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 2022

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**", "**we**", "**our**" or "**us**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**the GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 5.8% to approximately RMB348.7 million (2021: RMB329.7 million).

- Gross profit increased by 9.4% to approximately RMB25.6 million (2021: RMB23.4 million).

- Gross profit margin increased by 0.2% to 7.3% (2021: 7.1%).

- Loss before income tax decreased by 92.3% to approximately RMB2.3 million (2021: RMB29.9 million).

- Loss for the year ended 31 December 2022 decreased by 90.0% to approximately RMB3.2 million (2021: RMB31.7 million).

- Basic loss per share decreased by 90.2% to approximately RMB0.39 cents (2021: RMB3.96 cents).

- The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2022 (2021: 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 2022 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the financial year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

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

	Notes	**2022** *RMB'000*	2021 *RMB'000*
Loss for the year attributable to:			
Equity shareholders of the Company		**(3,154)**	(31,714)
Non-controlling interests		**–**	–
		(3,154)	(31,714)
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**(3,350)**	(31,643)
Non-controlling interests		**–**	–
		(3,350)	(31,643)
Loss per share attributable to equity shareholders of the Company			
– Basic and diluted	10	**(0.39) cents**	(3.96) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**103,229**	106,123
Investment properties		**7,162**	7,665
Intangible assets		**1,003**	1,382
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")		**21,500**	20,097
Deferred tax assets		**–**	172
		132,894	135,439
Current assets			
Inventories	11	**29,223**	59,877
Trade and other receivables	12	**69,112**	63,266
Bills receivables		**11,930**	2,450
Financial assets measured at FVTPL		**419**	651
Restricted bank deposits		**60**	60
Cash and cash equivalents		**9,326**	10,819
		120,070	137,123
Current liabilities			
Trade and other payables	13	**34,642**	31,583
Contract liabilities		**8,045**	16,356
Bank and other borrowings		**82,900**	78,473
Tax payable		**320**	296
		125,907	126,708
Net current (liabilities)/assets		**(5,837)**	10,415
Total assets less current liabilities		**127,057**	145,854

	2022	2021
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings	**–**	16,100
Deferred tax liabilities	**653**	–
	653	16,100
Net assets	**126,404**	129,754
Capital and reserves		
Share capital	**5,346**	5,346
Reserves	**121,058**	124,408
Equity attributable to		
Equity shareholders of the Company	**126,404**	129,754
Non-controlling interest	**–**	–
Total equity	**126,404**	129,754

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand, which is the presentation currency and also the functional currency of the Group's subsidiaries established in the People's Republic of China ("**PRC**"). The functional currency of the Company and its subsidiaries incorporated in Hong Kong and the BVI is Hong Kong dollar ("**HK$**"). The consolidated financial statements are prepared on the historical cost basis except for financial assets classified as fair value through other comprehensive income and fair value through profit or loss which are stated at their fair values.

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

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

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

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

Going concern

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

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

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

(i) for borrowings which will be maturing before 31 December 2023, the Group will actively negotiate with the banks before they fall due to secure their renewals so as to ensure that the necessary funds to meet the Group's working capital and financial requirements in the future will continue to be met. The directors do not expect to experience significant difficulties in renewing most of these bank borrowings upon their maturities and there is no indication that these bank lenders will not renew the existing bank borrowings upon the Group's request. The directors have evaluated the relevant facts available to them and are of the opinion that the Group would be able to renew such borrowings upon maturity. Subsequent to the end of reporting period, (a) bank borrowings of approximately RMB3,500,000 has been fully repaid whereas new bank borrowings of approximately RMB3,000,000, with a term of 2-year maturing in 2025, have been raised; and (b) the other borrowing of approximately RMB5,250,000 has been fully repaid and a new other borrowing of approximately RMB6,450,000 has been raised;

(ii) the Group had entered into a share transfer agreement to dispose of the financial assets mandatorily measured at FVTPL. Up to the date of the issuance of the consolidated financial statements, the Group has received approximately RMB8,080,000 from Changxing Hengli Small Loan Company Limited;

(iii) the Group would sell the investment properties and a subsidiary of the Group, namely Changxing Seashore (as defined in note 9), in order to improve the Group's financial position, liquidity and cash flows, if necessary; and

(iv) the Group applies cost control measures in cost of sales and administrative expenses.

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

(c) Adoption of revised IFRSs

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

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying accounting policies

In the application of the Group's accounting policies, which are described in note 1, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Estimated impairment of non-financial assets

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

Impairment of financial assets

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

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

Provision for income taxes

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

3. REVENUE

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

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

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

Sales of fabric products

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

Revenue from sales of fabric products is recognised when the control over the goods is transferred to customers, which is generally at the point in time when the goods leave the Group's own warehouses or designated warehouses for PRC domestic sales, or when the goods are loaded on board of shipping vessels for overseas sales, in accordance with the terms of sales contracts with customers, since only by that time the Group passes control of the fabric products to the customer. Payment terms are composed of bank transfers and/or bill receivables within the credit periods.

Printing and dyeing services

Revenue relating to printing and dyeing services is recognised over time throughout the processing period because the Group's performance enhances an asset that its customer controls as the asset is enhanced.

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

Information about major customers

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

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

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

4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of fabric products and provision of printing and dyeing services.

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

Geographical information

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

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

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

5. OTHER INCOME

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

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

6. OTHER GAINS AND LOSSES, NET

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

7. FINANCE COSTS

	2022 *RMB'000*	2021 *RMB'000*
Interest on bank and other borrowings	**4,124**	4,520

8. LOSS BEFORE INCOME TAX

	2022 *RMB'000*	2021 *RMB'000*
Loss before income tax has been arrived at after charging/(crediting):		
Depreciation of property plant and equipment	**13,672**	15,250
Depreciation of right-of-use assets	**470**	686
Depreciation of investment properties	**503**	503
Amortisation of intangible assets	**182**	187
Total depreciation and amortisation	**14,827**	16,626
Analysed as:		
Charged in cost of sales and services	**11,809**	13,292
Charged in administrative expenses	**2,436**	2,564
Charged in research and development expenditure	**582**	770
	14,827	16,626
Auditor's remuneration	**780**	800
Directors' emoluments	**536**	928
Sales of raw materials, net of costs *(note (ii))*	**(265)**	1,521
Donations *(note (iii))*	**272**	600
Other staff costs (excluding directors' emoluments)		
– Salaries and other benefits	**15,924**	20,640
– Retirement benefit scheme contributions	**1,820**	2,431
– Discretionary performance related bonus	**–**	1,064
	17,744	24,135

	2022	2021
	RMB'000	*RMB'000*
Cost of inventories recognised as cost of sales and services *(note (iv))*, include the followings:	**323,101**	306,334
– Cost of raw materials used	**214,896**	198,127
– Electricity and water supplies	**73,860**	68,744
– Staff cost	**12,371**	18,398
– Outsourced staff cost	**8,741**	4,427
– Maintenance costs	**1,974**	2,546
Research and development expenditure *(note (iv))*, include the followings:	**10,050**	9,064
– Cost of raw materials	**3,746**	3,616
– Electricity and water supplies	**3,568**	2,628
– Staff cost	**1,982**	1,899

Notes:

(i) No forfeited contributions available for offset against existing contributions during the year (2021: nil).

(ii) It is included in the "Other income" (2021: "Other expenses") in the consolidated statement of profit or loss.

(iii) It is included in the "Other expenses" in the consolidated statement of profit or loss.

(iv) It includes the depreciation, amortisation and staff costs disclosed above.

9. INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax ("**EIT**")		
– over-provision in respect of prior years	**–**	(473)
– provision for the year	**32**	7
Deferred tax expense	**825**	2,280
	857	1,814

No provision for Hong Kong Profits Tax was made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax during the year ended 31 December 2022 (2021: same).

Provision for the EIT during the years ended 31 December 2022 was made based on the estimated taxable profits calculated in accordance with income tax laws, and regulations applicable to the subsidiaries operating in the PRC (2021: same).

Under the Law of the PRC Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the statutory income tax rate for PRC entities is 25%, therefore, the tax rate of Changxing Seashore Industrial Co., Ltd.# 長興濱裡實業有限公司 ("**Changxing Seashore**") and Zhejiang Xinhu Supply Chain Co., Ltd.# 浙江鑫湖供應鏈有限公司 ("**Zhejiang Xiunhu**") is 25%.

Huzhou Lituo Import and Export Co., Ltd.# 湖州利拓進出口有限公司 ("**Huzhou Lituo**") is recognised as a small profit enterprise in 2022 and 2021, the portion of annual taxable income amount, which does not exceed RMB1 million, shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20%. And the portion of annual taxable income, which exceeds RMB1 million but does not exceed RMB3 million, shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20%.

Huzhou Narnia Industry Co., Ltd.# 湖州納尼亞實業有限公司 ("Huzhou Narnia") is recognised as "High and New Technology Enterprise" from 1 December 2020 to 30 November 2023, which is jointly verified by Zhejiang Science and Technology Department, Zhejiang Finance Department, the State Taxation Bureau of Zhejiang Province and Local Taxation Bureau of Zhejiang Province. Huzhou Narnia is subject to a preferential tax rate of 15% in 2022 (2021: 15%).

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

\# *English name is for identification purpose only.*

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

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

10. LOSS PER SHARE

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

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

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

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

11. INVENTORIES

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

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

12. TRADE AND OTHER RECEIVABLES

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

Notes:

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

(ii) As at 31 December 2021, the amount mainly represented a receivable in relation to a refundable deposit on acquisition of property, plant and equipment, which was subsequently refunded in February 2022 due to the contract of acquisition of property, plant and equipment was cancelled.

(iii) The amount primarily represents prepayments for purchases of raw materials.

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

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

13. TRADE AND OTHER PAYABLES

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

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

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

14. DIVIDENDS

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

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

BUSINESS REVIEW

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

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

1. Innovating boldly, we have built 7 automation systems and an integrated energy monitoring system for our subdivided business units, completed production automation and data collection procedures for each of our business divisions, further enhanced the deep integration of enterprise computerisation and automation, and promoted smart transformation upgrading of enterprises;

2. During the Pandemic outbreak in the first half of the year, we promulgated financial support policies to significantly reduce production and operation costs, so that our business department can win over customers, increase sales, and enhance market competitiveness;

3. We have also adjusted our employment structure, optimised our human resources management, improved our management system, streamlined two departments into one, further clarify job responsibilities, and actively built a team of quality individuals to empower the Group;

4. Moreover, we have implemented and adopted a special accounting system for foreign trade, strengthened our customer portfolio, standardised our business procedures, and actively expanded our business channels to increase our business and product coverage; meanwhile, due to the dramatic strengthening of the US Dollar this year, we have effectively increased our product profitability; and

5. Based on industry conditions during the Year Under Review, we are in the process of transferring the shares of Zhejiang Changxing Rural Commercial Bank Company Limited (浙江長興農村商業銀行股份有限公司), as well as scientifically completed and implemented the transformation upgrading of Changxing Seashore Industrial Co., Ltd.*, secured our principal business, and expanded into new business spaces, in order to establish a refined and strong enterprise.

FINANCIAL REVIEW

Revenue

The Group develop polyester fabrics with different texture and functions, manufacture our products at our Huzhou Production Facilities and engage in direct sales to our PRC and overseas customers. Our fabric products included but not limited to brushed fabric, decorative fabric, imitation silk, sateen, pongee, polyester shirt fabric, taffeta, bed fabric, washed cashmere and oxford fabric. We also commenced the commercial production of meltblown fabrics during the previous year. With a view to diversifying our source of revenue, we also engage in the provision of printing and dyeing services in the PRC.

For the year ended 31 December 2022, the Group derived our revenue from the sales of fabric products and provision of printing and dyeing service. The following table sets out our revenue by type for the Year Under Review:

	For the year ended 31 December			
	2022		2021	
	RMB'000	***%***	*RMB'000*	*%*
Sales of fabric products	**211,126**	**60.5**	193,646	58.7
Service revenue from processing, printing and dyeing service	**137,557**	**39.5**	136,072	41.3
Total	**348,683**	**100.0**	329,718	100.0

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

* *for identification purpose only*

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

Service revenue from processing, printing and dyeing service increased by approximately RMB1.5 million or 1.1% from approximately RMB136.1 million for the year ended 31 December 2021 to approximately RMB137.6 million for the year ended 31 December 2022. The increase was primarily attributable to the increase in sales orders from our customers during the Year Under Review. The Group has good reputation and technology know-how in the provision of processing, printing and dyeing services, which is a segment that presents considerable technological barriers for many textile enterprises who have to rely on service providers for support in this aspect. Moreover, our processing, printing and dyeing services were provided to our PRC customers and was not affected by the Pandemic situation overseas. Thus, the Group recorded a stable increase in revenue from processing, printing and dyeing service during the Year Under Review.

Cost of sales and services

Cost of sales and services primarily comprises (i) raw materials and other inventory costs, (ii) utility costs, (iii) direct labour costs; and (iv) depreciation. The cost of sales and services increased by approximately RMB16.8 million or 5.5% from approximately RMB306.3 million for the year ended 31 December 2021 to approximately RMB323.1 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in the cost of raw materials, which was in line with the increase in revenue during the Year Under Review. At the same time, utility costs, depreciation and direct labour costs also recorded an increase as compared to that for the year ended 31 December 2021.

Gross profit and gross profit margin

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

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

Other income

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

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

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

Other gains and losses, net

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

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

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

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

Selling and distribution expenses

The Group's selling and distribution expenses principally comprise (i) export fees and transportation costs charged by logistics companies for delivery of our products from warehouse to our customers' designated point; (ii) packaging expenses; (iii) exhibition expenses; and (iv) staff costs.

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

Administrative expenses

The Group's administrative expenses primarily consist of (i) staff costs; (ii) professional service fee; (iii) entertainment expenses; (iv) depreciation of property, plant and equipment and amortisation of intangible assets; and (v) travelling expenses.

The Group's administrative expenses decreased by approximately RMB2.2 million or approximately 17.9% from approximately RMB12.3 million for the year ended 31 December 2021 to approximately RMB10.1 million for the year ended 31 December 2022. The decrease was mainly a result of a decrease in staff costs.

Research expenditure

The Group has been focusing on research and development of efficient and environmental-friendly technology for textile printing and dyeing. We carry out our research and development projects at our laboratory in our Huzhou Production Facilities. Our research expenditure was approximately RMB10.1 million for the year ended 31 December 2022 (2021: approximately RMB9.1 million). The expenditure mainly comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment.

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

Other expenses

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

Finance costs

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

Income tax expense

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

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

Under the Law of the PRC Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Huzhou Narnia is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% in 2022 (2021: 15%).

Under the EIT Law and Implementation Regulation of the EIT Law, Huzhou Narnia Industry Co., Ltd.# (湖州納尼亞實業有限公司) ("**Huzhou Narnia**") is allowed for 75% additional tax reduction for qualified research and development costs.

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

Loss for the year attributable to equity shareholders of the Company

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

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

Property, plant and equipment

During the Year Under Review, our property, plant and equipment mainly represented buildings, furniture, fixtures and equipment, machinery, motor vehicles as well as construction in progress, assets under installation and right-of-use assets. As at 31 December 2022, our property, plant and equipment amounted to approximately RMB103.2 million (31 December 2021: approximately RMB106.1 million).

English name is for identification purpose only.

Inventories

Our inventories primarily consist of raw materials, including grey fabrics, chemical fibres, dyes and other additives for fabrics, work in progress and finished goods, which mainly comprise fabrics products. The following table sets out the summary of our inventories balances as of the dates indicated:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Raw materials	**7,759**	42,448
Work in progress	**978**	2,342
Finished goods	**20,486**	15,087
Total	**29,223**	59,877

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

Provision for impairment of inventories

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

No allowance for inventory provision was provided during the years ended 31 December 2022 and 2021.

Inventory turnover

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

	Year ended 31 December	
	2022	2021
Average inventory turnover days *(Note)*	**50**	68

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

The average inventory turnover days decreased from 68 days for the year ended 31 December 2021 to 50 days for the year ended 31 December 2022. The decrease in average inventory turnover days in 2022 was primarily due to the decrease in average inventory.

Trade and other receivables

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**38,056**	25,451
Less: loss allowance for trade receivables	**(7,907)**	(3,568)
Trade receivables, net	**30,149**	21,883
Prepayments	**37,078**	35,672
Value added tax ("**VAT**") recoverable	**891**	1,998
Other receivables	**996**	3,715
Less: loss allowance for other receivables	**(2)**	(2)
Other receivables, net	**994**	3,713
Total	**69,112**	63,266

Trade receivables

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

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

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**17,663**	18,594
Over 3 months but within 6 months	**10,501**	324
Over 6 months but within 1 year	**1,985**	2,350
Over 1 year but within 2 years	**–**	615
Total	**30,149**	21,883

Provision for impairment of trade receivables

During the Year Under Review, our management assessed impairments according to the expected credit loss ("**ECL**") rate considering their ageing and historical default rates. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data were collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Trade receivable turnover days

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

	Year ended 31 December	
	2022	2021
Average trade receivables turnover days *(Note)*	**33**	40

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

The Group's trade receivables turnover days for the year ended 31 December 2022 was approximately 33 days (2021: approximately 40 days). The decrease of turnover days was mainly due to the decrease in average trade receivables for the year ended 31 December 2022.

Other receivables and prepayments

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

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

Trade and other payables

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

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

Trade payables

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

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

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

Trade payables turnover days

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

	Year ended 31 December	
	2022	2021
Average trade payables turnover days *(Note)*	**27**	47

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

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

Other payables

Other payables mainly represent other tax payables, payroll payables, interest payables for bank and other borrowings and finance lease borrowings, payables for the acquisition of property, plant and equipment.

Our other payables decreased from approximately RMB12.1 million as at 31 December 2021 to approximately RMB5.9 million as at 31 December 2022 mainly due to the decrease in other payable of approximately RMB3.7 million and the decrease in payroll payable of approximately RMB2.6 million.

Contract liabilities

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Amounts received in advance of:		
– sales of fabric products	**1,393**	10,880
– printing and dyeing services	**6,652**	5,476
Total	**8,045**	16,356

As at 31 December 2022, all of our contract liabilities were expected to be recognised as revenue within 12 months. The decrease in contract liabilities from approximately RMB16.4 million as at 31 December 2021 to approximately RMB8.0 million as at 31 December 2022 was mainly due to the decrease in receipt of advance payments from customers.

LIQUIDITY AND CAPITAL RESOURCES

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

As at 31 December 2022, our Group had cash and cash equivalents amounting to approximately RMB9.3 million (2021: approximately RMB10.8 million).

CASH FLOW

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

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB1.5 million, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB20.7 million, net cash used in investing activities with the amount of approximately RMB6.4 million, and net cash used in financing activities with the amount of approximately RMB15.8 million.

CAPITAL STRUCTURE

Indebtedness

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

Gearing ratio

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

Pledge of assets

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

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB15.0 million for the year ended 31 December 2022 (2021: approximately RMB25.6 million).

SIGNIFICANT INVESTMENTS HELD

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

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

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

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

Save as disclosed above and the investments in the subsidiaries by the Company, the Group did not hold any significant investments during the Year Under Review.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2022, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB37.0 million (2021: RMB58.0 million). As at 31 December 2022, the subsidiaries utilised approximately RMB37.0 million (2021: RMB45.2 million) bank loans from the above-mentioned banking facilities. The Directors consider the Group will be able to perform the guarantees or there will be no default on any terms of the guarantees.

As at 31 December 2022, the Group did not have any material legal proceedings or potential proceedings (2021: Nil).

CAPITAL COMMITMENTS

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

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the relevant disclosure in the section headed "Future Plans and Use of Proceeds" in the Prospectus. Save as disclosed, there is no other plan for capital assets as at 31 December 2022.

FUTURE OUTLOOK

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

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

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

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

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

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

HUMAN RESOURCES AND TRAINING

As at 31 December 2022, the Group had a total of 296 employees, total staff cost for the Year Under Review amounted to approximately RMB17.7 million (2021: approximately RMB24.1 million). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

DIVIDENDS

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2022 (2021: Nil). There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

CLOSURE OF THE REGISTER OF MEMBERS OF SHARES

For the purpose of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Friday, 12 May 2023, the register of members of the Company will be closed from Tuesday, 9 May 2023 to Friday, 12 May 2023 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all Share transfer documents must be lodged with Tricor Investor Services Limited, the Company's share registrar in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:00 p.m. on Monday, 8 May 2023.

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

The shares of the Company were listed on GEM of the Stock Exchange on 26 February 2019. Net proceeds from the public offer and placing of the shares were approximately RMB37.9 million (equivalent to approximately HK$44.7 million), after deduction of the underwriting commission and relevant expenses. As disclosed in the announcement of the Company dated 29 April 2020 (the "**Announcement**"), there had been a change in use of the net proceeds from the Listing. Please refer to the Announcement for further details. As at 31 December 2022, the Group had utilised approximately RMB35.8 million of the net proceeds and the remaining balance of the net proceeds is approximately RMB2.1 million, details of which are set out in the table below:

	Planned use of the net proceeds as disclosed in the Prospectus *(RMB million)*	**Revised use of the net proceeds as disclosed in the Announcement** *(RMB million)*	**Actual utilised amount during the year ended 31 December 2022** *(RMB million)*	**Actual utilised amount as at 31 December 2022** *(RMB million)*	**Unutilised amount as at 31 December 2022** *(RMB million)*	**Expected timeline of utilisation**
Construction of new weaving factory	8.5	–	–	–	–	–
Renovation of the existing weaving factory	5.2	5.2	–	5.2	–	–
Acquisition of machinery, equipment and ancillary facilities for weaving	10.4	10.4	–	10.4	–	–
Acquisition of machinery, equipment and ancillary facilities for printing and dyeing	4.6	4.6	–	2.5	2.1	October 2023
Enhancement of environmental protection infrastructure	5.4	5.4	–	5.4	–	–
General working capital	3.8	3.8	–	3.8	–	–
Purchase of meltblown fabrics production lines	–	8.5	–	8.5	–	–
Total	37.9	37.9	–	35.8	2.1	

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

SHARE OPTION SCHEME

On 29 January 2019, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**"), which became effective on 26 February 2019 (the "**Effective Date**") and will continue to be valid for 10 years after the Effective Date. Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing from the Effective Date offer to grant to any Eligible Persons, including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares.

There were no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other eligible persons, nor any options cancelled or lapsed under the Share Option Scheme since the Effective Date and during the year ended 31 December 2022.

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Group's Financial Statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this 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

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance and adopted the CG Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules. The references to the code provisions in this announcement has been updated with reference to the amended CG Code effective on 1 January 2022. The Company has taken various measures to enhance the internal control system and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company has complied with the applicable code provisions under the CG Code, other than code provision C.2.1 of the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors regarding Directors' securities transactions during the Year Under Review and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review and the Board is of the opinion that the Model Code has been fully complied with during the Year Under Review.

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held four meetings and all the members attended all four meetings. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this announcement. During the Year Under Review, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2021, with the management of the Company reviewed the unaudited consolidated quarterly financial results for the three months ended 31 March 2022 and for the nine months ended 30 September 2022 and the interim results for the six months ended 30 June 2022 and accounting principles and practices adopted for the Group, as well as the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit functions, for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the consolidated financial statements in this announcement complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made. The Audit Committee has also reviewed the consolidated financial statements for the year ended 31 December 2022.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2022.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

EVENTS AFTER THE REPORTING PERIOD

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

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 2022 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

Zhejiang, the PRC, 30 March 2023

As at the date of this announcement, the executive Directors are Mr. Dai Shunhua, Ms. Song Xiaoying and Mr. Yeung Yiu Wah Francis, and the independent non-executive Directors are Dr. Liu Bo, Mr. Song Jun and Mr. Yu Chung Leung.