



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

2022

ANNUAL REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Dai Shunhua (*Chairman*)
 Ms. Song Xiaoying
 Mr. Yeung Yiu Wah Francis
(appointed on 18 January 2023)

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

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 Grand Cayman KY1-1108
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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

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 8 Connaught Place, Central
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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(as to Hong Kong law)
 ONC Lawyers
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AUDITOR

Moore Stephens CPA Limited
Registered Public Interest Entity Auditor
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 Hong Kong

PRINCIPAL BANKERS

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 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 2022 RMB'000	2021 RMB'000	
Financial Highlights			
Revenue	348,683	329,718	5.8%
Cost of sales	(323,101)	(306,334)	5.5%
Gross profit	25,582	23,384	9.4%
Loss before income tax	(2,297)	(29,900)	(92.3)%
Loss for the year	(3,154)	(31,714)	(90.1)%
Loss attributable to equity shareholders of the Company	(3,154)	(31,714)	(90.1)%
Basic loss per share (RMB cents)	(0.39)	(3.96)	(90.2)%
Proposed final dividend per share (HK cents)	Nil	Nil	N/A
			Changes increase/ (decrease)
	As at 31 December		
	2022	2021	
Liquidity and Gearing			
Current ratio (Note 1)	0.95	1.08	(12.0)%
Quick ratio (Note 2)	0.72	0.61	18.0%
Gearing ratio (Note 3)	58.2%	64.5%	(6.3)% points

Notes:

- (1) Current ratio represents total current assets divided by total current liabilities as at the relevant year end.
- (2) Quick ratio represents total current assets less inventories divided by total current liabilities as at the relevant year end.
- (3) Gearing ratio represents total interest-bearing bank and other borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year 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 2022 (the “Year Under Review”) to our shareholders (the “Shareholders”) and potential investors.

OPERATION RESULTS

For the year ended 31 December 2022, the Group recorded a total revenue of approximately RMB348.7 million, representing an increase of 5.8% as compared to the previous year. Loss attributable to equity shareholders of the Company for the Year Under Review was approximately RMB3.2 million, representing a decrease of 90.1% as compared to the previous year. The overall gross profit margin increased by 0.2% points from 7.1% for the year ended 31 December 2021 to 7.3% for the Year Under Review. Loss per share for the Year Under Review was approximately RMB0.39 cents, representing a decrease of 90.2% as compared to the previous year. For the Year Under Review, the Group did not distribute any dividend in order to maintain the financial sustainability of the Group. The Board believes that the financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

ROBUST GROWTH SUPPORTED BY GREEN AND QUALITY DEVELOPMENT

2022 was a year of opportunities and challenges. Despite the adversity of the novel coronavirus (COVID-19) (the “Pandemic”) during the Year Under Review, which led to inflation in raw materials, energy and other prices causing production costs to skyrocket, the Group maintained a cautious and positive approach towards instability and unpredictability in our operating environment. The Group remained committed to the goal of green and quality development, continued to implement smart technology, set the tone for delivering work with consistency and quality, and successfully achieved various targets and missions, demonstrating resilience and vitality in the Group’s development.

ACTIVE PURSUIT OF LOW CARBON AND CIRCULAR DEVELOPMENT TO IMPROVE GOVERNANCE OF PRINTING AND DYEING SEGMENT

Responding to the Government’s green low carbon and circular development vision, the Group implemented a comprehensive upgrade and overhaul which strictly followed rectification standards for printing and dyeing enterprises, and was among the first to pass rectification inspection for printing and dyeing enterprises in Changxing county. The Group comprehensively improved general environmental governance in areas such as enterprise environmental protection, fire safety and emergency response, and also achieved energy conservation and emissions reduction, significantly promoting healthy, green and sustainable development of our enterprise.

ENHANCED ENTERPRISE CAPABILITY THROUGH INCREASED TECHNOLOGICAL INNOVATION AND OPTIMISED PRODUCT STRUCTURE

Faced with an everchanging macroenvironment and market conditions, the Group maintained a market-oriented approach and further invested in technological innovation for product research and development, in order to develop new technologies, techniques and products. The Group continued to optimise product structure to satisfy diverse market and customer needs. During the Year Under Review, we were accredited as a “Professional Specialised Unique Innovative” enterprise at the provincial level, which helped us maintain enterprise core competitiveness.

CHAIRMAN'S STATEMENT

SECURING CORE BUSINESS, CREATING SYNERGIES AND INNOVATION, DEVELOPING NEW MARKETS AND OPPORTUNITIES

During the past year, the Group comprehensively optimised operations, accelerated industrial transformation upgrading, and continued to carry out synergistic and innovative developments across the industrial chain to maximise resource integration. In addition, based on current industry requirements, the Group actively responded to the government's policy in relation to the phasing out of water injectors on account of the core principles of green manufacturing, energy saving and carbon reduction, and digital production, and adjusted the strategic plans of Changxing Seashore in a scientific manner.

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 maintain a high standard of corporate governance, the Board is also committed to creating value and maximizing returns for our 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, despite the presence of challenges and uncertainties hampering China's economic growth, the market is set to recover with the end of the Pandemic. The Group remains optimistic about business prospects and resumption of economic growth. Stability and robust growth are key for the economy in 2023. The Group will focus on our development strategies as we strive to maintain our position as leaders amidst keen competition.

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, 30 March 2023

* for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The printing and dyeing industry experienced a tough and complex environment in 2022. In the first half of the year, significant rises in petroleum and natural gas prices placed the industry under greater cost pressure. Meanwhile, multiple Pandemic outbreaks across China adversely impacted normal production and operations of the industry. The printing and dyeing industry suffered from various factors and thus was under economic and operational pressure during the first half of the year. According to the National Bureau of Statistics of China, production of printing and dyeing enterprises above scale further declined by 5.52% over the previous year. While production of China's printing and dyeing industry has experienced some turbulence, exports continued to perform well with major products recording increases in both volume and prices. As the Pandemic is brought under effective control, and with national and local governments implementing a series of policies to stabilise growth, protect jobs and stimulate consumption, the industry has overcome much pressure and challenges, with many economic indicators rebounding from previous depressions.

During the Year Under Review, the printing and dyeing industry performed relatively well in terms of its overall development efficiency against other sectors in the textile industry chain. High costs and weak domestic demand remained its biggest problems. As raw material prices soar, printing and dyeing enterprises placed greater importance on refined management approaches, but were still experiencing significant production and operational pressure, among many other difficulties. Nevertheless, the printing and dyeing industry endeavors to overcome adverse factors and is growing with resilience, as reflected by the sustained growth of most economic indicators.

At present, the external environment of the printing and dyeing industry is still laden with uncertainties and unstable conditions. Inflation and deterioration in monetary liquidity placed additional downward pressure on the global economy, which will hinder the consumption of textile and apparel products in the international market. Meanwhile, global competition will also be made fiercer by the expansion of printing and dyeing capabilities in Southeast Asia. Such factors are going to put the Chinese industry under greater economic pressure. In general, however, the Chinese printing and dyeing industry is equipped with a good foundation for recovery, with the advantages of having a gigantic market and huge domestic demand that provide immense support for the industry's stable development. The industry is also well-supported by infrastructure and an efficiently operated industry chain, which help promote the continuous growth of the industry. As China's national policy of stabilising growth and encouraging consumption continues to show results following the lifting of Pandemic restrictions, its domestic market is expected to show further improvements, with an increase in supply chain velocity. This will provide a solid basis for the efficient and quality development of the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2022 was a critical year when the Group implemented quality and smart manufacturing practices. It was also the year when our remedial work for improving Changxing county's printing and dyeing governance underwent inspection. Staying focused on its goal of achieving quality development, we saw an opportunity through its remedial work to integrate rectification standards into its production and operation management, thus actively promoted the automation and smart transformation of its business, strengthened its safety management, expanded its procurement channels, and vigorously enhanced its sales performance. Thanks to the joint efforts of all staff members of the Group, we have substantially achieved our yearly targets and was among the first in Changxing county to pass rectification inspection. We have therefore contributed positively towards the strengthening of the Group's internal management, energy conservation and emissions reduction, and the improvement of economic efficiency, and have significantly promoted the healthy, green and sustainable development our enterprise.

During the Year Under Review, the Group has fully considered the changes in policies and other factors, as well as the Group's current position to realise the potential of its share value, undergo asset restructuring, conduct foreign investment, and the scale of implementing such strategies. We have also made full and effective use of the Group's operation, production, and information resources from all aspects of society, and achieved the following results:

- 1/ Innovating boldly, we have built 7 automation systems and an integrated energy monitoring system for our subdivided business units, completed production automation and data collection procedures for each of our business divisions, further enhanced the deep integration of enterprise computerisation and automation, and promoted smart transformation upgrading of enterprises;
- 2/ During the Pandemic outbreak in the first half of the year, we promulgated financial support policies to significantly reduce production and operation costs, so that our business department can win over customers, increase sales, and enhance market competitiveness;
- 3/ We have also adjusted our employment structure, optimised our human resources management, improved our management system, streamlined two departments into one, further clarify job responsibilities, and actively built a team of quality individuals to empower the Group;
- 4/ Moreover, we have implemented and adopted a special accounting system for foreign trade, strengthened our customer portfolio, standardised our business procedures, and actively expanded our business channels to increase our business and product coverage; meanwhile, due to the dramatic strengthening of the US Dollar this year, we have effectively increased our product profitability; and
- 5/ Based on industry conditions during the Year Under Review, we are in the process of the shares of Zhejiang Changxing Rural Commercial Bank Company Limited (浙江長興農村商業銀行股份有限公司), as well as scientifically completed and implemented the transformation upgrading of Changxing Seashore Industrial Co., Ltd.*, secured our principal business, and expanded into new business spaces, in order to establish a refined and strong enterprise.

* for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group develop polyester fabrics with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our PRC and overseas customers. Our fabric products included but not limited to brushed fabric, decorative fabric, imitation silk, sateen, pongee, polyester shirt fabric, taffeta, bed fabric, washed cashmere and oxford fabric. We also commenced the commercial production of meltblown fabrics during the previous year. 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 2022, the Group derived our revenue from the sales of fabric products 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			
	2022		2021	
	RMB'000	%	RMB'000	%
Sales of fabric products	211,126	60.5	193,646	58.7
Service revenue from processing, printing and dyeing service	137,557	39.5	136,072	41.3
Total	348,683	100.0	329,718	100.0

Our total revenue was approximately RMB348.7 million for the year ended 31 December 2022 (2021: approximately RMB329.7 million), representing an increase of 5.8% as comparing the revenue of the Year Under Review with that of last year. The increase in revenue was mainly due to the gradual recovery of market demand due to the relative control of the Pandemic during the Year Under Review as compared to the year ended 31 December 2021.

Revenue from the sales of fabric products increased by approximately RMB17.5 million or 9.0% from approximately RMB193.6 million for the year ended 31 December 2021 to approximately RMB211.1 million for the year ended 31 December 2022. The increase was mainly due to the increase in sales volume of our fabric products during the Year Under Review.

Service revenue from processing, printing and dyeing service increased by approximately RMB1.5 million or 1.1% from approximately RMB136.1 million for the year ended 31 December 2021 to approximately RMB137.6 million for the year ended 31 December 2022. 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 Pandemic 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 increased by approximately RMB16.8 million or 5.5% from approximately RMB306.3 million for the year ended 31 December 2021 to approximately RMB323.1 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in the cost of raw materials, which was in line with the increase in revenue during the Year Under Review. At the same time, utility costs, depreciation and direct labour costs also recorded an increase as compared to that for the year ended 31 December 2021.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB2.2 million or 9.4% from approximately RMB23.4 million for the year ended 31 December 2021 to approximately RMB25.6 million for the year ended 31 December 2022.

The overall gross profit margin of our sales and services increased from approximately 7.1% for the year ended 31 December 2021 to approximately 7.3% for the year ended 31 December 2022. The increase in the overall gross profit margin of the sales and services of the Group was mainly attributable to the increase in average unit selling price for sales revenue during the Year Under Review.

Other income

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Interest income	22	19
Government subsidies	1,704	1,630
Investment income	17	279
Sales of raw materials, net of costs	265	–
Dividend income from unlisted equity securities mandatorily measured at FVTPL	1,021	1,021
Rental income	593	528
Others	167	341
Total	3,789	3,818

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other income (Continued)

Our other income was approximately RMB3.8 million for the year ended 31 December 2022 (2021: approximately RMB3.8 million), there was no much difference when compared to last year.

Other gains and losses, net

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Gain/(loss) on disposal of property, plant and equipment	696	(5,134)
Change in fair value of financial assets		
mandatorily measured at FVTPL	1,171	(1,326)
Impairment losses on property, plant and equipment	(597)	(14,990)
Net exchange gain/(loss)	724	(868)
Others	(566)	(53)
Total	<u>1,428</u>	<u>(22,371)</u>

The Group's other gains, net was approximately RMB1.4 million for the year ended 31 December 2022 (2021: losses, net of approximately RMB22.4 million). The turn around of approximately RMB23.8 million for the year ended 31 December 2022 compared to that for the year ended 31 December 2021 was mainly due to the decrease in impairment losses on property, plant and equipment of approximately RMB14.4 million and the decrease in loss on disposal of property, plant and equipment of approximately RMB5.8 million in order to meet the requirements of the provincial government to carry out "remedial work in textile enterprises (印染企業整治工作)" for the year ended 31 December 2021.

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 costs 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 decreased by approximately RMB0.1 million or approximately 2.6% from approximately RMB3.8 million for the year ended 31 December 2021 to approximately RMB3.7 million for the year ended 31 December 2022. The decrease was mainly due to the decrease in exhibition expenses.

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 RMB2.2 million or approximately 17.9% from approximately RMB12.3 million for the year ended 31 December 2021 to approximately RMB10.1 million for the year ended 31 December 2022. 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 RMB10.1 million for the year ended 31 December 2022 (2021: approximately RMB9.1 million). The expenditure mainly comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment.

The increase of approximately RMB1.0 million in research expenditure for the year ended 31 December 2022 compared to that for the year ended 31 December 2021 was mainly due to the increase in direct usage of different raw materials during the testing and analysing process.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other expenses

Our other expenses amounted to approximately RMB0.8 million for the year ended 31 December 2022 (2021: approximately RMB3.4 million), the decrease was mainly due to the decrease in net loss on sales of raw materials.

Finance costs

For the year ended 31 December 2022, our finance costs amounted to approximately RMB4.1 million (2021: approximately RMB4.5 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB0.4 million or 8.9% as compared to that of last year, mainly as a result of the decrease in average interest rate and the reduction in the level of bank and other borrowings.

Income tax expense

Income tax expense represent our total current and deferred tax expense. The current taxes are calculated based on taxable profit at the applicable tax rates for the years. 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% in 2022 (2021: 15%).

Under the EIT Law and Implementation Regulation of the EIT Law, Huzhou Narnia Industry Co., Ltd.# (湖州納尼亞實業有限公司) (“Huzhou Narnia”) is allowed for 100% additional tax reduction for qualified research and development costs.

The income tax expense for the year ended 31 December 2022 was approximately RMB0.9 million, as compared to the income tax expense of approximately RMB1.8 million for the year ended 31 December 2021. The details are set out in Note 9 to the consolidated financial statements.

English name is for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Loss for the year attributable to equity shareholders of the Company

As a result of the foregoing, our loss for the year attributable to equity shareholders of the Company for the year ended 31 December 2022 was approximately RMB3.2 million, as compared to a loss of approximately RMB31.7 million for the year ended 31 December 2021, representing a decrease in the loss attributable to the equity shareholders of the Company of approximately RMB28.5 million.

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 2022, our property, plant and equipment amounted to approximately RMB103.2 million (31 December 2021: approximately RMB106.1 million). The details are set out in Note 13 to the consolidated financial statements.

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	
	2022	2021
	RMB'000	RMB'000
Raw materials	7,759	42,448
Work in progress	978	2,342
Finished goods	20,486	15,087
Total	<u>29,223</u>	<u>59,877</u>

Our inventories decreased from approximately RMB59.9 million as at 31 December 2021 to approximately RMB29.2 million as at 31 December 2022, which was mainly due to the decrease in raw materials purchased by our Group for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Inventories (Continued)

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 2022 and 2021.

Inventory turnover

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

	Year ended 31 December	
	2022	2021
Average inventory turnover days (Note)	<u>50</u>	<u>68</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 68 days for the year ended 31 December 2021 to 50 days for the year ended 31 December 2022. The decrease in average inventory turnover days in 2022 was primarily due to the decrease in average inventory.

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	
	2022	2021
	RMB'000	RMB'000
Trade receivables	38,056	25,451
Less: loss allowance for trade receivables	(7,907)	(3,568)
Trade receivables, net	30,149	21,883
Prepayments	37,078	35,672
Value added tax ("VAT") recoverable	891	1,998
Other receivables	996	3,715
Less: loss allowance for other receivables	(2)	(2)
Other receivables, net	994	3,713
Total	69,112	63,266

Trade receivables

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

The increase in gross amount of trade receivables from approximately RMB25.5 million as at 31 December 2021 to approximately RMB38.1 million as at 31 December 2022 was mainly due to our higher total sales for the second half of the year ended 31 December 2022 when compared to the same period in the previous year, which resulted in more trade receivables aged within 6 months as at 31 December 2022.

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	
	2022	2021
	RMB'000	RMB'000
Within 3 months	17,663	18,594
Over 3 months but within 6 months	10,501	324
Over 6 months but within 1 year	1,985	2,350
Over 1 year but within 2 years	–	615
Total	<u>30,149</u>	<u>21,883</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. 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.

Trade receivable turnover days

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

	Year ended 31 December	
	2022	2021
Average trade receivables turnover days (Note)	<u>33</u>	<u>40</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 2022 was approximately 33 days (2021: approximately 40 days). The decrease of turnover days was mainly due to the decrease in average trade receivables for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other receivables (Continued)

Other receivables and prepayments

Other receivables and prepayments mainly include prepayment paid for purchases of raw materials, transportation expenses and other miscellaneous prepayments, VAT recoverable and other sundry receivables.

Our other receivables and prepayments decreased by approximately RMB2.4 million or approximately 5.8% from approximately RMB41.4 million as at 31 December 2021 to approximately RMB39.0 million as at 31 December 2022, the decrease of which was mainly attributable to the decrease of other receivables of approximately RMB2.7 million.

Trade and other payables

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade and bills payables		
– Due to third parties	28,746	19,515
Other payables		
– Other tax payables	2,565	2,487
– Payroll payables	1,440	4,045
– Interest payables	163	137
– Others	1,728	5,399
Total	<u>34,642</u>	<u>31,583</u>

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR BALANCE SHEET ITEMS (Continued)

Trade and other payables (Continued)

Trade payables

Our trade payables primarily consist of trade payables to our suppliers of raw materials. Our suppliers generally grant us a credit period with a maximum of 90 days upon receipts of the raw materials and the relevant VAT invoices during the Year Under Review. As at 31 December 2022, our trade payables of approximately RMB28.7 million increased by approximately RMB9.2 million when compared to last year of approximately RMB19.5 million.

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 3 months	22,323	10,357
Over 3 months but within 6 months	4,742	3,383
Over 6 months but within 1 year	516	5,708
Over 1 year but within 2 years	1,165	67
Total	<u>28,746</u>	<u>19,515</u>

Trade payables turnover days

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

	Year ended 31 December	
	2022	2021
Average trade payables turnover days (Note)	<u>27</u>	<u>47</u>

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

The Group's trade payables turnover days for the year ended 31 December 2022 was approximately 27 days (2021: approximately 47 days). The decrease of turnover days was mainly due to the decrease in average trade payables.

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 and other borrowings and finance lease borrowings, payables for the acquisition of property, plant and equipment.

Our other payables decreased from approximately RMB12.1 million as at 31 December 2021 to approximately RMB5.9 million as at 31 December 2022 mainly due to the decrease in other payable of approximately RMB3.7 million and the decrease in payroll payable of approximately RMB2.6 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	
	2022	2021
	RMB'000	RMB'000
Amounts received in advance of:		
– sales of fabric products	1,393	10,880
– printing and dyeing services	6,652	5,476
Total	<u>8,045</u>	<u>16,356</u>

As at 31 December 2022, all of our contract liabilities were expected to be recognised as revenue within 12 months. The decrease in contract liabilities from approximately RMB16.4 million as at 31 December 2021 to approximately RMB8.0 million as at 31 December 2022 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 and other 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 and other 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 2022, our Group had cash and cash equivalents amounting to approximately RMB9.3 million (2021: approximately RMB10.8 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 decreased by approximately RMB1.5 million, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB20.7 million, net cash used in investing activities with the amount of approximately RMB6.4 million, and net cash used in financing activities with the amount of approximately RMB15.8 million. The cash flow details of the Group are set out on page 70 under "Consolidated Statement of Cash Flows" in this report.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2022 was approximately RMB82.9 million (2021: approximately RMB94.6 million). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders. In the opinion of the Directors, it is expected that the Group can renew its banking facilities upon their respective expiries in the coming twelve months.

Gearing ratio

As at 31 December 2022, the Group's gearing ratio was approximately 58.2% (2021: 64.5%), calculated as the total interest-bearing bank and other borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%. The decrease was mainly due to the decrease in total bank borrowings of approximately RMB11.7 million.

Pledge of assets

As at 31 December 2022, the Group had pledged certain buildings, equipment and machinery, investment properties and unlisted equity securities with aggregate carrying amount of approximately RMB77.4 million (2021: approximately RMB81.2 million) to certain banks.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE (Continued)

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 RMB15.0 million for the year ended 31 December 2022 (2021: approximately RMB25.6 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 2022 is set out in the paragraph headed "Actual Business Progress, Change in Use of Net Proceeds from the Listing and Actual Utilised Amount" on page 25 of this report.

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2022, the Group's investment properties had a carrying value of approximately RMB7.2 million (2021: approximately RMB7.7 million). As at 31 December 2022 and 2021, the Group's investment properties were pledged to secure certain bank borrowings of the Group.

As at 31 December 2022, the Group's financial assets non-current and mandatorily measured at FVTPL represent unlisted equity securities investment in 7,565,794 (2021: 7,565,794) shares, representing 1.07% (2021: 1.07%), equity interest in Zhejiang Changxing Rural Commercial Bank Company Limited ("**Changxing Rural Commercial Bank**"). On 21 December 2022, the Company, via an indirectly wholly-owned subsidiary of the Company, (the "**Vendor**") entered into a share transfer agreement (the "**Share Transfer Agreement**") with Changxing Hengli Small Loan Company Limited (the "**Purchaser**"), pursuant to which the Vendor has agreed to sell and the Purchaser agreed to purchase, all the shares of Changxing Rural Commercial Bank held by the Group (the "**Sale Shares**"), for a cash consideration of RMB21,500,000 (the "**Disposal**").

The Disposal is subject to the fulfilment of conditions and completion of business registration of change procedures at the State Administration for Market Regulation. Subsequent to the end of the reporting period and up to the date of approval for issuance of the consolidated financial statements, the Purchaser has settled approximately RMB8,080,000 to the Group and the transaction has not been completed.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2022, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB37.0 million (2021: RMB58.0 million). As at 31 December 2022, the subsidiaries utilised approximately RMB37.0 million (2021: RMB45.2 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 2022, the Group did not have any material legal proceedings or potential proceedings (2021: Nil).

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments of approximately RMB2.0 million (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the Year Under Review, the Group did not make any material acquisition or disposal of subsidiaries, associates and joint ventures.

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 2022.

FUTURE OUTLOOK

Looking ahead, despite the presence of challenges and uncertainties hampering China's economic growth, the market is set to recover with the end of the Pandemic. The Group remains optimistic about business prospects and resumption of economic growth. Stability and robust growth are key for the economy in 2023. The Group will focus on our development strategies as we strive to maintain our position as leaders amidst keen competition.

The Group will tightly track our progress towards the green and quality development goals, focus our strategy on developing our principal business with an eye towards diversity, maintain technology and innovation driven green development as our vision, so as to further enhance the Group's development and secure high quality development targets. The Group will continue to focus on customer service and maintain a market-oriented approach. Driven by digital empowerment, the Group will continue to upgrade computerised management standards and optimise smart manufacturing systems in order to further enhance automated smart manufacturing, accelerate the deployment of digitalised information technology to production lines, promote enterprise digitalisation and transformation upgrading, making data and information more transparent and efficient, and achieve deep integration of automation and computerisation.

The Group will continue to optimise our R&D system, promote sustained research and technology R&D, strengthen our market-oriented innovative capability, and further explore R&D of new products, in order to satisfy the needs of our customers for new functional fabrics which integrate environmentally friendly elements, and in turn enlarge our customer base. The Group will closely monitor the rapidly changing market developments, build stronger R&D teams both in China and overseas, optimise product structure, introduce innovative technologies, enhance product quality, and build a brand management system, in order to maintain our competitive edge as industry leader.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK (Continued)

To stimulate new development, the Group will continue to build new models and expand business and supply chain platform scale. There are no hiring quotas and the Group has formulated an Employee Referral Incentive Scheme to encourage our entire staff to contribute and help us find talents who could work for us. The Group will seek to change our marketing model, explore new ideas and expand the industry chain to develop new product sales models, such as integration of live streaming on platforms such as Tiktok and Taobao. Through a diverse range of channels, the Group could gradually raise our market share and expand market size. The Group will optimise horizontal expansion of our supply chain, enhance our business system in China and overseas, deepen international exchanges, develop strategic partnerships and enrich innovation resources, and actively explore new opportunities, partnerships and projects.

The Group will seek more environmentally friendly production methods by improving on labour, environment and technology aspects. We will actively implement low carbon and circular development policies in fulfilling our mission of ecological and environmental protection development, as we contribute our own efforts to promote green development of the industry. Since its listing, the Group has been diversifying its investments to expand its business scope and improve its profitability. We believe that only by continuously accelerating the transformation and upgrading of our business, can we adapt to the pace of reform and transition from a planned economy to a market economy. In 2023, the Group will strive to maintain its resilience, adjust its strategic goals, reduce its assets, and actively demonstrate its vitality. At the same time, the Group will start to diversify its existing business, conduct research and develop new projects with more advanced technologies, and forge ahead in Narnia's new chapter of quality sustainable development.

Following our successful Listing on GEM of 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 2022, the Group had a total of 296 employees, total staff cost for the Year Under Review amounted to approximately RMB17.7 million (2021: approximately RMB24.1 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 2022 (2021: Nil). There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

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 2023. 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 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 continue to 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 public offer and 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”), there had been a change in use of the net proceeds from the Listing. Please refer to the Announcement for further details. As at 31 December 2022, the Group had utilised approximately RMB35.8 million of the net proceeds and the remaining balance of the net proceeds is approximately RMB2.1 million, details of which are set out in the table below:

	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)	Actual utilised amount during the year ended 31 December 2022 (RMB million)	Actual utilised amount as at 31 December 2022 (RMB million)	Unutilised amount as at 31 December 2022 (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	October 2023
Enhancement of environmental protection infrastructure	5.4	5.4	-	5.4	-	-
General working capital	3.8	3.8	-	3.8	-	-
Purchase of meltblown fabrics production lines	-	8.5	-	8.5	-	-
Total	37.9	37.9	-	35.8	2.1	

Due to the Pandemic, the acquisition of machinery, equipment and ancillary facilities for printing and dyeing was delayed and was expected to be delayed from June 2022 to October 2023.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. Dai Shunhua (戴順華先生), aged 50, 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 29 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 50, 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 24 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. Yeung Yiu Wah Francis (楊耀華先生), aged 62, was appointed as our Executive Director on 18 January 2023. Mr. Yeung has 40 years of experience in business operation, financial management, corporate finance, mergers and acquisitions, business management, specialising in initial public offerings management and investor relationship management. Before joining the Company, Mr. Yeung held various management positions in a number of corporations. He was a Managing Director and Head of Investment Banking of Cinda International Hong Kong Limited from 2017 to 2022, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 0111). From 2015 to 2017, he was a Managing Director and Head of Corporate Finance of Sinolink Securities Limited. From 2013 to 2015, Mr. Yeung worked also as a Managing Director and Head of Corporate Finance of South China Financial Holdings Limited. Mr. Yeung obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1982.

Independent Non-executive Directors

Dr. Liu Bo (劉波博士), aged 43, 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 52, 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 29 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 56, was appointed as our Independent Non-executive Director on 27 September 2019. He has 31 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. Zhang Ping (張平先生), aged 40, 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 17 years of experience in textile trading. He joined Huzhou Narnia as merchandiser and foreign trade sales representative in July 2004. He was then promoted to foreign trade manager in September 2007. Mr. Zhang was the chairman of the supervisory board of Huzhou Narnia from August 2011 to March 2018 and has been the chairman of the labour union of Huzhou Narnia since August 2011. He graduated from Zhejiang Normal University (浙江師範大學) with a bachelor's degree of engineering majoring in computer science and technology in June 2004 and completed an advanced training course on entrepreneur management held by Zhejiang University (浙江大學) in July 2008. He was accredited as an assistant economist in the PRC in June 2005.

Mr. Chen Zhong (陳忠先生), aged 32, 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 9 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT (Continued)

Ms. Wang Jingjing (汪晶晶女士), aged 39, 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 15 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 62, 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 31 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 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 CG Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules. The references to the code provisions in this report has been updated with reference to the amended CG Code effective on 1 January 2022. 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 applicable code provisions under the CG Code, other than code provision C.2.1 of the CG Code.

According to code provision C.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.

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. Yeung Yiu Wah Francis, served as Executive Directors, and Mr. Song Jun, Dr. Liu Bo and Mr. Yu Chung Leung served as INEDs. 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

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, Ms. Song Xiaoying and Mr. Yu Chung Leung shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the 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 REPORT

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 A.2.1 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.

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.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY (Continued)

As at the date of this report, the Board comprises six Directors. One of the Directors is a woman and three of the Directors are INEDs and independent of management. Therefore, the Company could benefit from board diversity in the process of the critical review and control of the management of the Company. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills. As at 31 December 2022, the gender ratio (male to female) in the workforce (including senior management) of the Group is around 3.7:1.1. The Group recognises the important of gender diversity and endeavours to take steps to promote gender diversity at all levels of the Group (including the Board). In order to further promote gender diversity within the Group, We endeavours to ensure that there is gender diversity during the recruitment of staff members at mid to senior level and provide training and long-term development opportunities to our female staff members, hence there will be a pipeline of female senior management and potential successor to the Board.

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 D.3.3 of the CG 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. During the Year Under Review, 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 2021, with the management of the Company reviewed the unaudited consolidated quarterly financial results for the three months ended 31 March 2022 and for the nine months ended 30 September 2022 and the interim results for the six months ended 30 June 2022 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 consolidated 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. The Audit Committee has also reviewed the consolidated financial statements for the year ended 31 December 2022.

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 E.1.2 of the CG Code. The terms of reference have been modified on 30 December 2022, in accordance with the prevailing provision of the CG 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 E.1.5 of part 2 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

Nomination Committee

We established a Nomination Committee on 29 January 2019 with written terms of reference in compliance with paragraph B.3.1 of the CG 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;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Nomination criteria (Continued)

- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) the candidate's willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

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 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 13 May 2022 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>)	4/4	-	-	-	1/1
Ms. Song Xiaoying	4/4	-	-	-	1/1
Mr. Yeung Yiu Wah Francis (<i>appointed on 18 January 2023</i>)	-	-	-	-	-
<i>Independent Non-executive Directors</i>					
Dr. Liu Bo	4/4	4/4	2/2	2/2	1/1
Mr. Yu Chung Leung	4/4	4/4	2/2	2/2	1/1
Mr. Song Jun	4/4	4/4	2/2	2/2	1/1

Subsequent to the year ended 31 December 2022 and up to date of this report, the Board held another Board meeting in March 2023 for the main purposes of approving the annual results of the Group for the year ended 31 December 2022 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 Moore Stephens CPA Limited (“**Moore Hong Kong**”), 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

BUSINESS COMPLIANCE AND ANTI-CORRUPTION

We strive to maintain a high level of business integrity as it is vital to our reputation and the protection of our business partners and customers. To achieve so, the Group is in strict compliance with the Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, and the Anti-Money Laundering Law and the Criminal Law of the PRC.

We do not, in any case, tolerate any business misconduct and malpractices, this includes any form of bribery, extortion, fraud and money laundering. As stated clearly in the Prevention of Bribery Ordinance incorporated in our Employee's Handbook, unethical business practices such as the offering and accepting of gifts are strictly prohibited. Once we discover any misconduct committed, the employees will be subject to termination of employment or disciplinary action.

Holding on to the values of openness, probity and accountability, we have formulated the Whistleblowing Policy which allows employees to voice their concerns or if they suspect any misconduct is being committed within the business. As the policy provides absolute anonymous reporting channels, it protects the whistleblowers from any unfair treatment and undesired consequences such as dismissal, victimization and disciplinary action, even for substantiated cases. At the same time, the Audit Committee has been tasked with handling the cases and delineating the investigation procedures. The Whistleblowing Policy not only apply to internal employees but also to our suppliers and contractors.

During the Year Under Review, there were no reported legal cases regarding the corrupt practices of our employees relating to bribery, extortion, fraud and/or money laundering. Though the Group did not provide any internal anti-corruption training to Directors and employees during the Year Under Review, they are encouraged to attend anti-corruption training provided by external parties at the Company's expenses.

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

Moore Hong Kong 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 Moore Hong Kong 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 Moore Hong Kong as the auditor would be until the next annual general meeting of the Company, at which Moore Hong Kong would retire and be eligible to stand for re-appointment by the Shareholders.

For the year ended 31 December 2022, the total remuneration paid or payable to the external auditor for audit services amounted to approximately RMB0.8 million. The external auditor did not provide any non-audit service for the Group for the year ended 31 December 2022.

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 2022.

CORPORATE GOVERNANCE REPORT

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.

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.

CORPORATE GOVERNANCE REPORT

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 2022, 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, the PRC, 30 March 2023

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 2022 (the "Financial Statements").

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

Financial performance of the Group for the year ended 31 December 2022 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 65 to 67.

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2022 (2021: 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, 12 May 2023, the register of members of the Company will be closed from Tuesday, 9 May 2023 to Friday, 12 May 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:00 p.m. on Monday, 8 May 2023.

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.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

REPORT OF THE DIRECTORS

Risk associated with the Pandemic

The Group's business and operation may be seriously affected by the Pandemic 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.

In respect of the bank and other borrowings with carrying amount of approximately RMB82.9 million (2021: approximately RMB94.6 million) as at 31 December 2022, among which approximately RMB82.9 million (2021: RMB78.5 million) will be repayable in the coming next 12 months after 31 December 2022 in accordance with the repayment schedule of the respective agreements, the Directors are of the view that the Group would be able to repay or renew the majority of these borrowings upon their respective maturities, based on the relationship and successful renewal history with the banks. Furthermore, as at 31 December 2022, the Group had available unutilised banking facilities amounting to approximately RMB3.8 million (2021: approximately RMB1.5 million).

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 2022, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB37.0 million (2021: RMB58.0 million). As at 31 December 2022, the subsidiaries have drawn down RMB37.0 million (2021: RMB45.2 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 2022, the Group did not have any material legal proceedings or potential proceedings (2021: 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 2022, 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 to the Consolidated Financial Statements, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution as at 31 December 2022, calculated in accordance with Companies Laws of the Cayman Islands, was approximately RMB53.3 million (2021: approximately RMB63.6 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 made charity donations of approximately RMB0.3 million (2021: RMB0.6 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2022 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 2022 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 2022.

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. Yeung Yiu Wah, Francis (*appointed on 18 January 2023*)

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 on pages 27 to 30 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(A) to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include all Directors (2021: 3 Directors). Details of the five highest paid individuals are set out in Note 10(B) 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 2022, 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 2022, 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 2022, 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 2022, 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%
Chong Yuet Lan	Beneficial owner	121,602,000 (L)	15.20%

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.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2022, 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

Mr. Dai Shunhua, Ms. Song Xiaoying and Spring Sea (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.

REPORT OF THE DIRECTORS

PLEDGE OF ASSETS

As at 31 December 2022, the Group had pledged certain buildings, equipment and machinery, unlisted equity securities and investment properties with aggregate carrying amount of approximately RMB77.4 million (2021: approximately RMB81.2 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 and other borrowings. For the Year Under Review, the effective interest rate for fixed rate borrowings was from 4.0% to 6.0%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank and other 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 2022, the Group had cash and cash equivalents of RMB9.3 million (31 December 2021: approximately RMB10.8 million) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 45.1% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 18.6% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 43.8% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 11.7% 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 share offer 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 2022, 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” on page 26 of this report.

RETIREMENT BENEFITS

Details of the retirement benefits of the Group for the year ended 31 December 2022 are set out in Note 1(k) to the Financial Statements. The employees of the Group which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a prescribed percentage of their payroll costs, subject to certain ceilings imposed, to the central pension scheme as specified by the local municipal government. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

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

COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

EVENTS AFTER THE REPORTING PERIOD

On 9 February 2023, the Group entered into a non-legally binding memorandum of understanding (the “MOU”) with Zixuan Culture Company Limited (the “Target Company”), such that the Group plans to initially invest not more than US\$10 million into the Target Company, which is principally engaged in, among others, businesses related to general health and biological sciences. The directors consider the Target Company and its ultimate beneficial owner(s) are independent third party(ies). Details of the MOU are set out in the Company’s announcement dated 9 February 2023.

REPORT OF THE DIRECTORS

REVIEW BY AUDIT COMMITTEE

The consolidated financial statements of the Group for the year ended 31 December 2022 have been reviewed by the Audit Committee.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2022 have been audited by Moore Hong Kong, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Moore Hong Kong 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, the PRC, 30 March 2023

INDEPENDENT AUDITOR'S REPORT



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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 (collectively referred to as the “Group”) set out on pages 65 to 135, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting 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 (the “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”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1(b) to the consolidated financial statements, which indicates that as at 31 December 2022, the Group has net current liabilities of approximately RMB5,837,000. As at that date, the Group's outstanding bank and other borrowings of approximately RMB82,900,000 are due for repayment within one year. Along with the current situation as set forth in note 1(b) to the consolidated financial statements, these conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

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 reporting 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. In addition to the matter described in the MATERIAL UNCERTAINTY RELATED TO GOING CONCERN section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Revenue recognition

Refer to the note 3 to the consolidated financial statements

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 approximately RMB211,126,000 and the provision of printing and dyeing services of approximately RMB137,577,000 for the year ended 31 December 2022. 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.

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 and goods delivery notes, 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 goods delivery notes and invoices, to assess whether the revenue had been recognised in accordance with the contract terms and in the correct financial year;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition <i>Refer to the note 3 to the consolidated financial statements</i></p>	<ul style="list-style-type: none"> • confirming, on a sample basis, the amount of sales transactions for the year ended 31 December 2022 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed by customers and the Group's accounting records; • performing, on a sample basis, company search of new customers and check the related party relationship with the Group, the date of incorporation and change in business scope to assess whether the new customers were set up for inflating revenue; • inquiring management as to the reasons for all sales credit notes issued subsequent to the year end, if any, 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, if any, relating to revenue which were recorded during the year which met specific risk-based criteria.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors 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 audit committee of the Company assists the directors of the Company 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. Our report is solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

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

INDEPENDENT AUDITOR'S REPORT

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

- 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 of the Company, 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 of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats of related 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 of the Company, 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.

Moore Stephens CPA Limited
Certified Public Accountants

Leung Yu Ngong
Practising Certificate Number: P06734

Hong Kong, 30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	3	348,683	329,718
Cost of sales and services		(323,101)	(306,334)
Gross profit		25,582	23,384
Other income	5	3,789	3,818
Other gains and losses, net	6	1,428	(22,371)
Selling and distribution expenses		(3,723)	(3,825)
Administrative expenses		(10,076)	(12,324)
Research and development expenditure		(10,050)	(9,064)
Impairment loss on trade and other receivables	30	(4,338)	(1,566)
Other expenses		(785)	(3,432)
Finance costs	7	(4,124)	(4,520)
Loss before income tax	8	(2,297)	(29,900)
Income tax expense	9	(857)	(1,814)
Loss for the year		<u>(3,154)</u>	<u>(31,714)</u>
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of entities outside PRC		(196)	71
Other comprehensive (loss)/income for the year		(196)	71
Total comprehensive income for the year		<u>(3,350)</u>	<u>(31,643)</u>
Loss for the year attributable to:			
Equity shareholders of the Company		(3,154)	(31,714)
Non-controlling interests		–	–
		<u>(3,154)</u>	<u>(31,714)</u>
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		(3,350)	(31,643)
Non-controlling interests		–	–
		<u>(3,350)</u>	<u>(31,643)</u>
Loss per share attributable to equity shareholders of the Company			
– Basic and diluted	12	<u>(0.39) cents</u>	<u>(3.96) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	103,229	106,123
Investment properties	14	7,162	7,665
Intangible assets	15	1,003	1,382
Financial assets mandatorily measured at fair value through profit or loss ("FVTPL")	16	21,500	20,097
Deferred tax assets	25	–	172
		132,894	135,439
Current assets			
Inventories	17	29,223	59,877
Trade and other receivables	18	69,112	63,266
Bills receivables	19	11,930	2,450
Financial assets measured at FVTPL	16	419	651
Restricted bank deposits	20	60	60
Cash and cash equivalents	21	9,326	10,819
		120,070	137,123
Current liabilities			
Trade and other payables	22	34,642	31,583
Contract liabilities	23	8,045	16,356
Bank and other borrowings	24	82,900	78,473
Tax payable		320	296
		125,907	126,708
Net current (liabilities)/assets		(5,837)	10,415
Total assets less current liabilities		127,057	145,854
Non-current liabilities			
Bank borrowings	24	–	16,100
Deferred tax liabilities	25	653	–
		653	16,100
Net assets		126,404	129,754

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Capital and reserves			
Share capital	26	5,346	5,346
Reserves		121,058	124,408
Equity attributable to			
Equity shareholders of the Company		126,404	129,754
Non-controlling interest		–	–
Total equity		126,404	129,754

The consolidated financial statements on pages 65 to 135 were approved and authorised for issue by the Board of Directors on 30 March 2023 and are signed on its behalf by:

Dai Shunhua

Director

Song Xiaoying

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium* RMB'000 (note a)	Statutory reserve* RMB'000 (note b)	Translation reserve* RMB'000	Other reserve* RMB'000 (note c)	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2021	5,346	36,523	11,424	148	76,907	31,049	161,397
Loss for the year	-	-	-	-	-	(31,714)	(31,714)
Other comprehensive income	-	-	-	71	-	-	71
Total comprehensive loss	-	-	-	71	-	(31,714)	(31,643)
Profit appropriation to statutory reserve	-	-	4	-	-	(4)	-
At 31 December 2021 and 1 January 2022	5,346	36,523	11,428	219	76,907	(669)	129,754
Loss for the year	-	-	-	-	-	(3,154)	(3,154)
Other comprehensive loss	-	-	-	(196)	-	-	(196)
Total comprehensive income	-	-	-	(196)	-	(3,154)	(3,350)
Profit appropriation to statutory reserve	-	-	196	-	-	(196)	-
At 31 December 2022	5,346	36,523	11,624	23	76,907	(4,019)	126,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

Notes:

- (a) Share premium represents the difference between the amount of the proceeds received from the initial public offering, net of related issuance costs and the total amount of the par value of shares issued. 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.
- (b) 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.
- (c) The other reserve 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.

English name is for identification purpose only.

* These accounts comprise the consolidated reserves of approximately RMB121,058,000 (2021: RMB124,408,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	21	20,717	(10,050)
Income tax paid		(8)	(2,573)
Net cash generated from/(used in) operating activities		20,709	(12,623)
Cash flows from investing activity			
Purchases of property, plant and equipment		(14,963)	(25,553)
Refund of/(deposits placed) for property, plant and equipment, net		3,461	491
Proceeds from disposal of property, plant and equipment		3,814	12,419
Purchases of intangible assets		–	(265)
Disposal of intangible assets		197	–
Interest received		22	19
Purchase of financial assets measured at FVTPL		(7,437)	(1,000)
Proceeds from disposal of financial assets measured at FVTPL		7,454	53
Dividends received from unlisted equity securities		1,021	1,021
Decrease in restricted bank deposits		–	32,425
Net cash (used in)/generated from investing activity		(6,431)	19,610
Cash flows from financing activities			
New bank and other borrowings raised		66,700	80,600
Repayments of bank and other borrowings		(78,373)	(82,477)
Interest paid		(4,098)	(4,391)
Net cash used in financing activities	21	(15,771)	(6,268)
Net (decrease)/increase in cash and cash equivalents		(1,493)	719
Cash and cash equivalents at beginning of the year		10,819	10,100
Cash and cash equivalents at end of the year		9,326	10,819
Analysis of cash and cash equivalents			
Bank and cash balances		9,326	10,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 International 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 GEM 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 2022 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”), who are also executive directors of the Company. 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.

Spring Sea, the immediate holding company of the Company, is 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 2022

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 the BVI 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 values.

The consolidated financial statements for the year ended 31 December 2022 comprise the financial statements of the Company and its subsidiaries.

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.

Going concern

As at 31 December 2022, the Group has net current liabilities of approximately RMB5,837,000. As at that date, the Group’s outstanding bank and other borrowings approximately RMB82,900,000 are due for repayment within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

These conditions indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2022 and subsequently thereto up to the date of authorisation of these consolidated financial statements.

In order to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors have adopted several measures together with other measures in progress at the date of authorisation of these consolidated financial statements, but not limited to, the followings:

- (i) for borrowings which will be maturing before 31 December 2023, the Group will actively negotiate with the banks before they fall due to secure their renewals so as to ensure that the necessary funds to meet the Group's working capital and financial requirements in the future will continue to be met. The directors do not expect to experience significant difficulties in renewing most of these bank borrowings upon their maturities and there is no indication that these bank lenders will not renew the existing bank borrowings upon the Group's request. The directors have evaluated the relevant facts available to them and are of the opinion that the Group would be able to renew such borrowings upon maturity. Subsequent to the end of reporting period, (a) bank borrowings of approximately RMB3,500,000 has been fully repaid whereas new bank borrowings of approximately RMB3,000,000, with a term of 2-year maturing in 2025, have been raised; and (b) the other borrowing of approximately RMB5,250,000 has been fully repaid and a new other borrowing of approximately RMB6,450,000 has been raised;
- (ii) the Group had entered into a share transfer agreement to dispose of the financial assets mandatorily measured at FVTPL. Up to the date of the issuance of the consolidated financial statements, the Group has received approximately RMB8,080,000 from Changxing Hengli Small Loan Company Limited;
- (iii) the Group would sell the investment properties and a subsidiary of the Group, namely Changxing Seashore (as defined in note 9), in order to improve the Group's financial position, liquidity and cash flows, if necessary; and
- (iv) the Group applies cost control measures in cost of sales and administrative expenses.

Taking into account the above consideration and measures and after assessing the Group's current and forecasted cash positions, the directors are satisfied that the Group will be able to meet its financial obligations when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Adoption of revised IFRSs

In the current year, the Group has applied a number of amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Of these, the following developments are relevant to the Group's consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018–2020

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in IFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010), add a requirement that, for transactions and events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC-Int 21 Levies, an acquirer applies IAS 37 or IFRIC- Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Adoption of revised IFRSs (Continued)

Impacts on application of Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items is measured in accordance with IAS 2 Inventories.

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 January 2022. The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

Impacts on application of Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The Group has applied the amendments for the first time in the current year. The amendments specify that, when an entity assesses whether a contract is onerous in accordance with IAS 37, the unavoidable costs under a contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

In accordance with the transitional provisions, the amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application, 1 January 2022.

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Adoption of revised IFRSs (Continued)

Impacts on application of Amendments to IFRSs Annual Improvements to IFRSs 2018–2020

The Group has applied the amendments for the first time in the current year. The annual improvements make amendments to the following standards:

IFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after 1 January 2022.

IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application is not expected to have impact on the Group’s financial position and performance as the Group does not intend to apply the practical expedient.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation (Continued)

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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Revenue and other income recognition (Continued)

Revenue recognition (Continued)

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 lease

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(u)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Leased assets

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

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(n) and 1(p)).

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 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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”.

(h) 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 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(j) 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.

(k) Retirement benefit costs

The employees of the Group which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a prescribed percentage of their payroll costs, subject to certain ceilings imposed, to the central pension scheme as specified by the local municipal government. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme. The applicable percentages for the central pension scheme for the year ended 31 December 2022 and 2021 are listed below:

	Percentage	
	2022	2021
Pension insurance	14.0%–15.0%	14.0%
Medical insurance	8.4%	8.4%
Unemployment insurance	0.5%	0.5%
Work-related injury insurance	1.3%	1.3%
Housing provident fund	6.0%	7.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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.

(m) Taxation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Taxation (Continued)

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.

(n) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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 is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Impairment on tangible and intangible assets (Continued)

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.

(q) 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.

(r) 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(u).

(s) Bank and other borrowings

Bank and other borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, bank and other 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.

(t) Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Financial instruments (Continued)

Classification and subsequent measurement of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Financial instruments (Continued)

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, bills receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Financial instruments (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.
 - (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting

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

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.

(x) 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.

(y) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- The amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and
- The amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

Other than the judgement made by the directors of the Company in respect of going concern as disclosed in note 1(b) above, the followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Estimated impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets with definite lives may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in Note 1(p). In assessing whether there is any indication that non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

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, bills receivables 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of financial assets (Continued)

Provision for income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the year based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

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:

	2022 RMB'000	2021 RMB'000
Sale of fabric products, recognised on a point in time basis	211,126	193,646
Revenue from printing and dyeing services, recognised on over time basis	137,557	136,072
	<u>348,683</u>	<u>329,718</u>

Sales of fabric products

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

Revenue 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 PRC 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. Payment terms are composed of bank transfers and/or bill receivables within the credit periods which are disclosed in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 contract date 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.

	2022 RMB'000	2021 RMB'000
Customer A	68,412	72,300
Customer B	N/A ^(Note)	42,211

Note: Revenue from customer B for the year ended 31 December 2022 contributed less than 10% of the total revenue of the Group.

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, 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 operating segment. No operating segment information is presented other than the entity-wide disclosures.

Geographical information

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

	2022 RMB'000	2021 RMB'000
Mainland China	216,750	231,556
Hong Kong	81,837	78,832
The United Arab Emirates	22,507	13,084
Egypt	9,699	1,533
Brazil	6,060	–
Other regions	11,830	4,713
	348,683	329,718

The Group's operations are in the PRC and all its non-current assets (excluding deferred tax assets) are in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

5. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income	22	19
Investment income	17	279
Sales of raw materials, net of costs	265	–
Government subsidies (note)	1,704	1,630
Dividend income from unlisted equity securities mandatorily measured at FVTPL	1,021	1,021
Rental income from investment properties	593	528
Others	167	341
	<u>3,789</u>	<u>3,818</u>

Note: The amount represented government subsidies received from PRC local government authorities in connection with the unconditional government grants mainly for enterprise development support and innovation capabilities incentives in 2022 and 2021.

6. OTHER GAINS AND LOSSES, NET

	2022 RMB'000	2021 RMB'000
Impairment losses on property, plant and equipment (note 13)	(597)	(14,990)
Gain/(loss) on disposal of property, plant and equipment	696	(5,134)
Net exchange gain/(loss)	724	(868)
Change in fair value of financial assets mandatorily measured at FVTPL	1,171	(1,326)
Others	(566)	(53)
	<u>1,428</u>	<u>(22,371)</u>

7. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank and other borrowings	<u>4,124</u>	<u>4,520</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

8. LOSS BEFORE INCOME TAX

	2022 RMB'000	2021 RMB'000
Loss before income tax has been arrived at after charging/(crediting):		
Depreciation of property plant and equipment	13,672	15,250
Depreciation of right-of-use assets;	470	686
Depreciation of investment properties	503	503
Amortisation of intangible assets	182	187
Total depreciation and amortisation	14,827	16,626
Analysed as:		
Charged in cost of sales and services	11,809	13,292
Charged in administrative expenses	2,436	2,564
Charged in research and development expenditure	582	770
	14,827	16,626
Auditor's remuneration	780	800
Directors' emoluments (note 10)	536	928
Sales of raw materials, net of costs (note (ii))	(265)	1,521
Donations (note (iii))	272	600
Other staff costs (excluding directors' emoluments)		
– Salaries and other benefits	15,924	20,640
– Retirement benefit scheme contributions	1,820	2,431
– Discretionary performance related bonus	–	1,064
	17,744	24,135
Cost of inventories recognised as cost of sales and services (note (iv)), include the followings:		
– Cost of raw materials used	323,101	306,334
– Electricity and water supplies	214,896	198,127
– Staff cost	73,860	68,744
– Outsourced staff cost	12,371	18,398
– Maintenance costs	8,741	4,427
	1,974	2,546
Research and development expenditure (note (iv)), include the followings:		
– Cost of raw materials	10,050	9,064
– Electricity and water supplies	3,746	3,616
– Staff cost	3,568	2,628
	1,982	1,899

Notes:

- (i) No forfeited contributions available for offset against existing contributions during the year (2021: nil).
- (ii) It is included in the "Other income" (2021: "Other expenses") in the consolidated statement of profit or loss.
- (iii) It is included in the "Other expenses" in the consolidated statement of profit or loss.
- (iv) It includes the depreciation, amortisation and staff costs disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

9. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax – PRC Enterprise Income Tax (“EIT”)		
– over-provision in respect of prior years	–	(473)
– provision for the year	32	7
Deferred tax expense (note 25)	825	2,280
	<u>857</u>	<u>1,814</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 year ended 31 December 2022 (2021: same).

Provision for the EIT during the years ended 31 December 2022 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 (2021: same).

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.# 長興濱裡實業有限公司 (“Changxing Seashore”) and Zhejiang Xihu Supply Chain Co., Ltd.# 浙江鑫湖供應鏈有限公司 (“Zhejiang Xiunhu”) is 25%.

Huzhou Lituo Import and Export Co., Ltd.# 湖州利拓進出口有限公司 (“Huzhou Lituo”) is recognised as a small profit enterprise in 2022 and 2021, 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 Industry Co., Ltd.# 湖州納尼亞實業有限公司 (“Huzhou Narnia”) is recognised as “High and New Technology Enterprise” from 1 December 2020 to 30 November 2023, 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 2022 (2021: 15%).

Under the EIT Law and Implementation Regulations of the EIT Law, Huzhou Narnia is allowed for 100% additional tax deduction for qualified research and development costs.

English name is for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

9. INCOME TAX EXPENSE (Continued)

The income tax credit for the year can be reconciled to the loss before income tax as follows:

	2022 RMB'000	2021 RMB'000
Loss before income tax from continuing operations	<u>(2,297)</u>	<u>(29,900)</u>
Tax at PRC EIT rate of 25% (2021: 25%)	(574)	(7,475)
Tax effect of expense not deductible for tax purpose	77	549
Tax effect of income not taxable for tax purpose	(255)	(287)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(797)	(768)
Tax effect of preferential tax rate	(164)	1,496
Tax effect of other deductible temporary differences not recognised	1,864	5,418
Tax effect of unused tax losses not recognised as deferred tax assets	706	3,354
Over-provision in respect of prior years	–	(473)
	<u>857</u>	<u>1,814</u>

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

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

	Fees RMB'000	Salaries RMB'000	Retirement benefits scheme contribution RMB'000	Total emoluments RMB'000
Year ended 31 December 2022				
Executive Directors:				
Mr. Dai [#]	–	178	7	185
Ms. Song	–	77	7	84
Independent non-executive directors:				
Mr. Yu Chung Leung	89	–	–	89
Dr. Liu Bo	89	–	–	89
Mr. Song Jun	89	–	–	89
	<u>267</u>	<u>255</u>	<u>14</u>	<u>536</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

	Fees RMB'000	Discretionary Performance related bonus RMB'000	Salaries RMB'000	Retirement benefits scheme contribution RMB'000	Total emoluments HK\$'000
Year ended 31 December 2021					
Executive Directors:					
Mr. Dai [#]	–	216	88	6	310
Ms. Song	–	128	76	6	210
Mr. Wang Yongkang (Note (i))	–	99	54	6	159
Independent non-executive directors:					
Mr. Yu Chung Leung	83	–	–	–	83
Dr. Liu Bo	83	–	–	–	83
Mr. Song Jun	83	–	–	–	83
	<u>249</u>	<u>443</u>	<u>218</u>	<u>18</u>	<u>928</u>

[#] Chief executive of the Company

Notes:

- (i) On 31 May 2021, Mr. Wang Yongkang resigned as an executive Director of the Company.
- (ii) On 18 January 2023, Mr. Yeung Yiu Wah Francis (“**Mr. Yeung**”) was appointed as an executive Director of the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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, all of them (2021: three) were directors of the Company for the year ended 31 December 2022 whose emoluments are included in the disclosure above. For the year ended 31 December 2021, the emoluments of the remaining two individuals for the year were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	-	153
Retirement benefit scheme contributions	-	12
Discretionary performance related bonus	-	256
	<u>-</u>	<u>421</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 2022 and 2021.

During the years ended 31 December 2022 and 2021, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

11. DIVIDENDS

No dividend was declared by the Group in respect of the years ended 31 December 2022 and 2021.

12. LOSS PER SHARE

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

	2022	2021
Loss for the year attributable to equity shareholders of the Company for the purpose of basic loss per share (RMB'000)	<u>(3,154)</u>	<u>(31,714)</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share calculation	<u>800,000,000</u>	<u>800,000,000</u>

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB3,154,000 (2021: RMB31,714,000) and the weighted average number of 800,000,000 ordinary shares (2021: 800,000,000) in issue during the year.

Diluted loss per share was the same as basic loss per share as there were no potential ordinary shares in issue throughout 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

13. PROPERTY, PLANT AND EQUIPMENT

	Building 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 2021	74,187	1,646	96,845	1,715	7,178	8,605	190,176
Additions	843	377	13,057	221	11,055	-	25,553
Disposals	(207)	(209)	(21,350)	-	-	-	(21,766)
Transfers	7,048	-	9,842	-	(16,890)	-	-
At 31 December 2021 and 1 January 2022	81,871	1,814	98,394	1,936	1,343	8,605	193,963
Additions	3,540	34	1,938	199	9,252	-	14,963
Disposals	-	(136)	(19,531)	(300)	-	-	(19,967)
Transfers	2,089	124	8,382	-	(10,595)	-	-
At 31 December 2022	87,500	1,836	89,183	1,835	-	8,605	188,959
Accumulated depreciation and impairment loss:							
At 1 January 2021	26,823	1,059	30,970	1,022	-	1,253	61,127
Charge for the year	4,947	229	9,818	256	-	686	15,936
Impairment losses	-	-	14,990	-	-	-	14,990
Eliminated on disposals	(203)	(198)	(3,812)	-	-	-	(4,213)
At 31 December 2021 and 1 January 2022	31,567	1,090	51,966	1,278	-	1,939	87,840
Charge for the year	6,117	293	6,896	366	-	470	14,142
Impairment losses	-	-	597	-	-	-	597
Eliminated on disposals	-	(77)	(16,587)	(185)	-	-	(16,849)
At 31 December 2022	37,684	1,306	42,872	1,459	-	2,409	85,730
Net carrying amounts:							
At 31 December 2022	49,816	530	46,311	376	-	6,196	103,229
At 31 December 2021	50,304	724	46,428	658	1,343	6,666	106,123

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, for 2022 and 2021 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 2022

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2022, certain of the Group's buildings with aggregate net book value of approximately RMB16,774,000 (2021: RMB19,776,000), equipment and machinery with aggregate net book value of approximately RMB25,751,000 (2021: RMB27,290,000), and land use rights with aggregate net book value of approximately RMB6,196,000 (2021: RMB6,363,000) were pledged to secure the Group's certain bank and other borrowings as set out in note 24.

In year 2021, the management assessed that certain machines and parts could not be reused in other product line and assessed the recoverable amounts of those machines and parts. Hence, an impairment loss of approximately RMB14,990,000 was therefore recognised in "other gains and losses" (note 6). The estimate of the recoverable amount of approximately RMB165,000 was based on those machines and parts' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets of similar age and condition within the same industry.

In year 2022, certain plants and machinery at Changxing Seashore (as defined in note 9) ceased operations due to technical problems of sewage treatment and the management assessed the recoverable amounts of those machines and parts. Hence, an impairment loss of approximately RMB597,000 was therefore recognised in "other gains and losses" (note 6). The estimates of the recoverable amounts, amounting to approximately RMB1,760,000 in aggregate, were made based on those machines and parts' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets of similar age and condition within the same industry.

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:

	2022 RMB'000	2021 RMB'000
Included in "Property, plant and equipment":		
Land use rights leased for own use, carried at depreciated cost	6,196	6,363
Other properties leased for own use, carried at depreciated cost	–	303
	<u>6,196</u>	<u>6,666</u>

The land use rights relate to interests in two parcels of land transferred from local government, upon which the Group's production factories are situated, with lease terms of 50 years. One of the lease term started from 13 October 2003 while another one started from 12 February 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Right-of-use assets (Continued)

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

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights leased for own use	167	167
Other properties leased for own use	303	519
	<u>470</u>	<u>686</u>
Expense relating to short-term leases	<u>303</u>	<u>519</u>

14. INVESTMENT PROPERTIES

	Buildings RMB'000
Cost:	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	13,319
Accumulated depreciation and impairment loss:	
At 1 January 2021	5,151
Charge for the year	503
At 31 December 2021 and 1 January 2022	5,654
Charge for the year	503
At 31 December 2022	<u>6,157</u>
Net carrying amounts	
At 31 January 2022	<u>7,162</u>
At 31 January 2021	<u>7,665</u>

The above investment properties are depreciated on a straight-line basis, taking into account their residual value of 5% (2021: 5%), at 4.75% (2021: 4.75%) per annum.

As at 31 December 2022, the Group's investment properties with a net book value of approximately RMB7,162,000 (2021: RMB7,665,000) were pledged to secure the Group's certain short-term bank and other borrowings as set out in note 24.

The Group leases out the investment properties under operating leases. The leases typically run for an initial period of 2 to 5 years (2021: 2 to 5 years), with an option to renew the lease after that date at which time all terms are renegotiated. Lease payment are settled at the beginning of each lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

14. INVESTMENT PROPERTIES (Continued)

As at 31 December 2022, the fair value of the Group's investment properties was approximately RMB17,300,000 (2021: RMB17,700,000). 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.

Information about investment properties fair value measurement

	Valuation techniques	Significant unobservable inputs	Range RMB	Relationship of unobservable inputs to fair value
Investment properties	Market approach	Estimated selling price per square metre (RMB)	5,710.64 – 9,156.74 (2021: 6,050.27 – 9,343.92)	Increase in estimated selling price per square metre would result in an increase in fair value, and vice versa

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

	Level 3 RMB'000	Fair value as at 31 December 2022 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	<u>17,300</u>	<u>17,300</u>
		Fair value as at 31 December 2021 RMB'000
Commercial properties located in Changxing, Zhejiang province, the PRC	<u>17,700</u>	<u>17,700</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. INTANGIBLE ASSETS

	Software RMB'000
Cost:	
At 1 January 2021	1,678
Additions	265
At 31 December 2021 and 1 January 2022	<u>1,943</u>
Disposals	(252)
At 31 December 2022	<u>1,691</u>
Accumulated depreciation and impairment loss:	
At 1 January 2021	374
Charge for the year	187
At 31 December 2021 and 1 January 2022	<u>561</u>
Charge for the year	182
Eliminated on disposals	(55)
At 31 December 2022	<u>688</u>
Net carrying amounts	
At 31 January 2022	<u><u>1,003</u></u>
At 31 January 2021	<u><u>1,382</u></u>

The above intangible asset is amortised on a straight-line basis based on its estimated useful life of 10 years (2021: 10 years).

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16. FINANCIAL ASSETS MEASURED AT FVTPL

	2022 RMB'000	2021 RMB'000
Non-current and mandatorily measured at FVTPL:		
Unlisted equity securities (note (i))	21,500	20,097
Current and measured at FVTPL:		
Listed equity securities (note (ii))	419	651
	21,919	20,748

Notes:

- (i) The unlisted equity securities represent the investment in 7,565,794 (2021: 7,565,794) shares, representing 1.07% (2021: 1.07%), equity interest in Zhejiang Changxing Rural Commercial Bank Company Limited (“**Changxing Rural Commercial Bank**”).

The unlisted equity securities are measured at FVTPL. 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 last 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, using comparable method under market approach. 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 21 December 2022, the Company, via an indirectly wholly-owned subsidiary of the Company, (the “**Vendor**”) entered into a share transfer agreement (the “**Share Transfer Agreement**”) with Changxing Hengli Small Loan Company Limited (the “**Purchaser**”), pursuant to which the Vendor has agreed to sell and the Purchaser agreed to purchase, all the shares of Changxing Rural Commercial Bank held by the Group (the “**Sale Shares**”), for a cash consideration of RMB21,500,000 (note 33) (the “**Disposal**”).

The directors of the Company are of the opinion and estimate that the transaction price agreed with the independent third party approximate to the fair value of the corresponding financial asset as at 31 December 2022.

The Disposal is subject to the fulfilment of conditions and completion of business registration of change procedures at the State Administration for Market Regulation. Subsequent to the end of the reporting period and up to the date of approval for issuance of the consolidated financial statements, the Purchaser has settled approximately RMB8,080,000 to the Group and the transaction has not been completed.

Mr. Dai and Ms. Song, the executive directors of the Company, have equity interest of 1.67% in the Purchaser’s shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

16. FINANCIAL ASSETS MEASURED AT FVTPL (Continued)

Notes: (Continued)

(i) (Continued)

Details of the Disposal are set out in the Company's announcements date 21 December 2022 and 6 January 2023.

As at 31 December 2022 and 2021, the Group's unlisted equity securities were pledged to secure certain bank borrowings of the Group as set out in note 24.

(ii) The listed equity investments were classified as fair value through profit or loss as they were held for trading. The fair values of listed equity investments under Level 1 are based on quoted market prices on Stock Exchange (2021: The Shanghai Stock Exchange and The Shenzhen Stock Exchange).

17. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	7,759	42,448
Work in progress	978	2,342
Finished goods	20,486	15,087
	<u>29,223</u>	<u>59,877</u>

No inventory provision was provided during the year ended 31 December 2022 (2021: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

18. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables (note (i))	38,056	25,452
Less: Loss allowance for trade receivables	(7,907)	(3,569)
	<u>30,149</u>	<u>21,883</u>
Other receivables (notes (i) and (ii))	996	3,715
Less: Loss allowance for other receivables	(2)	(2)
	<u>994</u>	<u>3,713</u>
Prepayments (note (iii))	37,078	35,672
Value added tax ("VAT") recoverable	891	1,998
	<u>37,969</u>	<u>37,670</u>
	<u><u>69,112</u></u>	<u><u>63,266</u></u>

Notes:

- (i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.
- (ii) As at 31 December 2021, the amount mainly represented a receivable in relation to a refundable deposit on acquisition of property, plant and equipment, which was subsequently refunded in February 2022 due to the contract of acquisition of property, plant and equipment was cancelled.
- (iii) The amount primarily represents prepayments for purchases of raw materials.

The following is an ageing 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:

	2022 RMB'000	2021 RMB'000
Within 3 months	17,663	18,594
Over 3 months but within 6 months	10,501	324
Over 6 months but within 1 year	1,985	2,350
Over 1 year but within 2 years	–	615
	<u>30,149</u>	<u>21,883</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

19. BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Bills receivables with an original maturity of up to 12 months from the issue dates of bills receivables	<u>11,930</u>	<u>2,450</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. The directors of the Company derecognised these bank acceptance bills, which have been endorsed to certain creditors to settle trade payables, as these bank acceptance bills were issued by banks with credit rating of at least AAA, which were issued by PRC credit agencies. As at 31 December 2022, bills endorsed and derecognised amounting to approximately RMB9,989,000 were yet to reach maturity (2021: RMB19,343,000).

As at 31 December 2022, bank acceptance bills amounting to RMB11,930,000 were endorsed but not derecognised (2021: RMB2,450,000) as these bank acceptance bills were issued by banks with credit rating of below AAA, which were issued by PRC credit agencies. Regarding these bank acceptance bills, the Group is exposed to the risk that, in the event of default by the bill issuing bank, the relevant creditor has full recourse to the Group for settlement of the relevant bill. For these bank acceptance bills, the Group recognised an associated liability with carrying amount of RMB11,930,000 in trade and other payables. The net position of carrying value of transferred assets, net of the associated liability, is nil.

20. RESTRICTED BANK DEPOSITS

	2022 RMB'000	2021 RMB'000
Term deposit	<u>60</u>	<u>60</u>

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

(A) Cash and cash equivalents comprise:

	2022 RMB'000	2021 RMB'000
Cash on hand	33	35
Cash at banks	9,293	10,784
	<u>9,326</u>	<u>10,819</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.

(B) Reconciliation of profit/(loss) before income tax to cash (used in)/generated from operations:

	2022 RMB'000	2021 RMB'000
Operating activities		
Loss before income tax	(2,297)	(29,900)
Adjustments for:		
Depreciation of property, plant and equipment	14,142	15,936
Depreciation of investment properties	503	503
Impairment loss on property, plant and equipment	597	14,990
Amortisation of intangible assets	182	187
Bank interest income	(22)	(298)
Finance costs	4,124	4,520
Loss allowance on financial assets	4,338	1,566
(Gain)/loss on disposal of property, plant and equipment	(696)	5,134
Dividend income from unlisted equity securities	(1,021)	(1,021)
Dividend income from listed equity securities	(17)	-
(Gain)/loss on change in fair value of financial assets mandatorily measured at FVTPL	(1,171)	1,326
Net exchange (gain)/loss	(724)	868
Operating cash flows before movements in working capital	<u>17,938</u>	<u>13,811</u>
Decrease/(increase) in inventories	30,654	(5,005)
(Increase)/decrease in trade and other receivables	(13,645)	4,331
(Increase)/decrease in bills receivables	(9,480)	6,890
Increase/(decrease) in trade and other payables	3,561	(41,267)
(Decrease)/increase in contract liabilities	(8,311)	11,190
Cash generated from/(used in) operations	<u>20,717</u>	<u>(10,050)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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

(C) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. 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 and other borrowings RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2021	96,450	143	96,593
Changes from financing cash flows:			
New bank borrowings raised	80,600	–	80,600
Repayments of bank borrowings	(82,477)	–	(82,477)
Interest paid	–	(4,526)	(4,526)
Total changes from financing cash flows	(1,877)	(4,526)	(6,403)
Other changes:			
Finance cost (note 7)	–	4,520	4,520
At 31 December 2021 and 1 January 2022	94,573	137	94,710
Changes from financing cash flows:			
New bank and other borrowings raised	66,700	–	66,700
Repayments of bank borrowings	(78,373)	–	(78,373)
Interest paid	–	(4,098)	(4,098)
Total changes from financing cash flows	(11,673)	(4,098)	(15,771)
Other changes:			
Finance cost (note 7)	–	4,124	4,124
At 31 December 2022	82,900	163	83,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	28,746	19,515
Other payables	1,728	5,399
Other tax payables	2,565	2,487
Payroll payable	1,440	4,045
Interest payable	163	137
	<u>34,642</u>	<u>31,583</u>

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

	2022 RMB'000	2021 RMB'000
Within 3 months	22,323	10,357
Over 3 months but within 6 months	4,742	3,383
Over 6 months but within 1 year	516	5,708
Over 1 year but within 2 years	1,165	67
	<u>28,746</u>	<u>19,515</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

23. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Amounts received in advance from customers for:		
– Sales of fabric products	1,393	10,880
– Printing and dyeing services	6,652	5,476
	<u>8,045</u>	<u>16,356</u>

The following table shows how much of the revenue recognised in the years ended 31 December 2022 and 2021 relates to brought forward contract liabilities. There was no revenue recognised in the years ended 31 December 2022 and 2021 that related to performance obligations that were satisfied in a prior year.

Movements in contract liabilities

	2022 RMB'000	2021 RMB'000
Amounts received in advance from customers for:		
At 1 January	16,356	5,166
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	(10,880)	(1,364)
– Printing and dyeing services	(5,476)	(3,802)
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)	8,045	16,356
At 31 December	<u>8,045</u>	<u>16,356</u>

The deposits received in advance are recognised as contract liabilities during the production and service processing period until the customer obtains control of the promised fabric products or revenue from provision of the printing and dyeing services has been completely recognised.

The Group received 10% to 30% of the contract value as deposits from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer a discount to certain customers, provided that the customers agree to make a full payment or pay earlier during the production and service processing period. The deposits received in advance payment schemes result in contract liabilities being recognised during the production and service processing period until the customer obtains control of the promised fabric products and printing and dyeing service. The significant decrease in contract liabilities in 2022 was mainly due to the decrease of orders resulting from the novel coronavirus (COVID-19) situation in the PRC in December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. BANK AND OTHER BORROWINGS

	2022 RMB'000	2021 RMB'000
Fixed-rate bank and other borrowings		
– Secured and guaranteed (notes (a) and (c))	62,000	62,050
– Secured and unguaranteed (note (b))	15,650	18,650
– Unsecured and guaranteed (note(c))	–	9,573
Fixed-rate other borrowings		
– Unsecured and guaranteed (note (d))	5,250	4,300
	<u>82,900</u>	<u>94,573</u>
	2022 RMB'000	2021 RMB'000
The carrying amounts of the above bank and other borrowings are repayable*:		
Within one year	82,900	78,473
Within more than one year but no more than two years	–	16,100
	<u>82,900</u>	<u>94,573</u>
Less: Amounts due within one year shown under current liabilities	<u>(82,900)</u>	<u>(78,473)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>16,100</u>

* The amounts due are based on the scheduled repayment dates set out in the respective 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:

	2022	2021
Effective interest rate:		
Fixed-rate borrowings	<u>4.00%–6.00%</u>	<u>4.35%–5.23%</u>

Notes:

- (a) The bank borrowings were secured by (i) pledge of certain property, plant and equipment (including land use right) and investment properties of the Group; (ii) corporate guarantees from the Company, its subsidiaries Huzhou Narnia and Changxing Seashore, certain directors of the Company and certain individuals.
- (b) The bank borrowings were secured by (i) pledge of certain property, plant and equipment of the Group; (ii) unlisted equity securities as detailed in note 16.
- (c) Among these bank borrowings, bank borrowings of approximately RMB37,000,000 (2021: RMB45,173,000) were guaranteed by the Company.
- (d) The other borrowing was guaranteed by another Group's subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

24. BANK AND OTHER BORROWINGS (Continued)

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:

	2022 RMB'000	2021 RMB'000
Property, plant and equipment (Note 13)	48,721	53,429
Investment properties (Note 14)	7,162	7,665
Unlisted equity securities (Note 16)	21,500	20,097
	<u>77,383</u>	<u>81,191</u>

25. DEFERRED TAX (LIABILITIES)/ASSETS

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:

	2022 RMB'000	2021 RMB'000
Deferred tax (liabilities)/assets recognised on the consolidated statement of financial position	<u>(653)</u>	<u>172</u>

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

	Loss allowance for receivables RMB'000	Impairment losses on investment properties RMB'000	Unrealised profit RMB'000	Fair value changes on financial assets at FVTPL RMB'000	Impairment losses on tangible assets RMB'000	Tax losses RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2021	154	291	(46)	(1,210)	630	2,461	172	2,452
(Charged)/credited to profit or loss	-	(19)	-	200	-	(2,461)	-	(2,280)
At 31 December 2021 and 1 January 2022	<u>154</u>	<u>272</u>	<u>(46)</u>	<u>(1,010)</u>	<u>630</u>	<u>-</u>	<u>172</u>	<u>172</u>
Charged to profit or loss	-	(19)	-	(176)	(630)	-	-	(825)
At 31 December 2022	<u>154</u>	<u>253</u>	<u>(46)</u>	<u>(1,186)</u>	<u>-</u>	<u>-</u>	<u>172</u>	<u>(653)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. DEFERRED TAX LIABILITIES/(ASSETS) (Continued)

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 2022, 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 RMB33,772,000 (2021: RMB35,913,000) 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 a subsidiary of the Group amounting to RMB27,551,000 (2021: RMB24,724,000) because it is not probable that future taxable profit will be available against which the subsidiary can utilise the benefits therefrom. These unused tax losses were incurred by a subsidiary of the Group in the PRC, which will expire after 10 years from the year in which the losses were incurred.

Deferred tax assets have not been recognised in respect of the deductible temporary differences of certain subsidiaries of the Group amounting to RMB14,030,000 (2021: RMB18,561,000) in relation to impairment losses recognized on receivables and non-current assets because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits therefrom.

26. SHARE CAPITAL

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

	Number of ordinary shares	Par value	Share capital	
	shares	USD	USD	Translated to RMB'000
Authorised:				
As at 31 December 2021 and 2022	2,000,000,000	0.001	2,000,000	13,375
Issued and fully paid:				
At 1 January and 31 December 2021 and 2022	<u>800,000,000</u>	<u>0.001</u>	<u>800,000</u>	<u>5,346</u>

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:

	2022 RMB'000	2021 RMB'000
Within one year	195	220
In the second year to fifth year inclusive	251	564
	<u>446</u>	<u>784</u>

Operating lease receivables represent rentals receivable by the Group for its investment properties. For the year ended 31 December 2022, leases are negotiated with fixed lease terms ranging from 2 to 5 years (2021: 2 to 5 years).

28. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments:

	2022 RMB'000	2021 RMB'000
Capital expenditure contracted but not provided for Acquisition of subsidiaries:	<u>2,039</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 and other borrowings equity, net of restricted bank deposits and cash and cash equivalents and equity attributable to shareholders of the Company, 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.

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

	Notes	2022 RMB'000	2021 RMB'000
Current liabilities:			
Bank and other borrowings	24	82,900	78,473
Non-current liabilities:			
Bank borrowings	24	–	16,100
Total debts		82,900	94,573
Less: Restricted bank deposits	20	(60)	(60)
Cash and cash equivalents	21	(9,326)	(10,819)
Adjusted net debt		73,514	83,694
Total equity		126,404	129,754
Adjusted net debt-to-capital ratio		58%	65%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets measured at FVTPL	21,919	20,748
Financial assets measured at amortised cost	40,529	36,475
Bills receivables at amortised cost	11,930	2,450
	<u>74,378</u>	<u>59,673</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>114,977</u>	<u>123,669</u>

Financial risk management objectives and policies

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

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

Currency risk

During the year ended 31 December 2022, approximately 30% (2021: 32%) of the Group's sales 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 United States Dollars, which is a currency other than the respective group entities' functional currencies, at the end of each reporting period are as follows:

	2022 RMB'000	2021 RMB'000
The functional-currency in RMB		
Trade receivables	<u>29,248</u>	<u>16,421</u>

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% (2021: 10%) decrease in the functional currency of the relevant group entities against the foreign currency. 10% (2021: 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% (2021: 10%) change in foreign currency exchange rates. A positive/(negative) number below indicates a decrease/(increase) in post-tax loss for the year where the functional currency of relevant group entities weaken against the relevant foreign currency. For a 10% (2021: 10%) strengthening of the functional currency of relevant group entities, there would be an equal and opposite impact on the loss after income tax.

	2022 RMB'000	2021 RMB'000
US\$	<u>2,194</u>	<u>1,232</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other 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 loss for the years ended 31 December 2022 and 2021 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. At the end of the reporting year, 17% (2021: 36%) of the gross trade receivables was due from the Group's largest debtor. This largest debtor is an international trading company registered in Egypt (2021: an international trading company registered in Hong Kong). The Group has business relationship with this debtor for 2 (2021: 11) years. This debtor normally settles its trade debts within 90 (2021: 60) days from the date of billing and there is no history of default.

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 (2021: 30–90 days) from the date of billing. Normally, the Group does not obtain collateral from customers during 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Trade receivables (Continued)

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

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

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
At 31 December 2022			
Current (not past due)	5.27	21,926	1,156
Less than 3 month past due	33.58	10,682	3,587
3–6 months past due	42.50	1,659	705
6–12 months past due	44.40	2,392	1,062
More than 12 months past due	100.00	1,397	1,397
		38,056	7,907
At 31 December 2021			
Current (not past due)	2.20	18,283	402
Less than 3 month past due	8.09	952	77
3–6 months past due	20.08	3,018	606
6–12 months past due	40.05	1,191	477
More than 12 months past due	99.95	2,008	2,007
		25,452	3,569

Expected loss rates are based on actual loss experience over the past two 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Trade receivables (Continued)

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

	2022 RMB'000	2021 RMB'000
At 1 January	3,569	2,003
Impairment losses recognised during the year	4,338	1,566
At 31 December	<u>7,907</u>	<u>3,569</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 bills receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

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

In respect of the bank and other borrowings with carrying amount of RMB82,900,000 (2021: RMB94,573,000) as at 31 December 2022, among which RMB82,900,000 (2021: RMB78,473,000) will be repayable in the coming next 12 months after 31 December 2022 in accordance with the repayment schedule of the respective loan 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 2022, the Group had available unutilised banking facilities amounting to RMB nil (2021: RMB1,450,000).

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

	Weighted average interest rate per annum RMB'000	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	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2022						
Trade and other payables		34,642	-	-	34,642	34,642
Bank and other borrowings	4.62%	85,369	-	-	85,369	82,900
		<u>120,011</u>	<u>-</u>	<u>-</u>	<u>120,011</u>	<u>117,542</u>
At 31 December 2021						
Trade and other payables		31,583	-	-	31,583	31,583
Bank and other borrowings	4.81%	81,075	13,189	1,315	95,579	94,573
		<u>112,658</u>	<u>13,189</u>	<u>1,315</u>	<u>127,162</u>	<u>126,156</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 input

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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 measurements using			
	Fair value	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
At 31 December 2022				
Financial assets:				
Unlisted equity securities	21,500	–	–	21,500
Listed equity securities	419	419	–	–
	<u>21,919</u>	<u>419</u>	<u>–</u>	<u>21,500</u>
At 31 December 2021				
Financial assets:				
Unlisted equity securities	20,097	–	–	20,097
Listed equity securities	651	651	–	–
	<u>20,748</u>	<u>651</u>	<u>–</u>	<u>20,097</u>

During the years ended 31 December 2022 and 2021, the fair value of the above unlisted equity securities was categorised as a level 3 measurement. The fair value as at 31 December 2022 and 2021 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
FOR THE YEAR ENDED 31 DECEMBER 2022

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 measurement

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Unlisted equity securities	Market approach – Market comparable companies	Price-to-Book ratio	0.56–0.63 (2021: 0.60–0.78)	0.59 (2021: 0.68)
		Discount for lack of marketability	N/A (2021: N/A)	15.8% (2021: 26.0%)

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 2022, it is estimated that with all other variables held constant, an increase/decrease of market multiple of comparable companies by 5% (2021: 5%) would have decreased/increased the Group's loss after income tax by RMB1,083,000 (2021: RMB1,005,000), and a decrease/increase in discount for lack of marketability by 5% (2021: 5%) would have decreased/increased the Group's loss after income tax by RMB203,000 (2021: RMB353,000).

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
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of Financial Position

	2022 RMB'000	2021 RMB'000
Non-current asset		
Investment in a subsidiary (note)	84,206	84,206
Current assets		
Amounts due from group companies	9,245	10,713
Cash and cash equivalents	141	132
	9,386	10,845
Current liability		
Other payables	–	1,692
Amounts due to group companies	34,917	24,368
	34,917	26,060
Net current liabilities	(25,531)	(15,215)
Net assets	58,675	68,991
Capital and reserves		
Share capital	5,346	5,346
Reserves	53,329	63,645
Total equity	58,675	68,991

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

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 30 March 2023 and is signed on its behalf by:

Dai Shunhua
Director

Song Xiaoying
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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 reserves RMB'000
At 1 January 2021	36,523	(8,366)	84,343	(16,858)	95,642
Loss and total comprehensive loss for the year	–	(1,301)	–	(30,696)	(31,997)
At 31 December 2021 and 1 January 2022	36,523	(9,667)	84,343	(47,554)	63,645
Loss and total comprehensive income for the year	–	3,898	–	(14,214)	(10,316)
At 31 December 2022	36,523	(5,769)	84,343	(61,768)	53,329

32. CONTINGENT LIABILITIES

At 31 December 2022, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB37,000,000 (2021: RMB58,000,000). As at 31 December 2022, the subsidiaries have drawn down RMB37,000,000 (2021: RMB45,173,000) 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.

33. RELATED PARTY DISCLOSURES

Related party transactions

Other than the compensation of key management personnel as shown below, there were no other related party transactions during the years ended 31 December 2022 and 2021.

Compensation of key management personnel

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	1,140	1,181
Retirement benefit scheme contributions	38	41
Discretionary performance related bonus	–	770
	<u>1,178</u>	<u>1,992</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

33. RELATED PARTY DISCLOSURES (Continued)

Related party balances

There were no related party balances as at 31 December 2022 and 2021.

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 fully paid up share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Autumn Sky	the BVI, 16 October 2017	US\$50,000 (2021: US\$50,000)	100% (2021: 100%)	–	Investment holding
Hengye Development Limited	Hong Kong, 30 October 2017	HK\$10,000 (2021: HK\$10,000)	–	100% (2021: 100%)	Investment holding
Huzhou Narnia* 湖州納尼亞實業有限公司	the PRC, 5 August 2002	RMB12,000,000 (2021: RMB12,000,000)	–	100% (2021: 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 (2021: US\$8,000,000)	–	100% (2021: 100%)	Investment holding
Changxing Seashore* 長興濱裡實業有限公司	The PRC, 23 October 2012	US\$8,000,000 (2021: US\$8,000,000)	–	100% (2021: 100%)	Textile manufacturing
Huzhou Lituo*# 湖州利拓進出口有限公司	the PRC, 11 March 2020	RMB5,080,000 (2021: RMB5,080,000)	–	100% (2021: 100%)	Sale of fabrics
Zhejiang Xinhui*# 浙江鑫湖供應鏈有限公司	The PRC, 3 December 2020	RMB10,085,000 (2021: RMB10,085,000)		100% (2021: 100%)	Sale of fabrics

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

As at 31 December 2022 and 2021, the respective holders of non-controlling interest have not contributed any share capital into these entities. Accordingly, they are not entitled to any profit or loss nor any equity of the respective entities. Based on the agreed contribution ratios and amounts, the non-controlling interests have 49% of the voting power over these subsidiaries and will have 49% equity interests in these subsidiaries upon contributions of the agreed sums into the subsidiaries.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

35. NEW AND AMENDMENTS TO IFRSS IN ISSUE BUT NOT EFFECTIVE

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ²
IFRS 17 (including the June 2020 and December 2021 amendments to IFRS 17)	Insurance Contracts ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after January 1, 2023

² Effective for annual periods beginning on or after January 1, 2024

³ Effective for annual periods beginning on or after a date to be determined

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of “settlement” to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Company are currently assessing the impact of the amendments on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

36. EVENTS AFTER THE REPORTING PERIOD

On 9 February 2023, the Group entered into a non-legally binding memorandum of understanding (the “MOU”) with Zixuan Culture Company Limited (the “Target Company”), such that the Group plans to initially invest not more than US\$10 million into the Target Company, which is principally engaged in, among others, businesses related to general health and biological sciences. The directors consider the Target Company and its ultimate beneficial owner(s) are independent third party(ies). Details of the MOU are set out in the Company’s announcement dated 9 February 2023.

37. COMPARATIVE FIGURES

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

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2023.

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				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
CONSOLIDATED RESULTS					
Revenue	348,683	329,718	290,561	329,562	332,336
Gross profit	25,582	23,384	32,130	65,055	66,510
(Loss)/profit before income tax	(2,297)	(29,900)	(12,400)	34,910	51,369
Income tax (expense)/credit	(857)	(1,841)	2,502	(3,666)	(5,287)
(Loss)/profit for the year	(3,154)	(31,714)	(9,898)	31,244	46,082
Attributable to:					
Equity shareholders of the Company	(3,154)	(31,714)	(9,898)	31,244	39,293
As at 31 December					
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
CONSOLIDATED ASSETS AND LIABILITIES					
Total assets	252,964	272,562	342,461	334,303	253,590
Total liabilities	(126,560)	(142,808)	(181,064)	(163,156)	(156,022)
Equity attributable to equity shareholders of the Company	126,404	129,754	161,397	171,147	97,568
Non-controlling interests	-	-	-	-	-