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 2021

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 13.5% to approximately RMB329.7 million (2020: RMB290.6 million).

- Gross profit decreased by 27.1% to approximately RMB23.4 million (2020: RMB32.1 million).

- Gross profit margin decreased by 4.0% to 7.1% (2020: 11.1%).

- Loss before taxation increased by 141.1% to approximately RMB29.9 million (2020: RMB12.4 million).

- Loss for the year ended 31 December 2021 increased by 220.2% to approximately RMB31.7 million (2020: RMB9.9 million).

- Basic loss per share increased by 219.4% to approximately RMB3.96 cents (2020: RMB1.24 cents).

- The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2021 (2020: 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 2021 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the financial year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021** *RMB'000*	2020 *RMB'000*
Revenue	3	**329,718**	290,561
Cost of sales and services		**(306,334)**	(258,431)
Gross profit		**23,384**	32,130
Other income	5	**3,818**	4,509
Other gains and losses	6	**(22,371)**	(5,317)
Selling and distribution expenses		**(3,825)**	(2,648)
Administrative expenses		**(12,324)**	(11,672)
Research expenditure		**(9,064)**	(10,303)
(Impairment)/reversal of impairment loss on trade and other receivables		**(1,566)**	1,322
Other expenses		**(3,432)**	(15,043)
Finance costs	7	**(4,520)**	(5,378)
Loss before income tax	8	**(29,900)**	(12,400)
Income tax (expense)/credit	9	**(1,814)**	2,502
Loss for the year		**(31,714)**	(9,898)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside PRC		**71**	148
Other comprehensive income for the year		**71**	148
Total comprehensive loss for the year		**(31,643)**	(9,750)

	Notes	**2021** *RMB'000*	2020 *RMB'000*
Loss for the year attributable to:			
Equity shareholders of the Company		**(31,714)**	(9,898)
Non-controlling interests		**–**	–
		(31,714)	(9,898)
Total comprehensive loss for the year attributable to:			
Equity shareholders of the Company		**(31,643)**	(9,750)
Non-controlling interests		**–**	–
		(31,643)	(9,750)
Loss per share attributable to equity shareholders of the Company			
– Basic and diluted	10	**(3.96) cents**	(1.24) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 *RMB'000*	2020 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**106,123**	129,049
Deposit on acquisition of property, plant and equipment		**–**	7,862
Investment properties		**7,665**	8,168
Intangible assets		**1,382**	1,304
Financial assets mandatorily measured at fair value through profit or loss ("**FVTPL**")		**20,097**	21,127
Deferred tax assets		**172**	2,452
		135,439	169,962
Current assets			
Inventories	11	**59,877**	54,872
Trade and other receivables	12	**63,266**	65,702
Receivables at fair value through other comprehensive income ("**FVTOCI**")		**2,450**	9,340
Financial assets measured at FVTPL		**651**	–
Restricted bank deposits		**60**	32,485
Cash and cash equivalents		**10,819**	10,100
		137,123	172,499
Current liabilities			
Trade and other payables	13	**31,583**	76,100
Contract liabilities		**16,356**	5,166
Bank and other borrowings		**78,473**	80,527
Tax payable		**296**	3,348
		126,708	165,141
Net current assets		**10,415**	7,358
Total assets less current liabilities		**145,854**	177,320

	2021	2020
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings	**16,100**	15,923
	16,100	15,923
Net assets	**129,754**	161,397
Capital and reserves		
Share capital	**5,346**	5,346
Reserves	**124,408**	156,051
Equity attributable to		
Equity shareholders of the Company	**129,754**	161,397
Non-controlling interest	**–**	–
Total equity	**129,754**	161,397

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 31 December 2021

1. STATEMENT OF COMPLIANCE

(a) Statement of compliance

These financial statements of Narnia (Hong Kong) Group Company Limited ("**the Company**") and its subsidiaries (together referred to as the "**Group**") have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on 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 2021 comprise the Company and its subsidiaries.

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

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

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

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 British Virgin Islands is Hong Kong dollar ("**HK$**"). The consolidated financial statements are prepared on the historical cost basis except for financial assets classified as fair value through other comprehensive income and fair value through profit or loss which are stated at their fair values.

The consolidated financial statements for the year ended 31 December 2021 comprise 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.

(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 2021. Of these, the following developments are relevant to the Group's consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform Phase 2

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

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 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, 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.

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:

	2021	2020
	RMB'000	*RMB'000*
Sale of fabric products, recognised at a point in time	**193,646**	156,682
Revenue from printing and dyeing services, recognised over time	**136,072**	133,879
	329,718	290,561

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.

Printing and dyeing services

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

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

Information about major customers

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

	2021	2020
	RMB'000	*RMB'000*
Customer A	**72,300**	41,572
Customer B *(Note)*	**42,211**	N/A

Note: Revenue from customer B for the year ended 31 December 2020 contributed less than 10% of the total revenue of the Group for the that year.

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 reportable segment. No operating segment information is presented other than the entity-wide disclosures.

Geographical information

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

	2021	2020
	RMB'000	*RMB'000*
Mainland China	**231,556**	198,290
Hong Kong	**78,832**	67,484
Other regions	**19,330**	24,787
	329,718	290,561

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

5. OTHER INCOME

	2021	2020
	RMB'000	*RMB'000*
Interest income	**19**	154
Investment income	**279**	725
Government subsidies *(note)*	**1,630**	1,818
Dividend income from unlisted equity securities mandatorily measured at FVTPL	**1,021**	1,097
Rental income	**528**	226
Others	**341**	489
	3,818	4,509

Note: The amount represented government subsidies received from local government in connection with the unconditional government grants mainly for enterprise development support and innovation capabilities incentives in 2021 and 2020.

6. OTHER GAINS AND LOSSES

	2021 *RMB'000*	2020 *RMB'000*
Impairment losses on property, plant and equipment	**(14,990)**	(4,200)
Loss on disposal of property, plant and equipment	**(5,134)**	(35)
Net exchange loss	**(868)**	(2,209)
Change in fair value of financial assets mandatorily measured at FVTPL	**(1,326)**	1,127
Others	**(53)**	–
	(22,371)	(5,317)

7. FINANCE COSTS

	2021 *RMB'000*	2020 *RMB'000*
Interest on bank and other borrowings	**4,520**	5,378

8. LOSS BEFORE INCOME TAX

	2021 *RMB'000*	2020 *RMB'000*
Loss before income tax has been arrived at after charging:		
Depreciation of property plant and equipment	**15,250**	12,674
Depreciation of right-of-use assets	**686**	686
Depreciation of investment properties	**503**	503
Amortisation of intangible assets	**187**	159
	16,626	14,022
Auditor's remuneration	**800**	1,000
Directors' emoluments	**928**	959
Net loss on sales of raw materials *(note (ii))*	**1,521**	14,229
Donations *(note (ii))*	**600**	181
Other staff costs (excluding directors' emoluments)		
– Salaries and other benefits	**20,640**	20,371
– Retirement benefit scheme contributions	**2,431**	453
– Discretionary performance related bonus	**1,064**	788
	24,135	21,612
Cost of inventories recognised as cost of sales and services	**306,334**	258,431
Research and development expenditure	**9,064**	10,303

Notes:

(i) No forfeited contributions available for offset against existing contributions during the year (2020: nil).

(ii) They are included in the "Other expenses" in the consolidated statement of profit or loss.

9. INCOME TAX EXPENSE/(CREDIT)

	2021	2020
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax ("**EIT**")		
– over-provision in respect of prior years	**(473)**	(1,517)
– provision for the year	**7**	8
Deferred tax expense/(credit)	**2,280**	(993)
	1,814	(2,502)

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 2021 and 2020.

Provision for the EIT during the years ended 31 December 2021 and 2020 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.

Under the Law of the PRC Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the statutory income tax rate for PRC entities is 25%, therefore, the tax rate of Changxing Seashore Industrial Co., Ltd.# 長興濱里實業有限公司 ("**Changxing Seashore**") and Zhejiang Xinhu Supply Chain Co., Ltd.# 浙江鑫湖供應鏈有限公司 ("**Zhejiang Xinhu**") 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 2020, the portion of annual taxable income amount, which does not exceed RMB1 million, shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20%. And the portion of annual taxable income, which exceeds RMB1 million but does not exceed RMB3 million, shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20%.

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

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

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:

	2021	2020
	RMB'000	*RMB'000*
Loss before income tax	**(29,900)**	(12,400)
Tax at PRC EIT rate of 25% (2020: 25%)	**(7,475)**	(3,100)
Tax effect of expense not deductible for tax purpose	**549**	798
Tax effect of income not taxable for tax purpose	**(287)**	(274)
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(768)**	(1,926)
Tax effect of preferential tax rate	**1,496**	447
Tax effect of temporary differences not recognised	**2,957**	–
Change in unrecognised deferred tax assets	**2,461**	–
Tax effect of unused tax losses not recognised as deferred tax assets	**3,354**	3,070
Over-provision in respect of prior years	**(473)**	(1,517)
	1,814	(2,502)

10. LOSS PER SHARE

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

	2021	2020
Loss for the year attributable to equity shareholders of the Company for the purpose of basic loss per share *(RMB'000)*	**(31,714)**	(9,898)
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 RMB31,714,000 (2020: RMB9,898,000) and the weighted average number of 800,000,000 ordinary shares (2020: 800,000,000) in issue during the year.

Diluted loss per share was the same as basic loss per share as there were no dilutive potential ordinary shares in issue throughout 2021 and 2020.

11. INVENTORIES

	2021	2020
	RMB'000	*RMB'000*
Raw materials	**42,448**	41,140
Work in progress	**2,342**	5,232
Finished goods	**15,087**	8,500
	59,877	54,872

No inventory provision was provided during the years ended 31 December 2021 and 2020.

12. TRADE AND OTHER RECEIVABLE

	2021	2020
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**25,451**	51,523
Less: Loss allowance for trade receivables	**(3,568)**	(2,003)
	21,883	49,520
Other receivables *(notes (i) and (ii))*	**3,715**	139
Less: Loss allowance for other receivables	**(2)**	(2)
	3,713	137
Prepayments *(note (iii))*	**35,672**	14,738
Value added tax ("**VAT**") recoverable	**1,998**	1,307
	37,670	16,045
	63,266	65,702

Notes:

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

(ii) The amount mainly represents 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 ancillary 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:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**18,594**	39,041
Over 3 months but within 6 months	**324**	9,148
Over 6 months but within 1 year	**2,350**	705
Over 1 year but within 2 years	**615**	555
Over 2 years	**–**	71
	21,883	49,520

13. TRADE AND OTHER PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade and bills payable	**19,515**	60,130
Other payables	**5,399**	2,922
Payables for acquisition of property, plant and equipment	**–**	3,910
Other tax payables	**2,487**	5,348
Payroll payable	**4,045**	3,647
Interest payable	**137**	143
	31,583	76,100

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

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**10,357**	15,622
Over 3 months but within 6 months	**3,383**	6,773
Over 6 months but within 1 year	**5,708**	36,249
Over 1 year but within 2 years	**67**	1,305
Over 2 years	**–**	181
	19,515	60,130

14. DIVIDEND

No dividend in respect of the years ended 31 December 2021 and 2020 were declared and approved by the directors.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2021 marked the start of China's "14th Five-Year Plan". The ecological civilization of China has entered a critical period in which its major strategic direction is to reduce carbon emissions, while economic and social development are undergoing transformations to become more environmentally friendly, and the quality of the ecological environment has attained an improvement from having quantitative changes to having qualitative changes. The concept of "achieving peak carbon emissions and carbon neutrality (碳達峰、碳中和)" is also an important guideline for the future development of Chinese enterprises, as China's economy has been developing rapidly in the post-Pandemic era and has become a leader in international economic development. Despite the increase in the demand in the textile industry in China in 2021, multiple factors including the adverse global economic environment, the increase in the price of raw materials, as well as the implementation of the updated policies on environmental protection, safety production and electricity usage in China, have put increasing competitive pressure on the textile industry, forcing it to undergo a further transformation and move towards developing high-quality products. As a populous country, and under the influence of its dual circulation policy, China has demonstrated a growing demand for textile products and it is expected that such trend would continue in the future. Benefiting from the diversification of textile products, textile products can be applied in various fields in addition to the traditional apparel market and home textile market. Under the Chinese government's policies on expanding domestic demand and stimulating its internal circulation, it is expected that there would be strong domestic demand which in turn would stimulate the overall textile industry in China.

Through continuous technological advancement and improvement, 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 is expected to drive the textile fabric production industry, eliminate uncompetitive manufacturers and provide opportunities for medium and large companies in the textile industry to form industrial clusters.

In order to promote industrial advancement, by leveraging shared resources of various enterprises, an industrial alliance group has been established in China to serve as a platform where information relating to the latest market trends, significant events in the industry, variations in upstream raw materials, customer demands, end-customer demands, etc. are gathered and consolidated, which keep enterprises informed of latest market dynamics and allow them to work out timely strategies. Such industrial clusters provide advantages for enterprises, allowing them to create economies of scale, thus driving the sustainable development of the overall textile fabric manufacturing industry.

BUSINESS REVIEW

In accordance with the requirements of the provincial government to carry out "remedial work in textile enterprises" (印染企業整治工作) during the Year Under Review, the Group has proactively cooperated with the relevant government departments and formulated a remediation plan tailor-made for the Group, where our major goals of remediation are to save energy, reduce carbon emissions, adopt green manufacturing and digital production procedures, and achieve quality development, targets which are conducive to the healthy and stable development of the Group. Meanwhile, the remedial work carried out on the water-jet looms in Jiapu Town and the shutdown of the water-jet loom production line of the Group have brought a certain amount of economic loss, as well as opportunities, to the Group during the Year Under Review. Besides maintaining business relationships with its customers with established business relationships, we have also been working hard to find new customers, to increase our market share. Due to the influence of the increase in the raw material prices, the Dual Control Policy and Measures for the Orderly Use of Electricity (能耗雙控), and the surging energy prices, the increase in our revenue during the Year Under Review is smaller than expected, and the Group recorded a decrease in our gross profit for the Year Under Review.

During the Year Under Review, the Group increased promotional efforts for its new products. A market has formed for eco-friendly functional fabric products, as domestic and overseas customers have started the application of those products with positive responses. The Group will continue to focus on the development of domestic and overseas markets for its products. During the Year Under Review, provided that existing resources remain unchanged, the Group has adjusted and arranged our production site more reasonably and conducted technical upgrade on our three printing and dyeing production lines. Business volume for the domestic printing and dyeing and processing sectors has begun to reach scale.

The Group put a strong emphasis on investment in the research and development of new products and technology. During the Year Under Review, the Group continued its research and development on environmental-friendly functional fabrics. The first postdoctoral researcher has successfully completed his studies in the Group's postdoctoral work station, while the second postdoctoral researcher has successfully joined the station. During the Year Under Review, the Group was awarded the title of "Professional, Advanced, Specialized and New Enterprise in the Textile Industry", "Leading enterprise in the integration of domestic and foreign trade in Zhejiang Province", "National Green Product Certification", "Healthy Enterprise Certification", and was listed as one of the "Top 50 Economically Efficient Enterprises in the Chinese Filament Weaving Industry". During the Year Under Review, sporadic Pandemic outbreaks have occurred across China, especially during the second half of the year. The Group has implemented precautionary measures to mitigate the risk of outbreak of the Pandemic in the production facilities of the Group and to create a healthy and hygienic working environment, including implementation of measures for conducting thorough contact tracing whenever any of our employees is infected and continuous trainings on precautionary measures and personal hygiene etc..

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 2021, 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			
	2021		2020	
	RMB'000	*%*	*RMB'000*	*%*
Sales of fabrics	**193,646**	**58.7**	156,682	53.9
Service revenue from processing, printing and dyeing service	**136,072**	**41.3**	133,879	46.1
Total	**329,718**	**100.0**	290,561	100.0

Our total revenue was approximately RMB329.7 million for the year ended 31 December 2021 (2020: approximately RMB290.6 million), representing an increase of 13.5% 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 2020.

Revenue from the sales of fabrics increased by approximately RMB36.9 million or 23.5% from approximately RMB156.7 million for the year ended 31 December 2020 to approximately RMB193.6 million for the year ended 31 December 2021. The increase was mainly due to the increase in sales volume of our fabrics during the Year Under Review.

Service revenue from processing, printing and dyeing service increased by approximately RMB2.2 million or 1.6% from approximately RMB133.9 million for the year ended 31 December 2020 to approximately RMB136.1 million for the year ended 31 December 2021. 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 RMB47.9 million or 18.5% from approximately RMB258.4 million for the year ended 31 December 2020 to approximately RMB306.3 million for the year ended 31 December 2021. 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 2020.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB8.7 million or 27.1% from approximately RMB32.1 million for the year ended 31 December 2020 to approximately RMB23.4 million for the year ended 31 December 2021.

The overall gross profit margin of our sales and services decreased from approximately 11.1% for the year ended 31 December 2020 to approximately 7.1% for the year ended 31 December 2021. The significant decrease in the overall gross profit margin of the sales and services of the Group was due mainly attributable to the fact that the production facilities of the Group in Changxing needed to halt its production for a number of days in late 2021 in response to the dual control for energy consumption policy (能耗雙控) of the local government. During such period, while the production in such production facilities was suspended, most of the fixed cost overhead, including basic salary for our employees and depreciation, continued to incur in the cost of sales. Thus, these fixed cost overhead to cost of sales ratio increased, which resulted in a decrease in gross profit margin for the Year Under Review. In addition, the average cost of the raw materials and energy in the Year were higher than those in the prior year, which led to a relatively higher cost of sales and services for 2021. Besides, due to the keen competition in the market, the Group needed to offer more competitive selling price in order to gain more sales orders.

Other income

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

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Interest income	**19**	154
Government subsidies	**1,630**	1,818
Investment income	**279**	725
Dividend income from unlisted equity securities mandatorily measured at FVTPL	**1,021**	1,097
Rental income	**528**	226
Others	**341**	489
Total	**3,818**	4,509

Our other income was approximately RMB3.8 million for the year ended 31 December 2021 (2020: approximately RMB4.5 million). The decrease of approximately RMB0.7 million for the year ended 31 December 2021 compared to that for the year ended 31 December 2020 was mainly due to the decrease in investment income and government subsidies.

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	
	2021	2020
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(5,134)**	(35)
Change in fair value of financial assets mandatorily measured at FVTPL	**(1,326)**	1,127
Impairment losses on property, plant and equipment	**(14,990)**	(4,200)
Net exchange loss	**(868)**	(2,209)
Others	**(53)**	–
Total	**(22,371)**	(5,317)

The Group's other losses was approximately RMB22.4 million for the year ended 31 December 2021 (2020: approximately RMB5.3 million). The increase in other losses of approximately RMB17.1 million for the year ended 31 December 2021 compared to that for the year ended 31 December 2020 was mainly due to the increase in impairment losses on property, plant and equipment of approximately RMB10.8 million and the increase in loss on disposal of property, plant and equipment of approximately RMB5.1 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)" during the Year Under Review.

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 increased by approximately RMB1.1 million or approximately 40.7% from approximately RMB2.7 million for the year ended 31 December 2020 to approximately RMB3.8 million for the year ended 31 December 2021. The increase was mainly due to the increase in transportation costs.

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 increased by approximately RMB0.6 million or approximately 5.1% from approximately RMB11.7 million for the year ended 31 December 2020 to approximately RMB12.3 million for the year ended 31 December 2021. The increase was mainly a result of an increase 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 RMB9.1 million for the year ended 31 December 2021 (2020: approximately RMB10.3 million). The expenditure mainly comprised of (i) the costs of our staff involving in our research and development projects, (ii) the direct usage of raw materials for pilot-run of production and testing purpose, and (iii) the depreciation of the research and development machinery and equipment.

The decrease of approximately RMB1.2 million in research expenditure for the year ended 31 December 2021 compared to that for the year ended 31 December 2020 was mainly due to the decrease in direct usage of different raw materials during the testing and analysing process.

Other expenses

Our other expenses amounted to approximately RMB3.4 million for the year ended 31 December 2021 (2020: approximately RMB15.0 million), the decrease was mainly due to the decrease in net loss on sales of raw materials of approximately RMB12.7 million.

Finance costs

For the year ended 31 December 2021, our finance costs amounted to approximately RMB4.5 million (2020: approximately RMB5.4 million). Our finance costs mainly comprised of the interest expense on our bank and other borrowings. The finance cost decreased by approximately RMB0.9 million or 16.7% 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)/credit

Income tax (expense)/credit represent our total current and deferred tax (expense)/credit. The current taxes are calculated based on taxable (losses)/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 2021 (2020: 15%).

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

The income tax expense for the year ended 31 December 2021 was approximately RMB1.8 million, as compared to an income tax credit of approximately RMB2.5 million for the year ended 31 December 2020.

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 2021 was approximately RMB31.7 million, as compared to a loss of approximately RMB9.9 million for the year ended 31 December 2020, representing an increase in the loss attributable to the equity shareholders of the Company of approximately RMB21.8 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 2021, our property, plant and equipment amounted to approximately RMB106.1 million (31 December 2020: approximately RMB129.0 million).

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	
	2021	2020
	RMB'000	*RMB'000*
Raw materials	**42,448**	41,140
Work in progress	**2,342**	5,232
Finished goods	**15,087**	8,500
Total	**59,877**	54,872

Our inventories increased from approximately RMB54.9 million as at 31 December 2020 to approximately RMB59.9 million as at 31 December 2021, which was mainly due to the increase in finished goods and raw materials purchased by our Group for the year ended 31 December 2021.

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 2021 and 2020.

Inventory turnover

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

	Year ended 31 December	
	2021	2020
Average inventory turnover days *(Note)*	**68**	105

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 105 days for the year ended 31 December 2020 to 68 days for the year ended 31 December 2021. The decrease in average inventory turnover days in 2021 was primarily due to the increase in cost of sales.

Trade and other receivables

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**25,451**	51,523
Less: loss allowance for trade receivables	**(3,568)**	(2,003)
Trade receivables, net	**21,883**	49,520
Prepayments	**35,672**	14,738
Value added tax ("**VAT**") recoverable	**1,998**	1,307
Other receivables	**3,715**	139
Less: loss allowance for other receivables	**(2)**	(2)
Other receivables, net	**3,713**	137
Total	**63,266**	65,702

Trade receivables

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

The decrease in gross amount of trade receivables from approximately RMB51.5 million as at 31 December 2020 to approximately RMB25.5 million as at 31 December 2021 was mainly due to our lower total sales for the fourth quarter of the year ended 31 December 2021 when compared to the same period in the previous year, which resulted in a less trade receivables aged within 3 months as at 31 December 2021.

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	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**18,594**	39,041
Over 3 months but within 6 months	**324**	9,148
Over 6 months but within 1 year	**2,350**	705
Over 1 year but within 2 years	**615**	555
Over 2 years	**–**	71
Total	**21,883**	49,520

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	
	2021	2020
Average trade receivables turnover days *(Note)*	**40**	70

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 2021 was approximately 40 days (2020: approximately 70 days). The decrease of turnover days was mainly due to decrease in sales for the fourth quarter of the year ended 31 December 2021.

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 increased by approximately RMB25.2 million or approximately 155.6% from approximately RMB16.2 million as at 31 December 2020 to approximately RMB41.4 million as at 31 December 2021, the increase of which was mainly attributable to the combined effect of (i) an increase of prepayment of approximately RMB21.0 million; and (ii) an increase of other receivables of approximately RMB3.6 million.

Restricted bank deposits

As at 31 December 2021, our restricted bank deposits of approximately RMB0.1 million (2020: RMB32.5 million). As at 31 December 2020, bank deposits of approximately RMB32.4 million were pledged to a bank as security for bills payable of the Group. The pledge in respect of the bank deposits was released upon settlement of the related bills during the Year, resulting in decrease in destricted bank deposits by approximately RMB32.4 million.

Trade and other payables

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade and bills payables		
– Due to third parties	**19,515**	60,130
	19,515	60,130
Other payables		
– Other tax payables	**2,487**	5,348
– Payroll payables	**4,045**	3,647
– Interest payables	**137**	143
– Payable for acquisition of property, plant and equipment	**–**	3,910
– Others	**5,399**	2,922
Total	**31,583**	76,100

Trade and bills payable

Our trade and bills payable primarily consist of trade and bills payable to our suppliers of raw materials. Our suppliers generally grant us a credit period with a maximum of 90 days upon receipts of the raw materials and the relevant VAT invoices during the Year Under Review. As at 31 December 2021, our trade and bills payable decreased by approximately RMB40.6 million when compared to last year.

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**10,357**	15,622
Over 3 months but within 6 months	**3,383**	6,773
Over 6 months but within 1 year	**5,708**	36,249
Over 1 year but within 2 years	**67**	1,305
Over 2 years	**–**	181
Total	**19,515**	60,130

Trade and bills payable turnover days

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

	Year ended 31 December	
	2021	2020
Average trade and bills payable turnover days *(Note)*	**47**	64

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

The Group's trade and bills payable turnover days for the year ended 31 December 2021 was approximately 47 days (2020: approximately 64 days). The decrease of turnover days was mainly due to all bill payables were settled.

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 RMB16.0 million as at 31 December 2020 to approximately RMB12.1 million as at 31 December 2021 mainly due to the decrease in other tax payable of approximately RMB2.8 million and the decrease in payable for acquisition of property, plant and equipment of approximately RMB3.9 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	
	2021	2020
	RMB'000	*RMB'000*
Amounts received in advance of:		
– sales of fabric products	**10,880**	1,364
– printing and dyeing services	**5,476**	3,802
Total	**16,356**	5,166

As at 31 December 2021, all of our contract liabilities were expected to be recognised as revenue within 12 months. The increase in contract liabilities from approximately RMB5.2 million as at 31 December 2020 to approximately RMB16.4 million as at 31 December 2021 was mainly due to the increase 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 2021, our Group had cash and cash equivalents amounting to approximately RMB10.8 million (2020: approximately RMB10.1 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.

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB0.7 million, which mainly comprised the net cash used in operating activities with the amount of approximately RMB12.6 million, net cash generated from investing activities with the amount of approximately RMB19.6 million, and net cash used in financing activities with the amount of approximately RMB6.3 million.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 31 December 2021 was approximately RMB94.6 million (2020: approximately RMB96.5 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 2021, the Group's gearing ratio was approximately 64.5% (2020: 53.5%), 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 increase was mainly due to the Group suffered loss for the year of approximately 31.7 million.

Pledge of assets

As at 31 December 2021, the Group had pledged certain buildings, equipment and machinery, investment properties and unlisted equity securities with aggregate carrying amount of approximately RMB90.2 million (2020: approximately RMB90.4 million) to certain banks.

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB25.6 million for the year ended 31 December 2021 (2020: approximately RMB35.8 million).

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2021, the Group's financial assets mandatory measured at fair value through profit or loss had a carrying value of approximately RMB20.1 million (2020: approximately RMB21.1 million), which represent 7,565,794 shares in Zhejiang Changxing Rural Commercial Bank Company Limited (浙江長興農村商業銀行股份有限公司) ("**ZCRCB**"), a joint-stock company incorporated in the PRC with limited liability which engages in banking business in the PRC. The Group has been holding the shares in ZCRCB prior to the Listing and the purpose of such investment was for its dividend payment and capital appreciation in the long run. As at 31 December 2020 and 2021, the shares in ZCRCB held by the Group were pledged to secure certain bank borrowings of the Group.

As at 31 December 2021, the Group's investment properties had a carrying value of approximately RMB7.7 million (2020: approximately RMB8.2 million). As at 31 December 2021 and 2020, the Group's investment properties 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 2021, the Company has issued guarantees to banks in respect of banking facilities of its subsidiaries amounting to RMB58.0 million (2020: RMB58.0 million). As at 31 December 2021, the subsidiaries utilised approximately RMB45.2 million (2020: RMB50.5 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 2021, the Group did not have any material legal proceedings or potential proceedings (2020: Nil).

CAPITAL COMMITMENTS

As at 31 December 2021, the Group did not have any capital commitments (2020: approximately RMB26.9 million).

SEGMENT INFORMATION

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

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 of the Company dated 13 February 2019. Save as disclosed, there is no other plan for capital assets as at 31 December 2021.

FUTURE OUTLOOK

In 2021, the impact of the continued spread of the Pandemic and international factors such as the trade frictions between China and the US led to instability in the development of the textile industry. Although demand for printing and dyeing services remained stable, the business of the Group has been adversely impacted to a certain degree due to disruptions in international logistics, the continuous rise in the price of raw materials, and the appreciation of the Renminbi, which resulted in a significant drop in profit from sale of its products. In the fourth quarter of 2021, due to the implementation of the Dual Control Policy and Measures for the Orderly Use of Electricity and the significant increase in energy prices, the Group's business was under-operated and recorded a loss in 2021. While the textile industry continues to be affected by domestic and international issues, the combined effect of technological advancement, safety management, and environmental protection has made it necessary for us to further improve our overall competitiveness. As a result of the effect of "the survival of the fittest", existing enterprises are forced to transform and upgrade, the pace of industrial product restructuring and upgrading is expected to accelerate, and industrial consolidation is expected to be raised gradually.

In 2022, market competition is expected to be even more intense and is expected to feature more challenges and uncertainties. Stepping into the 20th anniversary of the Group, 2022 is expected to be a critical year for the Group's implementation of high-quality intelligent manufacturing process, as well as the final stage of the remedial work in textile enterprises (印染企業整治工作) in Changxing. Standing at the starting point of a new journey, we must uphold the principles of "practicing new ideas, embracing the new era, befriending the virtuous and walk with the wise, leading the world with integrity, and innovating for the future", and employees of the Group shall endeavour to promote the stable and strong development of the Company.

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

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

(2) Further enhancing research and development on eco-friendly functional fabrics, expanding our business team, changing our marketing model, developing new ideas, expanding the industry chain, organising sales for finished products, marketing our products directly to end consumers by promoting them through live-stream sales on online platforms, developing markets with new products, and raising product market share,

(3) Strengthening the information construction of the Group, developing environmentally-oriented strategies, completing the automation of production and data collection, completing the work of Changxing Province to further rectify its printing and dyeing performance and increase its acceptance rate; and

(4) Seeking common welfare for the society, our staff, and their family members in a scientific manner, and further exploring new projects and new platforms for sharing prosperity on the existing basis, to find new ways to achieve common prosperity.

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 2021, the Group had a total of 417 employees, total staff cost for the Year Under Review amounted to approximately RMB24.1 million (2020: approximately RMB21.6 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 2021 (2020: 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, 13 May 2022, the register of members of the Company will be closed from Tuesday, 10 May 2022 to Friday, 13 May 2022 (both dates inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all Share transfer documents must be lodged with Tricor Investor Services Limited, the Company's share registrar in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Friday, 6 May 2022.

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 2021, 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 2021 *(RMB million)*	Actual utilised amount as at 31 December 2021 *(RMB million)*	Unutilised amount as at 31 December 2021 *(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	June 2022
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 November 2021 to June 2022.

SHARE OPTION SCHEME

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

There were no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other eligible persons (as defined herein below), nor any options cancelled or lapsed under the Share Option Scheme since the Effective Date and during the year ended 31 December 2021.

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 2021, 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. 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 2020, with the management of the Company reviewed the unaudited consolidated quarterly financial results for the three months ended 31 March 2021 and for the nine months ended 30 September 2021 and the interim results for the six months ended 30 June 2021 and accounting principles and practices adopted for the Group, as well as the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit functions, for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this 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 and disscussed for the change of auditor of the Company from KPMG to Moore Stephens CPA Limited with effect from 15 November 2021, and reviewed the consolidated financial statements for the year ended 31 December 2021.

EVENTS AFTER THE REPORTING PERIOD

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

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 2021 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 2022

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Listed Company Information" 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.