NARNIA GROUP

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8607)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

RESULTS HIGHLIGHTS

- Revenue increased by 39.5% to approximately RMB332,336,000 (2017: RMB238,309,000).
- Gross profit increased by 44.4% to approximately RMB66,510,000 (2017: RMB46,062,000).
- Gross profit margin increased by 0.7% points to 20.0% (2017: 19.3%).
- Profit before taxation increased by 150.2% to approximately RMB51,369,000 (2017: RMB20,532,000).
- Profit for the year ended 31 December 2018 increased by 159.3% to approximately RMB46,082,000 (2017: RMB17,773,000).
- Profit attributable to owners of the Company increased by 181.7% to approximately RMB39,293,000 (2017: RMB13,947,000).
- Basic earnings per share increased by 240.2% to approximately RMB6.60 cents (2017: RMB1.94 cents).
- The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: Nil).

The board (the "**Board**") of Directors of Narnia (Hong Kong) Group Company Limited is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**105,422**	103,981
Deposit on acquisition of property plant and equipment		**2,744**	410
Prepaid lease payments		**6,679**	6,849
Investment properties		**9,174**	9,677
Intangible assets		**792**	338
Interest in an associate		**–**	12,922
Available-for-sale investment		**–**	13,064
Deferred tax assets		**917**	664
		125,728	147,905
Current assets			
Inventories	14	**72,525**	78,012
Prepaid lease payments		**170**	170
Trade and other receivables	15	**29,456**	26,574
Receivables at fair value through other comprehensive income ("**FVTOCI**")		**100**	–
Tax recoverable		**–**	301
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")		**20,000**	–
Bank balances and cash	16	**5,611**	5,062
		127,862	110,119
Current liabilities			
Trade and other payables	17	**36,795**	35,407
Contract liabilities		**1,618**	2,477
Bank borrowings		**91,959**	126,720
Tax payable		**3,858**	–
Dividends payable		**–**	92
Finance lease obligations		**–**	2,616
		134,230	167,312
Net current liabilities		**(6,368)**	(57,193)
Total assets less current liabilities		**119,360**	90,712

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

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

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

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

Application of new and amendments to IFRSs

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

IFRS 9 Financial Instruments

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

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

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

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

Summary of effects arising from initial application of IFRS 9

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

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

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

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

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

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

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

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

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

New and amendments to IFRSs issued but not yet effective

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

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

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

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to weather the transfer of the relevant asset should be as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

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

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

Changes in the Group's interests in existing subsidiaries

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

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

Interest in an associate

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

Leases

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

The Group as lessor

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

The Group as lessee

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

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

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

Leasehold land and building

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

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

Foreign currencies

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

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

Borrowing costs

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

Government grants

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

Research expenditure

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

Impairment on tangible and intangible assets

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

Financial instruments (under IFRS 9)

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

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

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

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

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

Amortised cost and interest income

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

Receivables classified as at FVTOCI

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

Financial assets at FVTPL

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

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

Impairment under ECL model

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

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

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

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

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations, namely sales of fabric products, and printing and dyeing service.

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.

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 deregistration event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables and bank balances and cash are each assessed as a separate group);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

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

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

Available-for-sale investment

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

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

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

Loans and receivables

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

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

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

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

Objective evidence of impairment could include:

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying accounting policies

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

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

Judgements in determining the classification of bills receivables

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

Key sources of estimation uncertainty

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

Estimated impairment of financial assets

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

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

Recognition of deferred tax assets

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

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

6. REVENUE

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

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

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

Sales of fabric products

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

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

Printing and dyeing service

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

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

7. SEGMENT INFORMATION

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

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

Geographical information

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

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

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

Information about major customers

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

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

8. OTHER INCOME

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

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

9. OTHER GAINS AND LOSSES

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

10. FINANCE COSTS

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

11. PROFIT BEFORE TAX

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

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

12. INCOME TAX EXPENSE

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

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

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

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

English name is for identification purpose only.

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

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

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

13. EARNINGS PER SHARE

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

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

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

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

14. INVENTORIES

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

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

15. TRADE, BILLS AND OTHER RECEIVABLES

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. BANK BALANCES AND CASH

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

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

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

17. TRADE AND OTHER PAYABLES

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

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

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

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

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

CORPORATE REORGANISATION

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

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

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

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

BUSINESS REVIEW

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

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

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

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

Cost of sales and services

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

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

Note: Others mainly include maintenance costs and machinery consumables.

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

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

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

Gross profit and gross profit margin

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

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

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

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

Other income

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

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

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

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

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

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

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

Other gains and losses

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

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

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

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

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

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

Selling and distribution expenses

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

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

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

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

Administrative expenses

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

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

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

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

Research expenditure

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

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

Other expenses

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

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

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

Finance costs

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

Income tax expense

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

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

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

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

Profit and other total comprehensive income for the year

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

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Property, plant and equipment

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

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

Inventories

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

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

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

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

Provision for impairment of inventories

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

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

Inventory turnover

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

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

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

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

Trade, bills and other receivables

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

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

Trade receivables

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

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

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

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

Provision for impairment of trade receivables

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

Trade receivable turnover days

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

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

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

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

Bills and other receivables

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

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

Restricted bank balances

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

Trade and other payables

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

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

Note: Others mainly include purchases of fixed assets.

Trade payables

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

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

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

Trade payables turnover days

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

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

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

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

Other payables

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

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

Contract liabilities

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOW

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

Net cash generated from operating activities

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

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

Net cash generated from/(used in) investing activities

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

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

Net cash used in financing activities

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

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

CAPITAL STRUCTURE

Indebtedness

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

Asset-liability ratio

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

Pledge of assets

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

Capital expenditures

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

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

CAPITAL COMMITMENT

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

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

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

SIGNIFICANT INVESTMENTS

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

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company will be set out in the section headed "Comparison of business objectives with actual business progress" in the 2018 annual report of the Company and the relevant disclosure in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 13 February 2019 (the "**Prospectus**").

FUTURE OUTLOOK

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

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

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

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

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

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

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

HUMAN RESOURCES AND TRAINING

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

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

DIVIDENDS

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Saturday, 11 May 2019 at 11:00 a.m., the notice of which shall be sent to the shareholders of the Company in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

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

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

ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE LISTING

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

1. Approximately 22.4% or approximately RMB8.5 million of the net proceeds will be used to construct a new weaving factory;

2. Approximately 13.7% or approximately RMB5.2 million of the net proceeds will be used to renovate the existing weaving factory;

3. Approximately 27.6% or approximately RMB10.5 million of the net proceeds will be used to acquire machinery, equipment and ancillary facilities for weaving;

4. Approximately 12.1% or approximately RMB4.6 million of the net proceeds will be used to acquire machinery, equipment and ancillary facilities for printing and dyeing;

5. Approximately 14.3% or approximately RMB5.4 million of the net proceeds will be used to enhance environmental protection infrastructure; and

6. Approximately 9.9% or approximately RMB3.7 million of the net proceeds will be used as general working capital.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

   (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group.

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

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

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.

GOING CONCERN

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

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

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

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

PUBLIC FLOAT

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

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

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

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

DISCLOSURE OF INTERESTS

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

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

(i) Interest in the shares in the Company

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

Notes:

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

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

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

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

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

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

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

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

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

Interests in the Shares

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

Notes:

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

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

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

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

AUDIT COMMITTEE

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

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

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

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

This announcement of results has been published on our website at www.narnia.hk and the website of the Stock Exchange at www.hkexnews.hk. The annual report of our Company for the year ended 31 December 2018 containing all the information required by the GEM Listing Rules will be dispatched to the Shareholders of our Company and published on our website at www.narnia.hk and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, PRC, 25 March 2019

As at the date of this announcement, the executive Directors are Mr. Dai Shunhua, Ms. Song Xiaoying and Mr. Wang Yongkang, and the independent non-executive Directors are Dr. Liu Bo, Mr. Leung Ka Tin and Mr. Yu Chung Leung.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com and the Stock Exchange's website at www.hkexnews.hk for at least 7 days from the date of its posting. This announcement will also be posted on the Company's website at www.narnia.hk.