cash outflow used in financing activities with the amount of approximately RMB37.0 million. The cash flow details of the Group are set out in pages 70 to 71 under "Consolidated Statement of Cash Flows" in this report.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2020 was approximately RMB96.5 million (2019: approximately RMB106.4 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Asset-liability ratio

As at 31 December 2020, the Group's asset-liability ratio was approximately 28.2% (2019: 31.8%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to a decrease in bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE (Continued)

Pledge of assets

As at 31 December 2020, the Group had pledged certain buildings, equipment and machinery, investment properties and unlisted equity securities with aggregate carrying amount of approximately RMB122.8 million (2019: approximately RMB88.5 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 RMB35.8 million for the year ended 31 December 2020 (2019: approximately RMB26.8 million).

A comparison of actual capital expenditure with the "Future Plans and Use of Proceeds" in the prospectus of the Company dated 13 February 2019 (the "Prospectus") as at 31 December 2020 is set out in the paragraph headed "Actual Business Progress, Change in Use of Net Proceeds from the Listing and Actual Utilised Amount" in pages 26 to 27 of this report.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB58.0 million (2019: RMB71.0 million). As at 31 December 2020, the subsidiaries utilised approximately RMB50.5 million (2019: RMB65.6 million) bank loans from the above-mentioned banking facilities. The Directors consider the Group will be able to perform the guarantees or there will be no default on any terms of the guarantees.

As at 31 December 2020, the Group did not have any material legal proceedings or potential proceedings (2019: Nil).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments amounted to approximately RMB26.9 million (2019: approximately RMB26.9 million).

SEGMENT INFORMATION

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the Year Under Review, the Group did not make any material acquisition or disposal of subsidiaries and associated companies.

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. Save as disclosed, there is no other plan for capital assets as at 31 December 2020.

FUTURE OUTLOOK

Looking ahead, market competition will remain fierce as the global impact of the Epidemic will be long-lasting, while the domestic and international economic environment will continue to be complex and volatile. In addition to keeping focus on its core business, the Group will also expand our anti-epidemic material production business, maintain and increase market share for our major products with a dominating advantage, and actively increase the application of meltblown fabrics.

In 2020, the impact of the continued spread of the Epidemic and 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 during the first to third quarters was insufficient, but rapidly rebounded in the fourth quarter, and market supply was not enough to meet the demand. 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. The following signs will start to show, due to “the survival of the fittest”: existing enterprises are forced to transform and upgrade, the pace of industrial product restructuring and upgrading will accelerate, and industrial consolidation will be gradually raised.

In 2021, 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, promote our spirit of sincere partnership, co-innovation and sharing, in order to take the Group’s business to the next level.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK (Continued)

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;
- (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; and
- (4) Further increasing the application of meltblown fabrics, including but not limited to various surgical masks, disposable towels, bath towels and other cleaning products, and facial masks.

Following our successful Listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 February 2019, we benefited from a strong capital platform which will be conducive to taking our business to the next level. We are positive of the market outlook and our outstanding capability and competitive edge, which will enable us to capitalise growth opportunities ahead.

HUMAN RESOURCES AND TRAINING

As at 31 December 2020, the Group had a total of 410 employees, total staff cost for the Year Under Review amounted to approximately RMB22.6 million (2019: approximately RMB25.9 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 work specifications for its employees, conducts periodic performance review on its employees, and regularly review their salaries and bonuses accordingly.

DIVIDENDS

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: 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 continue the following plans in 2021. 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) acquisition of meltblown fabrics production lines; (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 Suzhou University (蘇州大學) 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

ACTUAL BUSINESS PROGRESS, CHANGE IN USE OF NET PROCEEDS FROM THE LISTING AND ACTUAL UTILISED AMOUNT

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 disclosed in the announcement of the Company dated 29 April 2020 (the “**Announcement**”), it was planned that the Group would use approximately RMB8.5 million of the Net Proceeds, as set forth in the Prospectus, to construct a new weaving factory on the parcel of land owned by the Group situated at Hongqi Village, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮紅旗村) (currently known as Binhu Village, Jiapu Town, Changxing County, Zhejiang Province, PRC* (中國浙江省長興縣夾浦鎮濱湖村)) (the “**Hongqi Village Land**”). As disclosed in the 2019 annual report of the Company, there was a delay in the use of proceeds as to the construction of a new weaving factory as at 31 December 2019 due to more time required for obtaining the requisite government approval for building the factory. However, on 20 April 2020, the Company received an official notice from the People’s Government of Jiapu Town, Changxing County* (長興縣夾浦鎮人民政府) that no new factories other than buildings for non-productive operations, such as offices or research and development centres can be built on the Hongqi Village Land, otherwise no permission would be given for construction projects on it. In view of the change in land use, the Board considered that it is no longer feasible to utilise the remaining balance of the net proceeds of approximately RMB8.5 million (the “**Unutilised Net Proceeds**”) for construction of the new weaving factory at Hongqi Village Land.

Taking into account the outbreak of the Epidemic in 2020, which caused adverse effects on the PRC domestic and global economy and slowed down the PRC domestic and international trade of textile products since the first quarter of 2020, the Company considers that it would not be cost-effective for the Group to find an alternative parcel of land to construct the new weaving factory in the foreseeable future. Accordingly, the Company decided to utilise the Unutilised Net Proceeds for other purpose of the Group’s business.

In view of (i) the increase in demand for meltblown fabrics; (ii) the launch of the “Face Mask Production Subsidy Scheme” by Changxing County government eligible for application by the Group; and (iii) the increased application of meltblown fabrics in various applications including medical protection equipment such as face masks, home furnishing products, apparels, industrial textile products and other products, the Board has resolved to change the use of the Unutilised Net Proceeds to purchase part of the meltblown fabric production lines. The meltblown fabrics production lines can be used to produce meltblown fabrics, which are one of the raw materials of a wide variety of products, such as the filters of face masks, industrial textile products, apparels, home furnishing products and other disposable products.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

ACTUAL BUSINESS PROGRESS, CHANGE IN USE OF NET PROCEEDS FROM THE LISTING AND ACTUAL UTILISED AMOUNT (Continued)

An updated breakdown of the revised use of the net proceeds and the actual utilised amount as at 31 December 2020 are summarised as follows:

	Planned use of the net proceeds as disclosed in the Prospectus (RMB million)	Revised use of the net proceeds as disclosed in the Announcement (RMB million)	Amount utilised during the year ended 31 December 2020 (RMB million)	Actual utilised amount as at 31 December 2020 (RMB million)	Unutilised amount as at 31 December 2020 (RMB million)	Expected timeline of utilisation
Construction of new weaving factory	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	10.4	-	10.4	-	-
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	4.6	4.6	-	2.5	2.1	November 2021
Enhancement of environmental protection infrastructure	5.4	5.4	0.1	5.4	-	-
General working capital	3.8	3.8	-	3.8	-	-
Purchase of meltblown fabrics production lines	-	8.5	8.5	8.5	-	-
Total	37.9	37.9	8.6	35.8	2.1	

The unutilised amount of Net Proceeds for acquisition of machinery, equipment and ancillary facilities for printing and dyeing of approximately RMB2.1 million is expected to be completely utilised by late 2021. There has been a delay in utilisation of the said amount of Net Proceeds due to the outbreak of the Epidemic in 2020. The Company will continue to apply the remaining unutilised balance of the Net Proceeds according to the disclosure as stated above.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Dai Shunhua (戴順華先生), aged 48, 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 27 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—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 48, 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 22 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' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Wang Yongkang (王永康先生), aged 47, 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 21 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 41, 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 50, 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 27 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). From April 2019 to February 2020, he was also the independent non-executive director of CT Environmental Group Limited, a company listed on the Stock Exchange (stock code: 1363).

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' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Song Jun (宋駿先生), aged 54, was appointed as our Independent Non-executive Director on 27 September 2019. He has 29 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 awarded 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 36, 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 13 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 38, 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 15 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT (Continued)

Mr. Chen Zhong (陳忠先生), aged 30, 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 8 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 37, 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 13 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 60, 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 29 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.

CORPORATE GOVERNANCE REPORT

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.

During the Year Under Review, the Company has complied with the code provisions under the CG Code, 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 during the Year Under Review and the Board is of the opinion that the Model Code has been fully complied with during the Year Under Review.

CORPORATE GOVERNANCE 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 qualifications 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, upon the recommendation of the Nomination Committee, 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. Besides, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Wang Yongkang and Mr. Yu Chung Leung shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

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, and renewed automatically by one year upon the expiry of the initial term and of every successive term 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.

CORPORATE GOVERNANCE REPORT

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.

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.

CORPORATE GOVERNANCE REPORT

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 all four 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 2020, with the management of the Company reviewed the unaudited consolidated quarterly financial results for the three months ended 31 March 2020 and for the nine months ended 30 September 2020 and the interim results for the six months ended 30 June 2020 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, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made.

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 all two 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. During the Year Under Review, the Remuneration Committee had reviewed the remuneration of the Directors and senior management and made recommendations on the remuneration of the Directors and senior management to the Board consideration.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Remuneration of Senior Management

Pursuant to code provision B.1.5 of the CG Code, the remuneration paid to the members of the senior management (excluding Directors) by band during the Year Under Review is set out below:

Remuneration band (RMB)	Number of person(s)
Nil to 1,000,000	4
1,000,001 to 1,500,000	–
1,500,001 to 2,000,000	–
2,000,001 to 2,500,000	–

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 all two 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. During the Year Under Review, the Nomination Committee had reviewed the composition of the Board, the Board diversity policy and the independence of the INEDs.

Nomination criteria

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;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Nomination criteria (Continued)

- (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.

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.

CORPORATE GOVERNANCE REPORT

BOARD PROCEEDINGS, ANNUAL GENERAL MEETING HELD IN 2020 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.

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 held on 14 May 2020 for the Year Under Review are as follows:

Name of Directors	Attendance/Number of meetings				
	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
<i>Executive Directors</i>					
Mr. Dai Shunhua (<i>Chairman</i>)	5/5	–	–	–	1/1
Ms. Song Xiaoying	5/5	–	–	–	1/1
Mr. Wang Yongkang	5/5	–	–	–	1/1
<i>Independent Non-executive Directors</i>					
Dr. Liu Bo	5/5	4/4	2/2	2/2	1/1
Mr. Yu Chung Leung	5/5	4/4	2/2	2/2	1/1
Mr. Song Jun	5/5	4/4	2/2	2/2	1/1

Subsequent to the year ended 31 December 2020 and up to date of this report, the Board held another Board meeting in March 2021 for the main purposes of approving the annual results of the Group for the year ended 31 December 2020 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

CORPORATE GOVERNANCE REPORT

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 Group’s risk management internal control system during the Year Under Review, and the Board, together with the Audit Committee, were satisfied with the result of the 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. The risk management and the internal control system of the Group will be reviewed by the Board annually.

The Group has an internal audit function, which is primarily responsible for reviewing the Group’s key operational processes and related internal controls. 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.

CORPORATE GOVERNANCE REPORT

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 AND AUDITOR’S REMUNERATION

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of the 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 2020, the total remuneration paid to the external auditors for audit services amounted to approximately RMB1.0 million. The external auditor did not provide non-audit service for the Group for the year ended 31 December 2020.

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 2020.

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 requisitioner(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.

CORPORATE GOVERNANCE REPORT

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 requisitioner(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitioner(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

The Company has on 29 January 2019 adopted a dividend 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.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY (Continued)

- (ii) The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.
- (iii) The Board endeavours to strike a balance between the Shareholders' interests and prudent capital management with a sustainable Dividend Policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there had been no change in the Company's Memorandum of Association and Articles of Association, a copy of which is available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

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

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

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

Zhejiang, PRC, 29 March 2021

REPORT OF THE DIRECTORS

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 2020 (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 2020 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 64 to 135.

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

For the purpose of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Friday, 14 May 2021, the register of members of the Company will be closed from Tuesday, 11 May 2021 to Friday, 14 May 2021 (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 Monday, 10 May 2021.

REPORT OF THE DIRECTORS

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 24. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "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.

REPORT OF THE DIRECTORS

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.

Risk associated with the Epidemic

The Group's business and operation may be seriously affected by the Epidemic or other public health incident, which may cause lockdown, travel restrictions and suspension of work in the PRC, Hong Kong or elsewhere.

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 overseas 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.

REPORT OF THE DIRECTORS

KEY RISKS AND UNCERTAINTIES (Continued)

Operational Risk

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

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB58.0 million (2019: RMB71.0 million). As at 31 December 2020, the subsidiaries have drawn down RMB50.5 million (2019: RMB65.6 million) 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 2020, the Group did not have any material legal proceedings or potential proceedings (2019: 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, during the Year Under Review 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 26 to the Financial Statements.

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

For the year ended 31 December 2020, 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 68 to 69 of the "Consolidated Statement of Changes in Equity" and in Note 31 of the Consolidated Financial Statements, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2020, calculated in accordance with Companies Laws of the Cayman Islands, was approximately RMB36.5 million (2019: approximately RMB36.5 million).

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the last five financial years is set out in the "Financial Summary" on page 136.

CHARITY DONATIONS

During the Year Under Review, the Group had charity donations of approximately RMB0.2 million (2019: RMB0.1 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2020 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 2020 are set out in Note 34 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") and will continue to be valid for 10 years after 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 since the Effective Date and during the year ended 31 December 2020.

REPORT OF THE DIRECTORS

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 by 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.

REPORT OF THE DIRECTORS

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.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Dai Shunhua (*Chairman*)

Ms. Song Xiaoying

Mr. Wang Yongkang

Independent Non-executive Directors

Dr. Liu Bo

Mr. Yu Chung Leung

Mr. Song Jun

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 28 to 31 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 (2019: 3 Directors). Details of the five highest paid individuals are set out in Note 10 to the Financial Statements.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years since the Listing Date and will be renewed or extended automatically by three years upon the expiry of the initial term and each successive term. Each INED has entered into a letter of appointment with the Company for a term of one year and will be renewed automatically by another one year after the lapse of the initial term and renewed automatically upon the expiry of each successive term. 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 2020, 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	Interest in controlled corporation (Note 2)	Spring Sea	472,848,000 (L)	59.11%
Ms. Song Xiaoying	Interest in controlled corporation (Note 2)	Spring Sea	472,848,000 (L)	59.11%

REPORT OF THE DIRECTORS

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.

(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 2020, 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 2020, 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.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS (Continued)

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

As at 31 December 2020, 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	Beneficial owner (Note 2)	472,848,000 (L)	59.11%
Summer Land Star Investment Limited	Beneficial owner (Note 3)	121,602,000 (L)	15.20%
Wang Yun	Interest in controlled corporation (Note 3)	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 2020, 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.

REPORT OF THE DIRECTORS

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 during the Year Under Review.

RELATED PARTY TRANSACTIONS

During the Year Under Review, there was no related party transaction which requires disclosure in this report under the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the Year Under Review, there was no connected transaction entered into by the Group which requires 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 the Company's compliance adviser, Cinda International Capital Limited ("**Cinda**"), other than the compliance advisers agreement dated 27 August 2018, 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.

REPORT OF THE DIRECTORS

PLEDGE OF ASSETS

As at 31 December 2020, the Group had pledged certain buildings, equipment and machinery, unlisted equity securities and investment properties with aggregate carrying amount of approximately RMB122.8 million (2019: approximately RMB88.5 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate borrowings was from 4.35% to 5.36%. 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 2020, the Group had cash and cash equivalents of RMB10.1 million (31 December 2019: approximately RMB5.2 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 38.2% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 14.3% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 45.5% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 12.7% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders, who are 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.

REPORT OF THE DIRECTORS

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 2020, the Group had used net proceeds of approximately RMB35.8 million. Details of which are set out in the paragraph headed “Actual Business Progress, Change in Use of Net Proceeds from the Listing and Actual Utilised Amount” in page 27 of this report.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2020 are set out in Note 1(m) 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”.

CHANGE OF AUDITOR

On 7 January 2020, the Board announced that Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 7 January 2020 and KPMG was appointed in place of Deloitte Touche Tohmatsu by the Board as the auditor of the Company.

EVENTS AFTER THE REPORTING PERIOD

There is no material event after the reporting period as at the date of this report.

REVIEW BY AUDIT COMMITTEE

The consolidated financial statements of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2020 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, 29 March 2021

INDEPENDENT AUDITOR'S REPORT



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 64 to 135, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting 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 ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 75.

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 RMB156,682 thousand and the provision of printing and dyeing services of 133,879 thousand respectively for the year ended 31 December 2020. 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 2020 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

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

29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	3	290,561	329,562
Cost of sales and services		(258,431)	(264,507)
Gross profit		32,130	65,055
Other income	5	4,509	23,576
Other gains and losses	6	(5,317)	(11,062)
Selling and distribution expenses		(2,648)	(2,605)
Administrative expenses		(11,672)	(13,983)
Research expenditure		(10,303)	(11,616)
Listing expenses		–	(5,864)
Impairment reversal/(loss) on trade and other receivables	30	1,322	(1,860)
Other expenses		(15,043)	(575)
(Loss)/Profit from operations		(7,022)	41,066
Finance costs	7	(5,378)	(6,156)
(Loss)/Profit before tax	8	(12,400)	34,910
Income tax credit/(expense)	9	2,502	(3,666)
(Loss)/Profit for the year		<u>(9,898)</u>	<u>31,244</u>
Attributable to:			
– Equity shareholders of the Company		(9,898)	31,244
– Non-controlling interests		–	–
		<u>(9,898)</u>	<u>31,244</u>
(Loss)/Earnings per share			
– Basic (RMB cents)	12	<u>(1.24)</u>	<u>4.06</u>

The notes on pages 72 to 135 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
(Loss)/Profit for the year		(9,898)	31,244
Other comprehensive income for the year (after tax and reclassification adjustments)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of entities outside PRC		148	–
Other comprehensive income for the year		148	–
Total comprehensive income for the year		(9,750)	31,244
Attributable to:			
– Equity shareholders of the Company		(9,750)	31,244
– Non-controlling interests		–	–
Total comprehensive income for the year		(9,750)	31,244

The notes on pages 72 to 135 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 2020

	Notes	As at 31 December	
		2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	13	129,049	111,738
Deposit on acquisition of property plant and equipment		7,862	6,753
Investment properties	14	8,168	8,671
Intangible assets	15	1,304	1,211
Financial assets mandatorily measured at fair value through profit or loss ("FVTPL")	16	21,127	20,000
Deferred tax assets	25	2,452	1,739
		169,962	150,112
Current assets			
Inventories	17	54,872	93,755
Trade and other receivables	18	65,702	68,183
Receivables at fair value through other comprehensive income ("FVTOCI")	19	9,340	7,004
Restricted bank deposits	20	32,485	10,060
Cash and cash equivalents	21	10,100	5,189
		172,499	184,191
Current liabilities			
Trade and other payables	22	76,100	44,515
Contract liabilities	23	5,166	7,067
Bank borrowings	24	80,527	74,493
Tax payable		3,348	4,901
		165,141	130,976
Net current assets		7,358	53,215
Total assets less current liabilities		177,320	203,327

The notes on pages 72 to 135 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	Notes	As at 31 December	
		2020 RMB'000	2019 RMB'000
Non-current liabilities			
Bank borrowings	24	15,923	31,900
Deferred tax liabilities	25	–	280
		<u>15,923</u>	<u>32,180</u>
Net assets		<u>161,397</u>	<u>171,147</u>
Capital and reserves			
Share capital	26	5,346	5,346
Reserves		156,051	165,801
Equity attributable to			
Equity shareholders of the Company		161,397	171,147
Non-controlling interests		–	–
Total equity		<u>161,397</u>	<u>171,147</u>

Approved and authorised for issue by the board of directors on 29 March 2021.

Dai Shunhua

Directors

Song Xiaoying

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000 (note c)	Statutory reserve RMB'000 (note a)	Translation reserve RMB'000	Other reserve RMB'000 (note b)	Retained profits RMB'000	Total RMB'000
At 1 January 2019	325	-	7,105	-	76,116	14,022	97,568
Profit and total comprehensive income for the year	-	-	-	-	-	31,244	31,244
Profit appropriation to statutory reserve	-	-	4,302	-	-	(4,302)	-
Issue of shares by capitalisation of share premium (note 26(a))	3,682	(3,682)	-	-	-	-	-
Issue of ordinary shares upon initial public offering (note 26(b))	1,339	66,903	-	-	-	-	68,242
Cost of issue new shares	-	(12,254)	-	-	-	-	(12,254)
Capitalisation of amounts due to related parties	-	-	-	-	791	-	791
Dividends declared in respect of the current year (note 11)	-	(14,444)	-	-	-	-	(14,444)
At 31 December 2019	<u>5,346</u>	<u>36,523</u>	<u>11,407</u>	<u>-</u>	<u>76,907</u>	<u>40,964</u>	<u>171,147</u>
At 1 January 2020	5,346	36,523	11,407	-	76,907	40,964	171,147
Loss for the year	-	-	-	-	-	(9,898)	(9,898)
Other comprehensive Income	-	-	-	148	-	-	148
Profit appropriation to statutory reserve	-	-	17	-	-	(17)	-
At 31 December 2020	<u>5,346</u>	<u>36,523</u>	<u>11,424</u>	<u>148</u>	<u>76,907</u>	<u>31,049</u>	<u>161,397</u>

The notes on pages 72 to 135 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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: The opening balance of other reserve as at 1 January 2019 comprises (1) the deemed contribution by the Controlling Shareholders to the Group, (2) capitalisation of retained profits and statutory reserve of Huzhou Narnia Industry Co., Ltd.# ("Huzhou Narnia" 湖州納尼亞實業有限公司) upon its conversion into a joint stock company in 2011 as other reserve, (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 and (4) Effect arising from Group Reorganisation.
- c: 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.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	21(b)	79,617	10,534
PRC Enterprise Income Tax paid		(44)	(3,165)
Net cash generated from operating activities		79,573	7,369
Investing activities			
Purchase of and deposits placed for property, plant and equipment		(39,535)	(32,210)
Proceeds from disposal of property, plant and equipment		884	3,117
Purchase of intangible assets		(252)	(553)
Interest received		154	110
Dividends received from unlisted equity securities		1,097	1,097
Payment for investment in wealth management products		–	(20,000)
Proceeds from maturity of wealth management products		–	20,123
Net cash used in investing activities		(37,652)	(28,316)
Financing activities			
Capital element of lease rentals paid	21(c)	–	(1,557)
New bank borrowings raised	21(c)	73,100	157,204
Repayments of bank borrowings	21(c)	(83,043)	(164,562)
Placement of restricted bank deposits	21(c)	(31,700)	(20,000)
Withdrawal of restricted bank deposits	21(c)	10,000	10,000
Proceeds from initial public offering		–	68,242
Issue costs paid	21(c)	–	(8,374)
Interest paid	21(c)	(5,367)	(6,222)
Dividends paid	21(c)	–	(14,444)
Capital injection by the Controlling Shareholders	21(c)	–	238
Net cash (used in)/generated from financing activities		(37,010)	20,525

The notes on pages 72 to 135 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net increase/(decrease) in cash and cash equivalents	4,911	(422)
Cash and cash equivalents at beginning of the year	5,189	5,611
Effect of exchange rate change	-	-
Cash and cash equivalents at end of the year	<u>10,100</u>	<u>5,189</u>

The notes on pages 72 to 135 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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**”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the presentation currency and also the functional currency of the Group’s subsidiaries established in the People’s Republic of China (“PRC”). The functional currency of the Company and its subsidiaries incorporated in Hong Kong and British Virgin Islands is Hong Kong dollar (“HK\$”). The consolidated financial statements are 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.

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendment to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

Amendments to IFRS 3 and IFRS 16 did not have a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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 towards 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(w)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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(o) and 1(r)).

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

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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”.

(i) Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction date. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Taxation (Continued)

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.

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.

(o) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Property, plant and equipment (Continued)

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.

(p) 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.

(q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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(w).

(u) 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.

(v) Dividends

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

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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.

(y) 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.

(z) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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	
	2020	2019
	RMB'000	RMB'000
Sale of fabric products, recognised at a point in time	156,682	202,664
Revenue from printing and dyeing services, recognised over time	133,879	126,898
Total	290,561	329,562

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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	
	2020 RMB'000	2019 RMB'000
Customer A	41,572	67,105
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	
	2020 RMB'000	2019 RMB'000
Mainland China	198,290	228,995
Hong Kong	67,484	82,346
Other regions	24,787	18,221
Total	290,561	329,562

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

5. OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest income	154	226
Investment income	725	123
Net gain on sales of raw materials	–	3,437
Government subsidies (note)	1,818	18,431
Dividend income from unlisted equity securities mandatorily measured at FVTPL	1,097	1,097
Rental income	226	179
Others	489	83
	<u>4,509</u>	<u>23,576</u>

Note: The amount comprised government subsidies received from local government in connection with the unconditional government grants for enterprise development support, innovation capabilities incentives etc. in 2020 amounting to RMB1,818,000 (2019: RMB3,931,000). In 2019, the Group also received a government subsidies in connection with the Company's Listing amounting to RMB14,500,000.

6. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Impairment losses on property, plant and equipment	(4,200)	–
Loss on disposal of property, plant and equipment	(35)	(11,344)
Net exchange (loss)/gain	(2,209)	282
Change in fair value of financial assets mandatorily measured at FVTPL	1,127	–
Net losses	<u>(5,317)</u>	<u>(11,062)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

7. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest on bank borrowings	5,378	6,156
Total	<u>5,378</u>	<u>6,156</u>

8. (LOSS)/PROFIT BEFORE TAX

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss)/Profit before tax has been arrived at after charging/(crediting):		
Depreciation of property plant and equipment	12,674	12,484
Depreciation of right-of-use assets	686	567
Depreciation of investment properties	503	503
Amortisation of intangible assets	159	134
Total depreciation and amortisation	<u>14,022</u>	<u>13,688</u>
Capitalised in inventories	(847)	(1,042)
Total depreciation and amortisation charged to profit or loss	<u>13,175</u>	<u>12,646</u>
Analysed as:		
Charged in cost of sales and services	11,078	10,710
Charged in administrative expenses	1,420	1,511
Charged in research expenditure	677	425
	<u>13,175</u>	<u>12,646</u>
Auditor's remuneration – audit service	1,000	1,050
Directors' emoluments (note 10)	959	907
Other staff costs		
– Salaries and other benefits	20,371	21,917
– Retirement benefit scheme contributions	453	2,143
– Discretionary performance related bonus	788	982
	<u>21,612</u>	<u>25,042</u>
Total staff costs	<u>22,571</u>	<u>25,949</u>
Capitalised in inventories	<u>(1,085)</u>	<u>(1,115)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

8. (LOSS)/PROFIT BEFORE TAX (Continued)

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Total staff costs charged to profit or loss	21,486	24,834
Analysed as:		
Charged in cost of sales and services	13,944	16,719
Charged in selling and distribution expenses	510	508
Charged in administrative expenses	4,531	5,331
Charged in research expenditure	2,501	2,276
	<u>21,486</u>	<u>24,834</u>
Cost of inventories recognised as cost of sales and services	258,431	264,433
Cost of inventories recognised as research expenditure	6,894	8,425
Depreciation and amortisation	677	425
Staff costs	2,501	2,276
Other expenses charged in research expenditure	231	490
Total research expenditure	<u>10,303</u>	<u>11,616</u>

9. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Current tax – over-provision in respect of prior year	(1,517)	(814)
Current tax – PRC Enterprise Income Tax (“EIT”)	8	5,022
Deferred tax credit (note 25)	(993)	(542)
	<u>(2,502)</u>	<u>3,666</u>

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 2020 and 2019.

Provision for the EIT during the years ended 31 December 2020 and 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

9. INCOME TAX (CREDIT)/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”) and Zhejiang Xihu Supply Chain Co., Ltd.# 浙江鑫湖供應鏈有限公司 is 25%.

Huzhou Lituo Import and Export Co., Ltd.# 湖州利拓進出口有限公司 is recognised as a small profit enterprise in 2020, the portion of annual taxable income amount, which does not exceed RMB1 million, shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20%. And the portion of annual taxable income, which exceeds RMB1 million but does not exceed RMB3 million, shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20%.

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. Huzhou Narnia is subject to a preferential tax rate of 15% in 2020 (2019: 15%).

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 (credit)/expense for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss)/Profit before tax	(12,400)	34,910
Tax at PRC EIT rate of 25%	(3,100)	8,728
Tax effect of unused tax losses not recognised as deferred tax assets	3,070	–
Tax effect of expense not deductible for tax purpose	798	1,996
Tax effect of income not taxable for tax purpose	(274)	(274)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(1,926)	(2,162)
Tax effect of preferential tax rate	447	(3,808)
Over provision in respect of previous year	(1,517)	(814)
Income tax (credit)/expense	<u>(2,502)</u>	<u>3,666</u>

English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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	Discretionary performance related		Salaries	Retirement benefit scheme contributions	Total
		Fees	bonus			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2020						
Executive directors						
Mr. Dai (note)	1 September 2017	-	216	89	9	314
Ms. Song	23 July 2018	-	128	70	9	207
Mr. Wang Yongkang	23 July 2018	-	91	71	9	171
Independent non-executive directors						
Mr. Yu Chung Leung	29 January 2019	89	-	-	-	89
Dr. Liu Bo	29 January 2019	89	-	-	-	89
Mr. Song Jun	27 September 2019	89	-	-	-	89
		<u>267</u>	<u>435</u>	<u>230</u>	<u>27</u>	<u>959</u>
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
		<u>232</u>	<u>435</u>	<u>210</u>	<u>30</u>	<u>907</u>

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 2020 and 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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, 3 (2019: 2) were directors of the Company for the year ended 31 December 2020 whose emoluments are included in the disclosure above. The emoluments of the remaining 2 (2019: 3) individuals for the year were as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and other benefits	142	203
Retirement benefit scheme contributions	20	29
Discretionary performance related bonus	150	224
	<u>312</u>	<u>456</u>

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 2020 and 2019.

During the years ended 31 December 2020 and 2019, 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	
	2020	2019
	RMB'000	RMB'000
Interim dividend declared and paid of HK\$2 cents per ordinary share in respect of current year	<u>-</u>	<u>14,444</u>

No dividend was declared by the Group in respect of the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

12. (LOSS)/EARNINGS PER SHARE

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

	Year ended 31 December	
	2020	2019
(Loss)/earnings:		
(Loss)/profit for the year attributable to equity shareholders of the Company for the purpose of basic (loss)/earnings per share (RMB'000)	<u>(9,898)</u>	<u>31,244</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share calculation	<u>800,000,000</u>	<u>768,767,123</u>

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB9,898,000 (2019: profit of RMB31,244,000) and the weighted average number of 800,000,000 ordinary shares (2019: 768,767,123) in issue during the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 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
Additions	1,442	233	13,131	91	20,893	-	35,790
Disposals	(721)	-	(1,576)	-	-	-	(2,297)
Transfers	167	18	15,190	-	(15,375)	-	-
At 31 December 2020	74,187	1,646	96,845	1,715	7,178	8,605	190,176
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
At 1 January 2019	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
Provided for the year	4,704	241	7,477	252	-	686	13,360
Impairment losses	-	-	4,200	-	-	-	4,200
Eliminated on disposals	(58)	-	(1,320)	-	-	-	(1,378)
At 31 December 2020	26,823	1,059	30,970	1,022	-	1,253	61,127
CARRYING VALUES							
At 31 December 2020	47,364	587	65,875	693	7,178	7,352	129,049
At 31 December 2019	51,122	577	49,487	854	1,660	8,038	111,738

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

As at 31 December 2020, certain of the Group’s buildings, equipment and machinery and land use rights with aggregate net book value of RMB61,126,000 (2019: RMB49,825,000) were pledged to secure the Group’s certain bank borrowings as set out in note 24.

In year 2020, certain machines purchased by the Group for meltblown production could not produce qualified products. The Group assessed the recoverable amounts of those machines and wrote down to their recoverable amounts. An impairment loss of RMB4,200,000 was therefore recognised in “other gains and losses”. The estimate of the recoverable amount was based on the machines’ fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry.

(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 is as follows:

	As at 31 December	
	2020	2019
	RMB’000	RMB’000
Included in “Property, plant and equipment”:		
Land use rights leased for own use, carried at depreciated cost	6,530	6,697
Other properties leased for own use, carried at depreciated cost	822	1,341
	<u>7,352</u>	<u>8,038</u>

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

	Year ended 31 December	
	2020	2019
	RMB’000	RMB’000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights leased for own use	167	152
Other properties leased for own use	519	415
	<u>686</u>	<u>567</u>
Expense relating to short-term leases	<u>519</u>	<u>570</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14. INVESTMENT PROPERTIES

	Buildings RMB'000
COST	
At 1 January 2019, 31 December 2019 and 2020	13,319
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1 January 2019	4,145
Provided for the year	503
At 31 December 2019	4,648
Provided for the year	503
At 31 December 2020	5,151
CARRYING VALUE	
At 31 December 2020	8,168
At 31 December 2019	8,671

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 2020, the Group's investment properties with a net book value of RMB8,168,000 (2019: RMB8,671,000) were pledged to secure the Group's certain short-term bank borrowings as set out in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

14. INVESTMENT PROPERTIES (Continued)

As at 31 December 2020, the fair value of the Group's investment properties was RMB17,800,000 (2019: RMB18,164,000). 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 2020 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	<u>17,800</u>	<u>17,800</u>
		Fair value as at 31 December
	Level 2 RMB'000	2019 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	<u>18,164</u>	<u>18,164</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2019	873
Additions	553
At 31 December 2019	1,426
Additions	252
At 31 December 2020	1,678
ACCUMULATED AMORTISATION	
At 1 January 2019	81
Provided for the year	134
At 31 December 2019	215
Provided for the year	159
At 31 December 2020	374
CARRYING VALUE	
At 31 December 2020	1,304
At 31 December 2019	1,211

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. FINANCIAL ASSETS MANDATORILY MEASURED AT FVTPL

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Unlisted equity securities, at fair value:		
Balance at 1 January	20,000	20,000
Change in fair value	1,127	–
Balance at 31 December	<u>21,127</u>	<u>20,000</u>

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.

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 2020 and 2019, the Group’s unlisted equity securities were pledged to secure certain bank borrowings of the Group as set out in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

17. INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	41,140	66,690
Work in progress	5,232	4,874
Finished goods	8,500	22,191
	<u>54,872</u>	<u>93,755</u>

No inventory provision was provided during the years ended 31 December 2020 and 2019.

18. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	51,523	60,499
Less: loss allowance for trade receivables	(2,003)	(3,325)
	<u>49,520</u>	<u>57,174</u>
Other receivables	139	227
Less: loss allowance for other receivables	(2)	(2)
	<u>137</u>	<u>225</u>
Prepayments (note i)		
– independent third parties	14,738	9,910
Value added tax (“VAT”) recoverable	1,307	758
Interest receivable	–	116
	<u>16,045</u>	<u>10,784</u>
Trade and other receivables	<u>65,702</u>	<u>68,183</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (i): The amount primarily represents prepayments for purchases of ancillary materials, transportation expenses, and other miscellaneous prepayments.
- (ii): 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	
	2020	2019
	RMB'000	RMB'000
Within 3 months	39,041	50,923
Over 3 months but within 6 months	9,148	5,731
Over 6 months but within 1 year	705	484
Over 1 year but within 2 years	555	36
Over 2 years	71	–
	<u>49,520</u>	<u>57,174</u>

Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in note 30.

19. RECEIVABLES AT FVTOCI

	As at 31 December	
	2020	2019
	RMB'000	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	<u>9,340</u>	<u>7,004</u>

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 2020, bills amounting to RMB23,247,000 were yet to reach maturity (2019: RMB15,510,000).

As at 31 December 2020, bank acceptance bills amounting to RMB9,290,000 were endorsed but not derecognised (2019: RMB 7,004,000). For these bank acceptance bills, the Group recognised an associated liability of an equivalent amount in trade and other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

20. RESTRICTED BANK DEPOSITS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Guarantee deposits for bills payable	32,425	–
Guarantee deposits for bank borrowings	–	10,000
Others	60	60
	<u>32,485</u>	<u>10,060</u>

As at 31 December 2020, bank deposits of RMB32,425,000 (2019: Nil) were pledged to a bank as security for bills payable of the Group. The pledge in respect of the bank deposits will be released upon settlement of the related bills.

21. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash on hand	92	41
Cash at banks	10,008	5,148
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	<u>10,100</u>	<u>5,189</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Operating activities		
(Loss)/Profit before tax	(12,400)	34,910
Adjustments for:		
Depreciation of property, plant and equipment	13,360	13,051
Depreciation of investment properties	503	503
Impairment losses on property, plant and equipment	4,200	–
Amortisation of intangible assets	159	134
Bank interest income	(879)	(226)
Investment income	–	(123)
Finance costs	5,378	6,156
Total loss allowance on financial assets recognised	(1,322)	1,860
Loss on disposal of property, plant and equipment	35	11,344
Dividend income from unlisted equity securities	(1,097)	(1,097)
Gain on change in fair value of financial assets mandatorily measured at FVTPL	(1,127)	–
Net exchange loss/(gain)	2,209	(282)
Operating cash flows before movements in working capital	9,019	66,230
Decrease/(increase) in inventories	38,883	(21,230)
Decrease/(increase) in trade and other receivables	1,742	(44,459)
Increase in receivables at FVTOCI	(2,336)	(6,904)
Increase in restricted bank deposits	–	(60)
Increase in trade and other payables	34,210	11,508
(Decrease)/increase in contract liabilities	(1,901)	5,449
Cash generated from operations	79,617	10,534

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21. 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	Lease liabilities	Accrued issue costs	Amounts due (from)/ to related parties	Dividend payables	Interest payable	Restricted bank deposits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Financing cash flows	(9,943)	-	-	-	-	(5,367)	(21,700)	(37,010)
Operating cash flows	-	-	-	-	-	-	(725)	(725)
Non-cash changes								
Accrued finance cost (note 7)	-	-	-	-	-	5,378	-	5,378
At 31 December 2020	96,450	-	-	-	-	143	(32,485)	64,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. 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:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Within operating cash flows	-	-
Within financing cash flows	-	1,557
	<u>-</u>	<u>1,557</u>

22. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade and bills payable		
– Due to third parties	60,130	30,633
	<u>60,130</u>	<u>30,633</u>
Other payables	2,922	4,344
Payables for acquisition of property, plant and equipment	3,910	3,876
Other tax payables	5,348	1,578
Payroll payable	3,647	3,952
Interest payable	143	132
	<u>76,100</u>	<u>44,515</u>

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22. TRADE AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 3 months	15,622	16,319
Over 3 months but within 6 months	6,773	10,315
Over 6 months but within 1 year	36,249	2,826
Over 1 year but within 2 years	1,305	1,072
Over 2 years	181	101
	<u>60,130</u>	<u>30,633</u>

23. CONTRACT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Amounts received in advance from customers for:		
– sales of fabric products	1,364	4,244
– printing and dyeing services	3,802	2,823
	<u>5,166</u>	<u>7,067</u>

The following table shows how much of the revenue recognised in the years ended 31 December 2020 and 2019 relates to brought forward contract liabilities. There was no revenue recognised in the years ended 31 December 2020 and 2019 that related to performance obligations that were satisfied in a prior year.

Movements in contract liabilities

	2020	2019
	RMB'000	RMB'000
Balance at 1 January	7,067	1,618
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	(4,244)	(392)
– Printing and dyeing services	(2,823)	(1,226)
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)	5,166	7,067
Balance at 31 December	<u>5,166</u>	<u>7,067</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

24. BANK BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Fixed-rate bank borrowings		
– Secured and guaranteed (note a)	65,000	72,167
– Secured and unguaranteed (note b)	21,000	21,600
– Unsecured and guaranteed (note c)	10,450	12,626
Total	96,450	106,393

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
The carrying amounts of the above bank borrowings are repayable*:		
Within one year	80,527	74,493
Within more than one year but no more than two years	11,173	12,993
Within more than two years but no more than five years	4,750	13,074
More than five years	–	5,833
	96,450	106,393
Less: amounts due within one year shown under current liabilities	(80,527)	(74,493)
Amounts shown under non-current liabilities	15,923	31,900

* 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	
	2020	2019
Effective interest rate:		
Fixed-rate borrowings	4.35%–5.36%	4.35%–6.37%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

24. 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 16.
- (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	
	2020	2019
	RMB'000	RMB'000
Bank deposits	–	10,000
Property, plant and equipment	61,126	49,825
Investment properties	8,168	8,671
Unlisted equity securities	21,127	20,000
	<u>90,421</u>	<u>88,496</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25. 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	
	2020	2019
	RMB'000	RMB'000
Net deferred tax assets recognised on the consolidated statement of financial position	2,452	1,739
Net deferred tax liabilities recognised on the consolidated statement of financial position	–	(280)
	2,452	1,459

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

	Loss allowance for receivables	Impairment losses on investment properties	Deferred income	Unrealised profit	Fair value changes on financial assets at FVTPL	Impairment losses on tangible assets	Tax losses	Accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2020	646	310	–	62	(1,040)	–	1,309	172	1,459
Credit/(charge) to profit or loss	(492)	(19)	–	(108)	(170)	630	1,152	–	993
At 31 December 2020	154	291	–	(46)	(1,210)	630	2,461	172	2,452

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 2020, 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 RMB62,484,000 (2019: RMB64,096,000) 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.

Deferred tax assets have not been recognised in respect of the tax losses of certain subsidiaries of the Group amounting to RMB11,307,000 (2019: Nil) because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits therefrom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

26. SHARE CAPITAL

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

	2020		2019	
	No. of shares ('000)	RMB'000	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid				
At 1 January	800,000	5,346	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	<u>800,000</u>	<u>5,346</u>	<u>800,000</u>	<u>5,346</u>

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 subdivision 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. OPERATING LEASE ARRANGEMENT

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	
	2020	2019
	RMB'000	RMB'000
Within one year	135	239
In the second year to fifth year inclusive	–	135
	<u>135</u>	<u>374</u>

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.

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28. CAPITAL COMMITMENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	<u>26,857</u>	<u>26,857</u>

29. 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.

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29. CAPITAL MANAGEMENT (Continued)

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

	Note	As at 31 December	
		2020 RMB'000	2019 RMB'000
Current liabilities:			
Bank borrowings	24	80,527	74,493
Bills payables		31,700	–
		<u>112,227</u>	<u>74,493</u>
Non-current liabilities:			
Bank borrowings	24	15,923	31,900
Total debt		128,150	106,393
Less: Restricted bank deposits	20	(32,485)	(10,060)
Cash and cash equivalents	21	(10,100)	(5,189)
Adjusted net debt		85,565	91,144
Total equity		161,397	171,147
Adjusted capital		161,397	171,147
Adjusted net debt-to-capital ratio		53%	53%

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30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets		
Financial assets measured at FVTPL	21,127	20,000
Financial assets measured at amortised cost (including bank deposits)	92,242	72,764
Receivables at FVTOCI	9,340	7,004
	<u>122,709</u>	<u>99,768</u>
Financial liabilities		
Financial liabilities at amortised cost	172,250	150,908
	<u>172,250</u>	<u>150,908</u>

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.

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30. FINANCIAL INSTRUMENTS (Continued)

Currency risk

During the year ended 31 December 2020, approximately 32% (2019: 31%) of the Group's sales and approximately 0% (2019: 0%) 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			
	2020		2019	
	US\$	HK\$	US\$	HK\$
The functional-currency in RMB'000				
Cash and cash equivalents	1,033	48	36	444
Trade receivables	36,333	–	10,053	–
Trade payables	–	–	(121)	–
Other payables	–	(1,228)	–	–
Total exposure	37,366	(1,180)	9,968	444

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% (2019: 10%) decrease in the functional currency of the relevant group entities against the foreign currency. 10% (2019: 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% (2019: 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% (2019: 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	
	2020	2019
	RMB'000	RMB'000
US\$	3,276	848
HK\$	(100)	44
	3,176	892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

30. 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 24). 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 2020 and 2019 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 32, 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 32.

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 0.9% (2019: 0.0%) of the total trade receivables was due from the Group's largest customer and as 54.1% (2019: 69.5%) of the total trade receivables was due from the five largest customers, as at 31 December 2020.

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.

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30. 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:

	2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.01	36,459	3
Less than 3 months past due	1.97	12,002	236
3–6 months past due	23.78	883	210
6–12 months past due	26.24	221	58
More than 12 months past due	76.40	1,958	1,496
		<u>51,523</u>	<u>2,003</u>
	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
		<u>60,499</u>	<u>3,325</u>

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.

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30. 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:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	3,325	1,465
Impairment losses (reversed)/recognised during the year	(1,322)	1,860
Balance at 31 December	<u>2,003</u>	<u>3,325</u>

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 RMB96,450,000 (2019: RMB106,393,000) as at 31 December 2020, of which RMB80,527,000 (2019: RMB74,493,000) will be repayable in the coming next 12 months after 31 December 2020 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 2020, the Group had available unutilised banking facilities amounted to RMB7,650,000 (2019: RMB47,208,000).

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30. 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 2020						
Trade and other payables	76,100	-	-	-	76,100	76,100
Bank borrowings	84,051	11,810	4,763	-	100,624	96,450
Total	160,151	11,810	4,763	-	176,724	172,550
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

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30. 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 at 31 December 2020	Fair value measurements using		
		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	21,127	–	–	21,127
Receivables at FVTOCI	9,340	–	9,340	–
	<u>30,467</u>	<u>–</u>	<u>9,340</u>	<u>21,127</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements of financial instruments (Continued)

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

Fair value hierarchy (Continued)

	Fair value at 31 December 2019	Fair value measurements using		
		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	–
	<u>27,004</u>	<u>–</u>	<u>7,004</u>	<u>20,000</u>

During the years ended 31 December 2020 and 2019, the fair value of the above unlisted equity securities was categorised as a level 3 measurement. The fair value as at 31 December 2020 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. 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	0.64–1.06	0.83
		Discount for lack of marketability	N/A	30%

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 2020, it is estimated that with all other variables held constant, an increase/decrease of market multiple of comparable companies by 5% would have increased/decreased the Group's profit by RMB1,056,000, and a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's profit by RMB453,000.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of Financial Position

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current assets		
Investment in a subsidiary (note)	84,206	84,206
Current assets		
Amounts due from group companies	43,292	57,091
Cash and cash equivalents	55	470
	43,347	57,561
Current liabilities		
Amounts due to group companies	26,565	31,032
Net current assets	16,782	26,529
Net assets	100,988	110,735
Capital and reserves		
Share capital	5,346	5,346
Reserves	95,642	105,389
Total equity	100,988	110,735

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

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FOR THE YEAR ENDED 31 DECEMBER 2020

31. FINANCIAL INFORMATION OF THE COMPANY (Continued)

(b) Movements of the Company's reserves

	Share premium RMB'000	Translation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2019	-	-	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	<u>36,523</u>	<u>-</u>	<u>84,343</u>	<u>(15,477)</u>	<u>105,389</u>
As at 1 January 2020	36,523	-	84,343	(15,477)	105,389
Loss and total comprehensive income for the year	-	(8,366)	-	(1,381)	(9,747)
At 31 December 2020	<u>36,523</u>	<u>(8,366)</u>	<u>84,343</u>	<u>(16,858)</u>	<u>95,462</u>

32. CONTINGENT LIABILITIES

At 31 December 2020, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB58,000,000 (2019: RMB71,000,000). As at 31 December 2020, the subsidiaries have drawn down RMB50,450,000 (2019: RMB65,625,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

33. 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	
		2020 RMB'000	2019 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
		-	240
		<u>-</u>	<u>240</u>

Note:

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

33. RELATED PARTY DISCLOSURES (Continued)

Compensation of key management personnel

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and other benefits	501	472
Retirement benefit scheme contributions	63	67
Discretionary performance related bonus	677	749
	<u>1,241</u>	<u>1,288</u>

The remuneration of directors and key executive are determined with reference to the performance of individuals and market trends.

Related party balances

There was no related party balances as at 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

34. 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 Star Investment Limited	BVI 16 October 2017	US\$ 50,000	100%	100%	–	Investment holding
Hengye Development Limited	Hong Kong 30 October 2017	HK\$ 10,000	100%	–	100%	Investment holding
Huzhou Narnia Industry Co. Ltd.* 湖州納尼亞實業有限公司	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* 長興濱里實業有限公司	the PRC 23 October 2012	US\$ 8,000,000	100%	–	100%	Textile manufacturing
Huzhou Lituo Import and Export Co. Ltd* 湖州利拓進出口有限公司	the PRC 11 March 2020	RMB5,980,000/ RMB2,590,800	51%	–	51%	Sale of fabrics
Zhejiang Xinhua Supply Chain Co. Ltd* 浙江鑫湖供應鏈有限公司	the PRC 3 December 2020	RMB10,085,000/–	51%	–	51%	Sale of fabrics

* All the PRC entities are limited liability companies. Their English name are for identification purpose only.

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

As at 31 December 2020 and 2019, none of the subsidiaries of the Group had material non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

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

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, <i>Interest Rate Benchmark Reform – Phase 2</i>	1 January 2021
Annual Improvements to IFRSs 2018–2020 Cycle	1 January 2022
Amendment to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendment to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendment to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to IAS 1, <i>Classification of liabilities as current or non-current</i>	1 January 2023
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined at a future date
Amendments to IFRS 4, <i>Extension of the temporary exemption from applying IFRS 9</i>	To be determined at a future date

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.

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	290,561	329,562	332,336	238,309	242,386
Gross profit	32,130	65,055	66,510	46,062	35,004
(Loss)/profit before taxation	(12,400)	34,910	51,369	20,532	10,943
Income tax credit/(expense)	2,502	(3,666)	(5,287)	(2,759)	(2,022)
(Loss)/profit for the year	(9,898)	31,244	46,082	17,773	8,921
Attributable to:					
Equity holders of the Company	(9,898)	31,244	39,293	13,947	8,353
As at 31 December					
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED ASSETS AND LIABILITIES					
Total assets	342,461	334,303	253,590	258,024	274,144
Total liabilities	(181,064)	(163,156)	(156,022)	(173,919)	(182,369)
Equity attributable to equity holders of the Company	161,397	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.